Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Kosovo

OECD

Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Kosovo

OECD

BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Member countries of the OECD.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Kosovo*: 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.

Please cite this publication as:
OECD (2024), *Western Balkans Competitiveness Outlook 2024: Kosovo*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://doi.org/10.1787/ff74ae0e-en.

ISBN 978-92-64-81151-5 (print)
ISBN 978-92-64-53698-2 (PDF)
ISBN 978-92-64-33357-4 (HTML)
ISBN 978-92-64-96184-5 (epub)

Competitiveness and Private Sector Development
ISSN 2076-5754 (print)
ISSN 2076-5762 (online)

Photo credits: Cover © ZoltanGyuracz/shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

© OECD 2024

Attribution 4.0 International (CC BY 4.0)
This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (https://creativecommons.org/licenses/by/4.0/).
Attribution – you must cite the work.
Translations – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of original work should be considered valid.*
Adaptations – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*
Third-party material – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.
You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.
Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.

Foreword

The *Western Balkans Competitiveness Outlook (CO) 2024* is the fourth edition of the OECD's flagship publication that offers an in-depth assessment across 15 policy areas key to bolstering economic competitiveness in the Western Balkans. The CO provides comprehensive guidance to navigate economic reforms, enhance regional co-operation and help the region's economies align their legal frameworks and policies with those of the OECD and EU. It also enables policy makers to track performance over time, by comparing outcomes against those reported in the previous editions since 2016.

The *Western Balkans Competitiveness Outlook 2024* comprises seven reports: one regional and six economy profiles. Each economy profile evaluates performance across each of the 15 policy dimensions, highlighting areas of progress as well as those requiring continued improvement. The regional profile presents findings for the whole Western Balkans across five policy clusters – infrastructure and connectivity, skills, business environment, digital transformation and greening – and seeks to evaluate the broader regional trends in these areas.

Complementing these reports, the publication's findings are accessible for the first time through a landmark interactive digital tool: the *Western Balkans Competitiveness Data Hub*. By providing policy makers with an enhanced ability to assess and benchmark economic reforms seamlessly, the Data Hub aims to support policy makers in designing economic reforms that drive competitiveness and convergence.

The Kosovo profile of the CO is the outcome of work co-ordinated by the South East Europe Division. The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations and Co-operation Directorate, and Marzena Kisielewska, Head of the OECD South East Europe Division.

Umur Gökçe and Ali-Fuad Turgut (OECD South East Europe Division) led this work, which was initially also managed by Martin Kohtze. The project also benefitted from inputs by William Tompson (OECD Global Relations and Co-operation Directorate), who served as the lead reviewer of the publication.

Our special thanks go to Kosovo's government officials and other stakeholders who have been actively involved in the data collection, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of Zef Dedaj, CO National Coordinator of Kosovo, and Avni Kastrati, National Statistical Office Co-ordinator of Kosovo, along with the support by Nol Buzhala and Gent Berisha from the Kosovo Investment and Enterprise Support Agency, as well as the following individuals, who supported the data-gathering and verification process.

Policy Dimension	Dimension Co-ordinators
Investment policy and promotion	Arbër Muhaxheri, Ministry of Industry, Entrepreneurship and Trade
Trade policy	Igballe Rexha-Jashari, Ministry of Industry, Entrepreneurship and Trade
Access to finance	Vlora Mehanja Ibrahimi, Central Bank of Kosovo
Tax policy	Ferid Sylejmani, Ministry of Finance, Labour and Transfers
State-owned enterprises	Flutura Shala and Qendresa Morina, Ministry of Economy
Anti-corruption policy	Yll Buleshkaj, Kosovo Anti-Corruption Agency
Education policy	Shqipe Bruqi, Ministry of Education, Science, Technology and Innovation
Employment policy	Fadil O. Osmani, Ministry of Finance, Labour and Transfers

Science, technology and innovation	Fidan Kozhani, Ministry of Education, Science, Technology and Innovation
Digital society	Ajshe Jashari, Ministry of Economy
Transport policy	Fejzullah Mustafa, Ministry of Environment, Spatial Planning and Infrastructure
Energy policy	Behije Tahiri, Ministry of Economy
Environment policy	Lendita Sopa, Ministry of the Environment, Spatial Planning and Infrastructure
Agriculture policy	Adelina Maksuti, Ministry of Agriculture, Forestry and Rural Development, with early guidance from Idriz Gashi
Tourism policy	Lumturije Geci, Ministry of Industry, Entrepreneurship and Trade

The principal authors of the report were Umur Gökçe, Stephanie Lizzo and Judith Koren (Front matter), Damaris Bangean and Judith Koren (Context), Victor Duggan and Zofia Polakiewicz (Investment policy and promotion); Zofia Polakiewicz (Trade policy); Benoit Dicharry (Access to finance); Bert Brys and Daniel Fichmann in co-operation with Stephanie Lizzo and Benoit Dicharry (Tax policy); Korin Kane, in co-operation with Viktoria Chernetska and Alexandra Prokschy (State-owned Enterprises); Valts Kalnins in co-operation with Viktoria Chernetska and Alexandra Prokschy (Anti-corruption policy); Elma Aga (Education policy); Nicola Duell and Burim Bilali in co-operation with Stephanie Lizzo and Matija Lojpur (Employment policy); Marko Atanasovski in co-operation with Matija Lojpur and Alexandra Prokschy (Science, technology and innovation); Despina Anastasiadou in co-operation with Marijana Petrovic and Hana Aljevic (Digital society); Vatsalya Sohu and Matija Lojpur (Transport policy); Tobias Heldt in co-operation with Matija Lojpur (Energy policy); Clémence Girin, Jovana Pavlović Djukic and Dafina Marashi (Environment policy); Stephanie Lizzo and Drini Imami in co-operation with Sophia Katsira (Agriculture policy); Kai Partale and Sophia Katsira (Tourism policy).

The report also benefited from further input from Jane Stacey, Kristen Corrie, and Hannes Thees (OECD Centre for Entrepreneurship, SMEs, Regions and Cities); Alejandra Medina, Sara Sultan, Alexandre De Crombrugghe, Martin Kohtze, and Tugba Mulazimoglu (OECD Directorate for Financial and Enterprise Affairs); Caitlyn Guthrie and Lucia Alonso (OECD Directorate for Education and Skills); Javier Lopez Gonzalez, Silvia Sorescu, Janos Ferencz, Jibran Punthakey, Chiara Del Giovane and Cemre Balaban (OECD Trade and Agriculture Directorate); Theresa Gebhardt and Talya Vatman (International Energy Agency); and Guineng Chen (International Transport Forum).

Our special thanks also go to Mathieu Bousquet, Sandrine Beauchamp, and Javier Menendez Bonilla of the European Commission's Directorate-General Neighbourhood and Enlargement Negotiations (DG NEAR), and Martin Schlatte, Teodora Andreeva, Alessandro Bianciardi and Vadim Stirbu of the European Union (EU) Office in Kosovo, all of whom reviewed and supported the publication.

The following local expert reviewed and provided input to the report: Valmira Rexhëbeqaj.

The report was prepared for publication by Jennifer Allain, with the strategic support of Robert Akam (OECD Global Relations and Co-operation Directorate). It was edited and proofread by Randall Holden. The following people also contributed to the success of the project: Dardan Gashi, Vojtech Holik and Stefano Ottino.

This report has been produced with the financial assistance of the EU. The views herein can in no way be taken to reflect the official position of the EU or its Member States.

Table of contents

Foreword 3

Abbreviations and acronyms 10

Reader's guide 15

Executive summary 19

1 Context 23
- Economic context 24
- References 32

2 Investment policy and promotion 37
- State of play and key developments 39
- Overview of implementation of Competitiveness Outlook 2021 recommendations 44
- The way forward for investment policy and promotion 45
- References 46
- Notes 47

3 Trade policy 49
- State of play and key developments 50
- Overview of implementation of Competitiveness Outlook 2021 recommendations 56
- The way forward for trade policy 57
- References 59
- Notes 60

4 Access to finance 61
- State of play and key developments 63
- Overview of implementation of Competitiveness Outlook 2021 recommendations 66
- The way forward for access to finance 66
- References 68
- Notes 69

5 Tax policy 71
- State of play and key developments 73
- Overview of implementation of Competitiveness Outlook 2021 recommendations 76
- The way forward for tax policy 77
- References 79

Note 80

6 State-owned enterprises 81
State of play and key developments 83
Overview of implementation of Competitiveness Outlook 2021 recommendations 88
The way forward for ownership and governance of state-owned enterprises 88
References 90
Notes 91

7 Anti-corruption policy 93
State of play and key developments 95
Overview of implementation of Competitiveness Outlook 2021 recommendations 100
The way forward for anti-corruption policy 101
References 102
Notes 104

8 Education policy 105
State of play and key developments 107
Overview of implementation of Competitiveness Outlook 2021 recommendations 113
The way forward for education policy 114
References 115
Notes 116

9 Employment policy 117
State of play and key developments 119
Overview of implementation of Competitiveness Outlook 2021 recommendations 126
The way forward for employment policy 127
References 128
Notes 131

10 Science, technology and innovation 133
State of play and key developments 135
Overview of implementation of Competitiveness Outlook 2021 recommendations 138
The way forward for science, technology and innovation 139
References 141

11 Digital society 143
State of play and key developments 145
Overview of implementation of Competitiveness Outlook 2021 recommendations 152
The way forward for digital society 153
References 155
Notes 156

12 Transport policy 159
State of play and key developments 161
Overview of implementation of Competitiveness Outlook 2021 recommendations 165
The way forward for transport policy 165
References 167
Notes 168

13 Energy policy 171
State of play and key developments 173
Overview of implementation of Competitiveness Outlook 2021 recommendations 178
The way forward for energy policy 179
References 180

14 Environment policy 181
State of play and key developments 183
Overview of implementation of Competitiveness Outlook 2021 recommendations 189
The way forward for environment policy 190
References 193
Notes 194

15 Agriculture policy 199
State of play and key developments 201
Overview of implementation of Competitiveness Outlook 2021 recommendations 212
The way forward for agriculture policy 212
References 214
Notes 216

16 Tourism policy 217
State of play and key developments 219
Overview of implementation of Competitiveness Outlook 2021 recommendations 225
The way forward for tourism policy 226
References 227
Notes 228

FIGURES

Figure 1. Scores for Kosovo across Competitiveness Outlook policy dimensions (2021 and 2024) 19
Figure 1.1. Kosovo's GDP per capita convergence with the OECD and the European Union (2008-2022) 30
Figure 6.1. Sectoral distribution of centrally-owned SOEs employment in Kosovo, by economic sector (2022) 83
Figure 8.1. Performance in reading, mathematics and science in Kosovo, the WB6 economies and the OECD (2015-22) 107
Figure 11.1. Fixed broadband penetration in the WB6 economies, the EU and the OECD (2022) 146
Figure 13.1. Electricity mix in gross final consumption trends with additional measures (WAM) in Kosovo (2025-40) 174
Figure 15.1. Agriculture's contribution to value added and total employment in Kosovo (2013-22) 201
Figure 15.2. Agricultural sector's value added annual variation in Kosovo (2013-22) 202
Figure 15.3. Kosovo's international trade of agrifood products (2010-21) 203
Figure 15.4. Budgetary support for the agriculture sector in Kosovo (2011-22) 207
Figure 15.5. Number of farmers, agrifood processors and traders that incurred penalties for food safety noncompliance in Kosovo (2016-22) 211
Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-2022) and seasonal distribution of arrivals (2022) in Kosovo 219

TABLES

Table 1. Policy dimensions and indicators 16
Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality 17
Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores 18

Table 1.1. Kosovo: Main macroeconomic indicators (2019-23) 25
Table 2.1. Kosovo's scores for investment policy and promotion 38
Table 2.2. Kosovo's progress on past recommendations for investment policy and promotion 44
Table 3.1. Kosovo's scores for trade policy 50
Table 3.2. Kosovo's progress on past recommendations for trade policy 57
Table 4.1. Kosovo's scores for access to finance 62
Table 4.2. Kosovo's progress on past recommendations for access to finance 66
Table 5.1. Kosovo's scores for tax policy 72
Table 5.2. Kosovo's tax revenues as a share of GDP (2022) 73
Table 5.3. Personal Income Tax top rate and Social Security Contributions rates in Kosovo, the WB6 economies and the OECD (2022) 74
Table 5.4. Kosovo's progress on past recommendations for tax policy 77
Table 6.1. Kosovo's scores for state-owned enterprises 82
Table 6.2. Overview of Kosovo's main portfolio of SOEs (2022) 84
Table 6.3. Kosovo's progress on past recommendations for state-owned enterprises 88
Table 7.1. Kosovo's scores for anti-corruption policy 94
Table 7.2. Kosovo's perceived anti-corruption policy performance in 2018-23 95
Table 7.3. Number of conflict-of-interest cases in Kosovo (2020-22) 97
Table 7.4. Verification and enforcement of asset and interest disclosure in Kosovo (2018-22) 97
Table 7.5. Whistleblower reports received by the APC (2019-22) 98
Table 7.6. Kosovo's progress on past recommendations for anti-corruption policy 100
Table 8.1. Kosovo's scores for education policy 106
Table 8.2. Kosovo's progress on past recommendations for education policy 114
Table 9.1. Kosovo's scores for employment policy 118
Table 9.2. Kosovo's progress on past recommendations for employment policy 126
Table 10.1. Kosovo's scores for science, technology and innovation 134
Table 10.2. Kosovo's progress on past recommendations for science, technology and innovation 139
Table 11.1. Kosovo's scores for digital society 144
Table 11.2. Kosovo's progress on past recommendations for digital society 152
Table 12.1. Kosovo's scores for transport policy 160
Table 12.2. Road infrastructure density in Kosovo, the WB6 economies and the EU (2016, 2018, 2021) 162
Table 12.3. Road safety trends in Kosovo and the EU (2019-22) 164
Table 12.4. Kosovo's progress on past recommendations for transport policy 165
Table 13.1. Kosovo's scores for energy policy 172
Table 13.2. Kosovo's progress on past recommendations for energy policy 178
Table 14.1. Kosovo's scores for environment policy 182
Table 14.2. Kosovo's progress on past recommendations for environment policy 189
Table 15.1. Kosovo's scores for agriculture policy 200
Table 15.2. Ongoing projects to improve rural infrastructure in Kosovo 204
Table 15.3. Number of farms using public extension services in Kosovo (2011-22) 209
Table 15.4. Kosovo's progress on past recommendations for agriculture policy 212
Table 16.1. Kosovo's scores for tourism policy 218
Table 16.2. Government regulatory initiatives on tourism 220
Table 16.3. Kosovo's progress on past recommendations for tourism policy 225

Follow OECD Publications on:

https://twitter.com/OECD

https://www.facebook.com/theOECD

https://www.linkedin.com/company/organisation-eco-cooperation-development-organisation-cooperation-developpement-eco/

https://www.youtube.com/user/OECDiLibrary

https://www.oecd.org/newsletters/

This book has...

StatLinks

A service that delivers Excel® files from the printed page!

Look for the StatLink at the bottom of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser or click on the link from the digital version.

Abbreviations and acronyms

ACA	Anti-Corruption Agency
ACECE	Advisory Committee for Early Childhood Education
AEO	Authorised Economic Operator
AEOI	Automatic exchange of information
AIE	Agency for Investment and Export
ALMPs	Active labour market programmes
AMLD5	Fifth Anti-Money Laundering Directive
APC	Agency for Prevention of Corruption
ARDP	Agriculture and Rural Development Projects
ARDS	Agriculture and Rural Development Strategy
ARKEP	Electronic and Postal Communications Regulatory Authority
ASEK	Agency for Support to Enterprises in Kosovo
AVETAE	Agency for Vocational Education and Training and Adult Education
B2C	Business to consumer
BAK	Federal Bureau of Anti-Corruption, Austria
BAN	Business Angel Network
BCP	Border crossing point
BEPS	Base erosion and profit shifting
CAP	Common Agricultural Policy
CBAM	Carbon Border Adjustment Mechanism
CbC	Country-by-country
CBK	Central Bank of Kosovo
CCPs	Customs Control Points
CEFTA	Central European Free Trade Agreement
CEO	Chief Executive Officer
CIT	Corporate income tax
CMO	Common Market Organisation

CO	Competitiveness Outlook
CVETA	Council of Vocational Educational and Training and for Adults
DATS	Department of Advisory Technical Service
DLT	Distributed Ledger Technology
DMOs	Destination management organisations
EBRD	European Bank for Reconstruction and Development
ECE	Early childhood education
EFTA	European Free Trade Association
EIB	European Investment Bank
eIDAS	Electronic identification and trust services
EMD2	Second Electronic Money Directive
EMIS	Education Management Information System
ENETOSH	European Network Education and Training in Occupational Safety and Health
EQF	European Qualification Framework
EREA	Empowering Rural Economies through Agriculture
EU	European Union
EUR	Euros
EURES	European Network of Employment Services
EUROSTAT	Statistical Office of the European Union
FADN	Farm Accountancy Data Network
FDI	Foreign Direct Investment
FTAs	Free trade agreements
FVA	Food and Veterinary Agency
GDP	Gross domestic product
GHG	Greenhouse gas
GI	Geographical indications
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GloBE	Global Anti-Base Erosion Rules
GSP	Generalized System of Preferences
GST	Goods and services tax
Ha	Hectares
HE	Higher education
HEIs	Higher education institutions
HEMIS	Higher Education Management Information System
ICILS	International Computer and Information Literacy Study

ICT	Information and communication technology
IFC	International Finance Corporation
IIEP	International Institute for Educational Planning
IKD	Kosovo Institute for Justice
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IPR	Intellectual property rights
ISCED	International Standard Classification of Education
IT	Information technology
ITE	Initial teacher education
ITP	Innovation and Training Park
KAA	Kosovo Accreditation Agency
KBA	Kosovo Banking Association
KBRA	Kosovo Business Registration Agency
KCGF	Kosovo Credit Guarantee Fund
KCIS	Kosovo Cadastral Information System
KDI	Kosova Democratic Institute
KDWV	Kosovo-German Chamber of Commerce
KESP	Kosovo Education Strategic Plan
K-GenU	Kosovo Generation Unlimited
KIESA	Kosovo Investment and Enterprise Support Agency
KJS	Kosovo Judicial Council
KNAB	Corruption Prevention and Combating Bureau, Latvia
KPST	Kosovo Pension Saving Trust
KTK	Kosovo Tourism Council
LAG	Local Action Group
LPIS	Land parcel identification system
MAFRD	Ministry of Agriculture, Food and Rural Development
MARRI	Migration, Asylum, Refugees Regional Initiative
MESTI	Ministry of Education, Science, Technology and Innovation
MFLT	Ministry of Finance, Labor and Transfers
MIET	Ministry of Industry, Entrepreneurship and Trade
MNE	Multinational enterprises

MoE	Ministry of Economy
MSMEs	Micro, small and medium enterprises
NCED	National Council for Economic Development
NEET	Not in education, employment or training
NIPH	National Institute of Public Health
NQA	National Qualification Authority
NTFC	National Trade Facilitation Committee
OECD	Organisation for Economic Co-operation and Development
OHT	Chamber of Hospitality and Tourism of Kosovo
OSH	Occupational safety and health
P2P	Peer-to-peer
PAK	Privatisation Agency of Kosovo
PES	Public employment service
PIRLS	Progress in International Reading Literacy Study
PISA	Programme for International Student Assessment
PIT	Personal income tax
POE	Publicly-owned enterprise
PPSE	Promoting Private Sector Employment
PSD	Payment Services Directive
PSD2	Second Payment Services Directive
QDMTT	Qualified domestic minimum top-up tax
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
RITTD	Research, innovation, technology transfer and digitalisation
RLKO	Raiffeisen Leasing Kosovo
RWCs	Regional Water Companies
SAA	Stabilisation and Association Agreement
SAS	Social Assistance Scheme
SDGs	Sustainable Development Goals
SEPA	Single Euro Payments Area
SEZs	Special economic zones
SIRED	Sustainable and Inclusive Rural Economic Development
SKPF	Slovenian Kosovo Pension Fund
SMEs	Small and medium-sized enterprises
SOE	State-owned enterprise
SPO	Special Prosecutor’s Office

SPS	Sanitary and phytosanitary
SSB	Sugar-sweetened beverages
SSC	Social security contributions
TAK	Tax Administration of Kosovo
TARIC	Integrated Tariff of the European Union
TE	Tax expenditure
TIMSS	Trends in International Mathematics and Science Study
TPP	Third-party payment service providers
TSA	Tourism Satellite Accounts
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
UTK	Union of Tourism of Kosovo
VAT	Value added tax
VET	Vocational education and training
WB6	Western Balkan 6
WHO	World Health Organisation
WSRA	Water Service Regulatory Authority
WTO	World Trade Organization

Reader's guide

Assessment process

Following the first three *Western Balkans Competitiveness Outlook* assessments, published in 2016, 2018 and 2021, the fourth assessment cycle was launched on 27 April 2023. In Kosovo*, the Investment and Enterprise Support Agency (KIESA) held the main role of co-ordinator for the assessment process, while for each of the 15 thematic policy dimensions, a relevant line ministry was delegated as policy dimension co-ordinator and responsible for input collection. Once the assessment was launched, the OECD team introduced new digitalised frameworks for assessing each of the 15 policy dimensions. Consisting of qualitative questionnaires and a statistical data sheet, these frameworks were presented and explained by the OECD, with particular attention paid to new questions and indicators.

Following the launch of the assessment, the National Co-ordinators disseminated the assessment materials among the co-ordination network and completed the assessment between April and August 2023. They assigned a score to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessment materials were returned to the OECD team between August and October 2023. The OECD then reviewed the inputs and, where necessary, requested additional information from the National Co-ordinator. The updated assessment materials were sent back to the OECD over the defined period until November 2023.

Upon final completion of the assessment materials, the OECD organised a fact-finding meeting in Pristina on 12 October 2023 to gain a better understanding of the policy landscape, to collect additional information for indicators where necessary, and to discuss the first set of selected draft findings. Based on the additional inputs received and outcome of the discussions on preliminary analyses and recommendations, the OECD compiled the key findings for each of the 15 policy dimensions. These findings were then presented during a dedicated preliminary findings meeting held on 13 December 2023, and discussed with the National Co-ordinators of the Western Balkan economies. The OECD then held consultations on these findings with local non-government stakeholders, including chambers of commerce, academia and NGOs, in January and February 2024. The draft Competitiveness Outlook economy profile was made available to the government of Kosovo for its review and feedback from February to March 2024.

Assessment approach

Coverage

This publication features data from and a comprehensive analysis of the six Western Balkan economies, including Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, providing a detailed analysis of their key sectors, trends, and challenges for achieving convergence with the European Union and OECD area.

The data collection and assessment are standardised for the region, with some differences in the case of Bosnia and Herzegovina. As policy making in Bosnia and Herzegovina is much more decentralised than that of the other Western Balkan economies, information from the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as the state-level has been taken into account in the assessment and scoring of policy dimensions. While Brčko District was not directly included in the assessment, its policies have been specified in various sections of the report, as appropriate. For more information on the exact methodology of the scoring, refer to the Bosnia and Herzegovina profile of the CO 2024.

Timeline

The assessment and monitoring of the policy developments were undertaken between 1 March 2021 and 1 March 2024. Any policy changes and new developments after 1 March have not been taken into account in the assessment.

Scoring

The assessment comprises a total of 15 policy dimensions that are key to economic competitiveness; these constitute the central building blocks under national economic reform agendas. Each policy dimension is divided into several sub-dimensions (generally between 2 and 4), which are further comprised of granular indicators.

The methodology consists of assessing a total of 147 qualitative indicators across 15 policy dimensions, presented in Table 1. In addition, there are a total of 265 quantitative indicators that provide insights into the policy outcomes, demonstrating whether policies bring out the desired results and the extent to which they help to achieve the Western Balkans' socio-economic convergence with the OECD area and EU.

Table 1. Policy dimensions and indicators

	Dimension	No. of qualitative indicators
1.	Investment policy and promotion	8
2.	Trade policy	6
3.	Access to finance	8
4.	Tax policy	11
5.	State-owned enterprises	11
6.	Anti-corruption policy	13
7.	Education policy	9
8.	Employment policy	12
9.	Science, technology and innovation	9
10.	Digital society	11
11.	Transport policy	10
12.	Energy policy	11
13.	Environment policy	10
14.	Agriculture policy	8
15.	Tourism policy	10

The 2024 assessment retains the 0-5 scoring scale from previous cycles. However, the scoring criteria have been revised to reflect current best practices and policy trends in OECD and EU countries, as well as policy developments in the Western Balkans. Each indicator is assigned a numerical score ranging from 0 to 5 based on the level of policy development, implementation and

monitoring & evaluation, enabling performance comparison across economies and over time. Level 0 represents the weakest performance, while Level 5 indicates the strongest, signifying a higher level of policy convergence towards OECD good practices and standards.

Each criterion which is met on the scale of Level 0 to Level 5 indicates a degree of policy sophistication. This form of scoring allows for more nuanced score progression along the scale, and permits the consideration of more refined inputs in scoring. For this assessment, the OECD team has also prepared simplified versions of the scoring methodology, using benchmark criteria to better illustrate the rationale behind the scores. However, it is only a simplified representation, and doesn't encompass all the elements that influence the scoring. Table 2 presents an example indicator for accommodation quality (Tourism policy), with assessed criteria in the second column.

Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality

Score level	Policy requirements	Criterion met
Level 0	A consistent accommodation quality standard framework has been adopted.	✓
	Measures facilitating investments in high-quality private accommodation development or renovation have been adopted.	✓
	Measures facilitating investments in renovation or in building up new high-quality private accommodation are implemented.	✓
	Accommodation quality standard framework is in the process of implementation.	✓
	Energy efficiency requirements are included in the accommodation quality standard framework.	✓
	Regular inspection of quality standards is in place.	X
	Requirements for persons with disabilities are included in the quality standards for accommodation.	
	The sharing economy is regulated.	X
	Accommodation facilities that enhance their energy efficiency efforts are supported by the government.	X
Level 5	Regular monitoring of the accommodation framework is conducted.	X
	An independent ex-post evaluation has been conducted to assess the effectiveness of the implemented measures and to take corrective action.	X
	Score for Kosovo	**2.5**

Notes: The indicator and criteria shown in the table above do not reflect the actual score for Kosovo and are included solely for demonstration purposes. Moreover, there is no methodology for specific criterion being assessed, which would translate directly into a score. In other words, each criterion does not necessarily result in a score increase.

As part of the current assessment cycle, **the *Western Balkans Competitiveness Data Hub* (westernbalkans-competitiveness.oecd.org) has also been developed to access all the scores by indicator, showcasing the fulfilment of criteria by each economy and offering the rationale behind scores**. Scores can be explored through policy dimensions as well as over time, and in comparison to other Western Balkan economies.

The final scores represent a simple average of all indicators, and not individual sub-dimensions. Table 3 illustrates an example of the dimension scoring system and thus the final scores. The number of indicators included in each sub-dimension varies depending on the complexity and scope of the policy area concerned. Therefore, the sample average of the sub-dimension scores can be different from the final dimension scores.

Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.8	3.9
	1.2: Investment promotion and facilitation			3.0	3.3
	1.3: Mobilising sustainable investment			3.5	2.8
Kosovo's overall score		**2.6**	**3.1**	**3.4**	**3.4**

For further details on the Competitiveness Outlook methodology and, individual scores for each indicator, as well as the changes in scope compared to the last assessment cycle in 2021, please refer to the detailed assessment methodology on the *Western Balkans Competitiveness Data Hub*.

Comparability

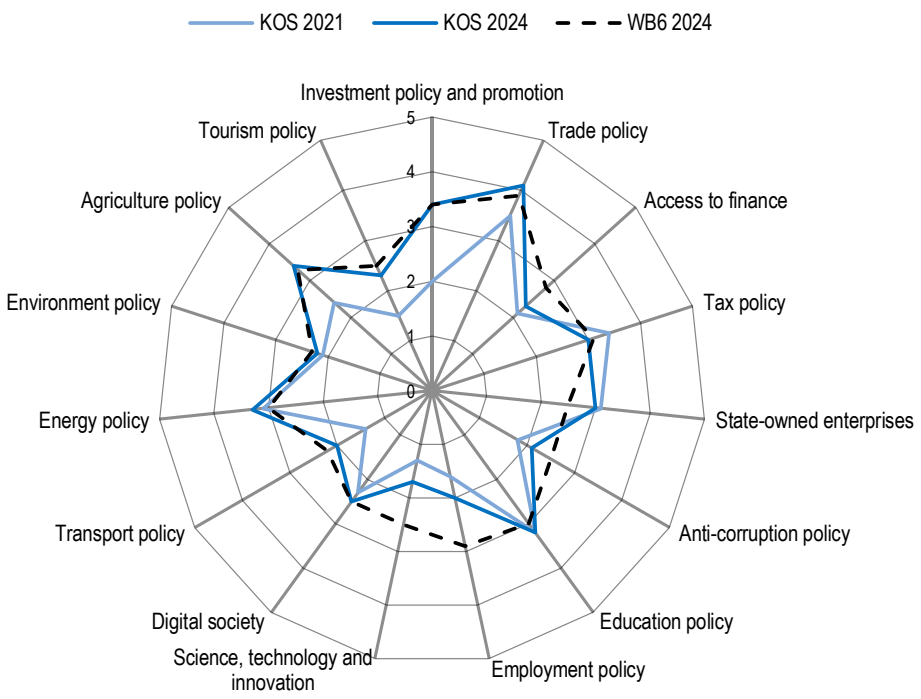
The *Western Balkans Competitiveness Outlook* reflects a continual process of methodological refinement aimed at enhancing the robustness and comparability of indicators. However, evolving policy trends in the OECD area and EU member countries, alongside shifting priorities in the Western Balkans, can sometimes make a direct comparison of scores difficult over time. In the 2024 edition, scores are compared back to 2021 and 2018. Due to vast methodological changes, direct comparisons to the first edition in 2016 are not feasible.

Since the 2018 edition, indicators have also been reorganised into different subdimensions, reflecting the policy aspects that are of key importance for the Western Balkans. This does not have any impact on the overall score comparability, i.e. dimension scores remain comparable. However, subdimension scores cannot be compared across subsequent editions.

Executive summary

Kosovo has made notable advancements since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), positively progressing across 12 of the 15 policy dimensions, regressing in two and stagnating in one. Kosovo experienced the strongest score increases in the areas of investment policy and promotion, and agriculture and tourism policies. Figure 1 illustrates that Kosovo is outperforming the average of the six Western Balkan (WB6) economies across five policy dimensions, with eight areas lagging. Kosovo positions itself as a regional leader in state-owned enterprises (SOEs) and trade policy. In contrast, Kosovo falls behind in the areas of science, technology and innovation (STI), employment, anti-corruption, and access to finance policies, scoring below at least four of its Western Balkan neighbours, highlighting the areas requiring substantial improvement for achieving convergence with the European Union (EU). For additional insights into Kosovo's performance across various dimensions, trends over time or comparisons with other economies, please refer to the Western Balkans Competitiveness Data Hub at https://westernbalkans-competitiveness.oecd.org/.

Figure 1. Scores for Kosovo across Competitiveness Outlook policy dimensions (2021 and 2024)



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub for information on the assessment methodology and the individual score assigned to indicators.

StatLink https://stat.link/nxetqy

Main progress areas

The main achievements that have led to increased performance for Kosovo since the last assessment are as follows:

- **An improved policy and legislative framework has fostered a more favourable business environment for foreign direct investment (FDI).** Between 2019 and 2022, FDI more than tripled in Kosovo, reaching around EUR 845 million in 2022, the second largest annual net FDI inflow relative to gross domestic product (GDP) in the Western Balkans. However, FDI remains overly concentrated in non-tradeable sectors driven by the economy's strong diaspora, with construction and real estate accounting for 80% of the FDI stock. The new law on sustainable investment adopted in 2023 is a good step to boost FDI in high-value added and export-oriented sectors. Additionally, recent improvements in the judicial system, including the establishment of a dedicated Commercial Court in August 2022 and advancements in the intellectual property rights regime, have augmented legal security and predictability in investment activities. Together, these developments have paved the way for diversifying FDI.".
- **The improved policy framework holds the potential to increase Kosovo's trade in goods**. Despite increasing trade volumes, Kosovo's goods exports correspond to around 10% of GDP – the smallest in the Western Balkans. The economy's industrial trade balance is notably unfavourable and continues to worsen, with imports into the industrial sector surpassing exports by a substantial margin of 7 to 1. A new strategic framework aims to address this challenge by stepping up financial and technical support for firms to strengthen the industrial base and diversify export markets. This strategic framework is further supported by improved inter-institutional co-ordination mechanisms, as demonstrated by the recent establishment of the Task Force for the Protection of the Market, which seeks to diminish the impact of trade barriers while ensuring fair competition.
- **The agriculture sector has benefitted from increased investment and revised support instruments.** From 2013 to 2022, the agriculture sector's output grew by 54%, reaching EUR 658 million. Increased investments into rural and irrigation infrastructure and enhanced government support have contributed to the sector's productivity, with budgetary support reaching a record EUR 56.1 million in 2022. A significant portion of this funding is allocated to expanding support to farmers, with several updates implemented in relation to producer support instruments to expand the potential beneficiaries and scope of assistance. Additional funding through the EU's IPARD III (instrument for pre-accession assistance for rural development) is further poised to accelerate the sector's development and modernisation.
- **Advances in the tourism sector have been achieved through improved governance and enhanced efforts to create a qualified workforce.** Kosovo's tourism sector has witnessed steady growth in recent years, with the number of foreign tourists increasing by nearly 120% between 2019 and 2023, reaching nearly 387 000 tourists in 2023. A new strategic framework has outlined clear policy priorities and provided a cohesive strategic direction for the tourism sector. Meanwhile, efforts to cultivate a skilled workforce have been underway. Kosovo has developed a vocational education and training (VET) framework tailored to tourism, and engaged in regional skills partnerships and initiatives aimed at addressing skills gaps in the industry.

Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Kosovo is encouraged to:

- **Strengthen anti-corruption policies to improve the economy's competitiveness**. While Kosovo's perceived level of corruption has shown slight improvement in recent years, progress has been hampered by obstacles to strengthening anti-corruption policies and bodies. Since the expiration of its last national strategy in 2017, Kosovo has lacked an overarching strategic framework on anti-corruption. Despite improvements in the legal framework in areas such as corruption risk assessments and corruption proofing of legislation, implementation has remained limited. The main corruption prevention body, the Agency for Prevention of Corruption, is confronted with an increasing workload; however, financial and human resource constraints limit its activities. Moreover, progress on a beneficial ownership register and on strengthening corruption-related sanctions for legal persons has been slow. Increased political commitment will be necessary to step up anti-corruption efforts.
- **Strengthen the labour market by improving employment rates and workforce skills.** Despite some improvement in recent years, the labour market in Kosovo is largely characterised by low activity and high unemployment rates. The share of young people not in employment, education or training (NEET) remains three times EU levels at around 33%, and only around 20% of women participate in the labour market – the lowest rate in the Western Balkans. Structural issues in terms of how education and training systems provide in-demand skills and knowledge continue to hamper the labour market and fail to future-proof the workforce. Kosovo's performance in the Programme for International Student Assessment (PISA) 2022 was the lowest in the Western Balkans, and has deteriorated since the previous PISA in 2018. Moreover, the lack of affordable and high-quality childcare and elderly care services, as well as the limited capacity of the Employment Agency, will need to be addressed to enhance labour market inclusivity.
- **Develop the STI framework to pave the way for impactful policy measures**. The STI policy framework remains underdeveloped, impeding a cohesive, holistic approach to promoting research and innovation and preventing policy makers from identifying, prioritising and formulating clear policy objectives. Budgetary support for the public research system remains significantly below both Kosovo's legal requirements and EU average levels – increased funding will be necessary to develop the economy's research infrastructure and improve research outcomes. There is also a significant need to address the lack of reliable data on STI. Data constraints on indicators such as gross domestic expenditure on research and development and the number of active researchers hinder evidence-based policy making.
- **Improve transport policies through enhanced planning and continued efforts to further develop road and rail infrastructure**. The selection and prioritisation of transport infrastructure projects in Kosovo remains outdated, and systematic assessments of the potential environmental, social or budgetary impacts of new projects are rarely conducted. This restricts informed decision making and the ability of policy makers to properly assess if projects are in line with national objectives. The impacts of underdeveloped governance of the transport sector are compounded by the relatively limited connectivity of the transport system. Railways in the economy are not properly maintained and lag behind in terms of modernisation efforts, which drives a reliance on roads, despite road density being far below both regional and EU average levels. The foreseen actions under the recently developed Multimodal Transport Strategy 2023-30 will need to be implemented to advance the development of combined transport and achieve efficient logistical networks.

1 Context

This chapter offers an overview of Kosovo's economic developments since the *Competitiveness Outlook* 2021, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Kosovo's accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

Economic context

Key economic developments

Kosovo presents a small upper-middle-income economy, with a total gross domestic product (GDP) of EUR 9.68 billion in 2023 (IMF, 2024[1]). Kosovo's economy is predominantly services-based, with the sector accounting for 45.5% of its GDP. Industry and agriculture respectively contribute 27.6% and 7.4% to GDP (The World Bank, 2024[2]). Meanwhile, 72% of employment is concentrated in services, while industry and agriculture comprise 23.9% and 4% of employment (ILOSTAT, 2022[3]). The informal sector is estimated to account for 35% of employment as of 2017 (Cojocaru, 2017[4]).

Following a strong post-COVID recovery showcasing considerable economic resilience, Kosovo's economic performance is now moderating but is expected to keep expanding (IMF, 2024[5]). While Kosovo's GDP sustained a decline of 5.3% in 2020, it rebounded by 10.7% in 2021 and grew by 3.5% in 2022 (European Commission, 2024[6]). Over 2022, Kosovo's recovery was largely underpinned by stronger exports, private consumption, higher remittances and bank lending (European Commission, 2024[6]). On the production side, trade and other service sectors drove economic growth, while industrial production lagged in 2023, dropping by 3.9% over January to July 2023 (World Bank, 2023[7]; European Commission, 2023[8]; EBRD, 2024[9]). As of the third quarter of 2023, GDP expanded by 6.6% year-over-year compared to the growth of 6.9% over the same period in 2022 (European Commission, 2024[6]).

Inflation peaked in 2022 and moderated into 2023 due to gradually decelerating global commodity prices and is anticipated to decline further through 2025 (IMF, 2024[5]; European Commission, 2024[6]) (see Table 1.1 for more). As a result of the Russian Federation's (hereafter: Russia) war of aggression against Ukraine, rising international food and energy prices drove inflation to a peak of 11.6% in 2022 (Box 1.1). As of 2023, inflation eased to 4.9%, owing to downward pressures from lower commodity prices. Having unilaterally adopted the euro since 2002, interest rates increased over the period, reflecting tighter financial conditions in the euro area (IMF, 2023[10]).

Kosovo's labour market has relatively improved due to a significant decline in both the overall and youth unemployment rates, and increased formalisation. Following a contraction of 1.2% in 2020, employment grew by 2.3% in 2022, while unemployment decreased from 25.9% to 12.6% over the same period (European Commission, 2024[6]). Youth unemployment more than halved, decreasing from 49.8% in 2020 to 21.4% in 2022 (World Bank, 2023[7]). According to national statistics, formal employment increased by 2.8% between August 2022 and August 2023 (European Commission, 2024[6]). Average monthly wages grew at a rate 11.7% in 2022 (European Commission, 2024[6]).

As regards Kosovo's external sector, the current account widened significantly over 2022 but narrowed in the first three quarters of 2023, driven by lower value imports, a decline in traditionally high merchandise trade deficit and slightly reduced FDI net inflows (European Commission, 2024[6]; World Bank, 2023[7]). While the current account deficit reached 10.3% of GDP in 2022, which was significantly impacted by the rising cost of imports driven by higher commodity prices as a result of Russia's war of aggression against Ukraine, it narrowed to 7.7% by the third quarter of 2023 (European Commission, 2024[6]). The strong rise in goods and services exports over 2022 (14.7% year-over-year) played a key role in Kosovo's economic recovery over 2022, while its historically high merchandise trade deficit also decreased slightly in 2023 to 47.2% (European Commission, 2024[6]). FDI flows also grew as a share of GDP, from 5.1% in 2020 to 8.1% in 2022 (The World Bank, 2024[11]). Inward FDI flows more than doubled from EUR 343.3 million in 2020 to EUR 725.9 million in 2022 (The World Bank, 2024[11]; FRED, 2023[12]) but showed signs of slowdown in 2023 (European Commission, 2024[6]). Historically, FDI into Kosovo remains highly concentrated in the construction and the real estate sector as a result of the demand of the Kosovar diaspora for real estate assets in Kosovo, followed by financial services and energy (European Commission, 2024[6]; US Department of State, 2023[13]). Personal remittances also increased by 11% from

2020, reaching EUR 1.61 billion in 2022 (World Bank, 2022[14]). Kosovo's reserves amounted to EUR 1.19 billion in 2022, an increase from EUR 96 million in 2020 (The World Bank, 2022[15]; FRED, 2023[12]).

The government's fiscal position showed improvements through 2023 with the steady increase of public revenues, decrease in expenditures, and narrowed fiscal deficit, which is projected to remain moderate into the medium term. Over the assessment period, public revenues rose from 25.4% in 2020 to 27.9% in 2022, and continued to rise into the first months of 2023, supported by elevated inflation (European Commission, 2024[6]). Expenditures decreased from 33% of GDP in 2020 to 28.4% in 2022, owing to significantly lower-than-budgeted capital expenditures, though current expenditures grew by 5.6% year-over-year owing to increased spending on goods and services, wages, and utilities (European Commission, 2024[6]). In 2022, the fiscal deficit narrowed to -0.2% of GDP, representing a significant improvement from -7.9% in 2020, and is expected to represent between 1.5% and 2.0% of GDP over the medium term (IMF, 2023[10]; European Commission, 2024[6]; World Bank, 2023[7]). Public debt remains low and decreased slightly over the period, from 22% in 2020 to 19.6% in 2022 (World Bank, 2023[7]).

Kosovo's financial sector has been relatively stable, with improved capitalisation and slightly lower liquidity. In November 2023, the banking system's liquid assets to short-term liabilities ratio decreased from 34.1% to 32.1% compared to the previous year (European Commission, 2024[6]). The capital adequacy ratio increased from 14.9% to 15.8% over the same period, remaining above the regulatory minimum of 12% (European Commission, 2024[6]). Amid tighter financing conditions, domestic government bond yields and lending rates have begun to increase (IMF, 2023[10]). Meanwhile private sector credit growth decelerated but remains high, declining from 7.5% in 2021 to 5.2% in 2022 (World Bank, 2023[7]). Nonperforming loans stood at 2% in November 2022, same as the year prior, and were fully covered by loan-loss provisions (144.8%) (European Commission, 2024[6]) (see "Access to finance" chapter for more details on the financial sector).

Table 1.1. Kosovo: Main macroeconomic indicators (2019-23)

Indicator	Unit of measurement	2019	2020	2021	2022	2023e
GDP growth	% year-on-year	4.8	-5.3	10.7	5.2	..
National GDP	USD billion	7.90	7.72	9.41	9.41	..
Inflation	% average	2.7	0.2	3.4	11.6	4.9.
Current account balance	% of GDP	-5.7	-7	-8.7	-10.5	..
Exports of goods and services	% of GDP	29.3	21.7	33.4	38.5	..
Imports of goods and services	% of GDP	56.4	53.9	65.2	71.1	..
Net FDI	% of GDP	-2.7	-4.2	-4	-6.2	-4.5
Public and publicly guaranteed debt	% of GDP	17.6	22.4	21.6	19.9	18.6
External debt	% of GDP	31	37	37.1	38.5	..
Unemployment	% of total active population	25.7	25.9	20.7	12.6	..
Youth unemployment	% of total	49.4	49.1	38	21.4	..
International reserves	In months of imports of G&S	2.8	3.2	2.5	2.2	..
Exchange rate (if applicable local currency/euro)	Value	1	1	1	1	1
Remittance inflows	% of GDP	15.8	18.6	18	17.1	..

Notes: G&S = goods and services. "n.a" refers to data unavailable; ".." refers to data missing.
Sources: European Commission (2024[6]); The World Bank (2021[16]; 2023[7]); EBRD (2024[9]). IMF (2024[17]).; UNCTAD (2024[18]).

Box 1.1. Economic impacts of Russia's full-scale invasion of Ukraine on Kosovo's economy

Russia's ongoing war of aggression against Ukraine has had mild negative economic implications for Kosovo, as Kosovo has marginal economic ties with Russia and Ukraine given that neither have official diplomatic relations with Kosovo. However, the fallout from Russia's war in Ukraine has tempered Kosovo's recovery following the COVID-19 pandemic, as higher and more volatile commodity prices fuelled inflation, and the negative terms-of-trade shock adversely impacted disposable incomes (IMF, 2023[10]).

Kosovo's **trade** has been largely unaffected by the war, as neither Russia nor Ukraine constitutes a significant share of the economy's total trade. Though Kosovo's exports to Russia have been minimal (EUR 34 740 in 2021) and Russia accounts for less than 1% of Kosovo's imports, imports from Russia declined by 50% from EUR 51.3 million in 2021 to EUR 25.3 million in 2022 (CEFTA, 2024[19]). Furthermore, Russia is not a major source of foreign **investment** in Kosovo; instead, the principal investors are countries including Germany (16.6%), Switzerland (14.8%), Turkey (8.3%), and the United States (7.1%) (Central Bank of Kosovo, 2024[20]), further highlighting Kosovo's relatively limited economic dependence on Russia.

While the conflict provoked an **energy** crisis throughout Europe, Kosovo's direct energy needs were relatively sheltered as Kosovo relies almost entirely on lignite coal for electricity generation. The economy's use of natural gas is virtually nonexistent, with no distribution network for residential or commercial consumers (Di Bella and Selim Thaci, 2024[21]).

Despite this minimal direct risk exposure, Kosovo faces significant indirect exposure as a result of price increases for **electricity** imports (GET, 2022[22]; Di Bella and Selim Thaci, 2024[21]). The cost of household electricity rose by 26% from the start of 2020 through the second half (July to December) of 2023, while the price of electricity for non-household consumers rose by 18% over the same period (Eurostat, 2024[23]). These high energy prices negatively impacted households' real disposable income, with a disproportionate impact on the most vulnerable populations. In response to the social and economic impact of the current energy crisis generated by the Russian war of aggression against Ukraine, the EU allocated EUR 75 million to Kosovo under the 2023 Energy Support Package immediate measures, with the aim not only of assisting vulnerable families and SMEs but also supporting policy measures to accelerate the energy transition (European Commission, 2023[24]).

The surge in energy prices also represents a heavy blow for Kosovo's **current account**, as net energy imports are projected to have reached 12.5% of GDP in 2022, up 3 percentage points from 2021; this increased the urgency to invest in sustainable domestic energy generation and reduce dependence on expensive energy imports (Di Bella and Selim Thaci, 2024[21]; ITA, 2024[25]). Influenced by high electricity prices and the vulnerable current account, the Kosovo Assembly passed the National Energy Strategy in March 2023, which commits to increasing generation from renewable energy sources to at least 35% of its energy mix (ITA, 2024[25]).

Sustainable development

Despite Kosovo not being a signatory to the UN's 2030 Agenda on Sustainable Development because of its status as a non-member, the economy has committed to implementing Agenda 2030, with many of the goals reflected in Kosovo's National Development Strategy – 2030 (Prime Minister Office, 2022[26]). In this context, Kosovo's implementation of the 2030 Agenda is mainly through the process of European integration (Assembly of Kosovo, 2019[27]; UNKT, 2020[28]). Kosovo's commitment to the SDG agenda is ensured through the Kosovo Assembly's January 2018 adoption of a parliamentary resolution

endorsing the SDGs. However, integration of the SDG Agenda into Kosovo's policy practices has further room to improve. Currently, only 51% of Kosovo's development framework is aligned with the SDG targets (UNKT, 2020[29]). While Kosovo has undertaken some positive steps on the 2030 Agenda, notably the establishment of the National Council for Sustainable Development (NCSD), which is responsible for coordinating implementation of the SDG agenda, concrete actions remain limited (EEA, 2020[30]). Moreover, the lack of reliable data to set SDG baselines and track progress impedes the monitoring and evaluation of forward movement toward the 2030 Agenda (UNKT, 2020[29]), thereby contributing to minimal observed advancements and explaining the absence of an SDG progress table that is present in other chapters of the report.

Kosovo lags significantly in the areas of elimination of poverty (SDG 1), inequality (SDG 10) and peace, justice and strong institutions (SDG 16), underscoring the need for comprehensive action. While poverty rates have declined in recent years, faster progress is needed to attain the 2030 targets. After reaching 32.4% in 2020, consumption-based poverty (USD 6.85 PPP per day) is estimated to have fallen to 25.2% in 2022 (The World Bank, 2024[31]). Kosovo also leads in the share of the population at risk of poverty after social transfers in the Western Balkans and Türkiye, which ranged from 21.2% in Serbia to 27.9% in Kosovo. In the EU in 2021 it was 16.8% (Eurostat, 2023[32]). Kosovo has also been making slow progress in the area of inequality. Despite relatively low levels of inequality, the bottom 40% of the population has experienced slower growth in consumption rates compared to the population as a whole (The World Bank, 2024[31]). Progress across all SDGs is deeply connected to strong institutions, SDG 16, as it relates to monitoring strategies, which requires further development in Kosovo. However, institutional effectiveness is hampered by corruption, a pervasive issue that requires deeper intervention for success across all the SDGs (INDEP, 2019[33]).

Regarding well-being (SDG 3), considerable progress is needed to improve outcomes across several dimensions, including access to water and basic sanitation (SDG 6). In the area of health (SDG 3), Kosovo lags behind the EU and Western Balkan averages in many critical health indicators (such as incidence of tuberculosis) as well as public expenditures in health (Eurostat, 2023[34]). Public expenditure on health was estimated at 3.5% of GDP in 2021, while the EU public expenditure on health was estimated at 8.8% of GDP. Progressing in SDG 3 necessitates further advancement across interconnected SDGs, including SDG 6. Access to water and basic sanitation services remains broadly limited, as nearly a quarter of the population is not covered with water services managed by licensed providers (WAREG, 2022[35]).

More progress is also needed to create economic opportunities and increase innovation (SDGs 8 and 9). Significant infrastructure gaps in water, waste, and connectivity limit Kosovo's full economic potential and output (World Bank, 2023[7]), thus limiting progress in SDG 8, decent work and economic growth. There are also significant inequalities between men and women, as female participation in the formal labour market remains persistently low, which can be explained by Kosovo's large informal sector and high inactivity rates among women (European Commission, 2023[8]). Existing disparities between education, skills and the needs of labour market leads to continued structural employment problems (World Bank, 2023[7]; European Commission, 2023[8]). For further details, see Employment Policy – Dimension 8.

Significant progress is also needed in areas pertaining to clean energy (SDG 7) and the environment (SDG 13). Key challenges regarding SDG actions with an environmental dimension in Kosovo include a lack of specialised strategies and programmes on environmental issues as well as a lack of financial and institutional capacities (EEA, 2020[30]). Kosovo's energy consumption is highly dependent on fossil fuels, and renewable energy contributes only 8% to the total energy mix (Di Bella and Selim Thaci, 2024[21]). Coal comprises 82% of Kosovo's domestic energy production, and coal-based electricity generation presents the largest source of greenhouse gas (GHG) emissions in Kosovo (Di Bella and Selim Thaci, 2024[21]; IEA, 2024[36]). If the photovoltaic power plant under the Western Balkans Investment

Framework (WBIF) advances, Kosovo's reliance on highly polluting lignite coal could be reduced and propel progress towards achieving SDG 7 and interrelated environment-focused goals.

EU accession process

The possibility of Kosovo's accession to the EU was officially raised in June 2003, when the EU acknowledged the European perspective for all Western Balkan partners at the Thessaloniki European Council. The Stabilisation and Association Agreement (SAA) between the EU and Kosovo was signed in October 2015 and entered into force the following year, on 1 April 2016 (European Commission, 2023[8]). In February 2020, the European Commission presented its revised enlargement methodology, which emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021[37]). The negotiating framework incorporates the new approach to negotiations on the chapters on judiciary and fundamental rights, and on justice, freedom and security, as well as on the issue of the normalisation of relations between Serbia and Kosovo. Along with the revised methodology, the Commission adopted an Economic & Investment Plan to support and bring the Western Balkans closer to the EU.

Kosovo submitted its application for EU membership in December 2022 (European Commission, 2023[8]). Kosovo adopted a 2023-2027 national programme for EU integration in June 2023. The EU's visa liberalisation scheme with Kosovo entered into force on 1 January 2024, allowing Kosovo nationals free movement into borderless areas of the EU without a visa for a period of 90 days in any 180-day period. As of March 2024, five EU countries – Cyprus, Greece, Romania, Slovak Republic, and Spain – do not recognise Kosovo's sovereignty, presenting a critical challenge for its accession.

While chapters of the negotiation framework on EU accession are not opened for the economy as the negotiation procedures have not yet commenced, the status of Kosovo's implementation of each criterion is still assessed on an annual basis. According to the EU's 2023 enlargement report, Kosovo has made some progress in political criteria over the assessment period. Under the auspices of EU facilitation, in February 2023 both Serbia and Kosovo expressed readiness to proceed with implementation of the EU Proposal "Agreement on the Path to Normalisation between Kosovo and Serbia", though progress on normalising ties has otherwise nearly stagnated amidst flaring tensions (EEAS, 2023[38]) and neither Kosovo nor Serbia has started implementation of their respective obligations within the agreement (European Commission, 2023[39]). While some steps have been taken in the area of public administration reform through the new legislation on public officials and salaries, the legislation was passed using fast-track procedures and risks creating and exacerbating existing gaps in administrative capacities. Kosovo is still at an early stage in developing a well-functioning judicial system, as well as in the fight against organised crime; progress in both areas has been limited.

There has been some progress relating to economic criteria – Kosovo is between an early stage and a modest level of preparation in developing a functioning market economy, and remains at an early stage in terms of its capacity to cope with competitive pressure and market forces in the EU (European Commission, 2023[8]). The economy has made some progress in the internal market with regard to the free movement of goods, freedom to provide services, free movement of capital and intellectual property law. As regards competitiveness and inclusive growth, Kosovo made advances in most areas (customs, taxation, social policy and employment, education, and culture), except for digital transformation and media where progress was limited. It likewise made limited progress in the area of freedom of movement for workers, company law, competition policy, financial services and consumer and health protection, as well as public procurement and financial control (European Commission, 2023[8]).

On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU. Backed by EUR 6 billion in non-repayable support and loan support, the Growth Plan has the potential to

boost socio-economic convergence and bring WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023[40]). The new Growth Plan is based on four pillars, aimed at:

1. "Enhancing economic integration with the European Union's single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;
2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster*, supporting the Western Balkans' path towards EU membership, improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans" (European Commission, 2023[41]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the economic convergence between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region's performance in achieving economic convergence towards the EU and the OECD area, and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (Box 1.2) (OECD, 2023[42]).

As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission economy-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan's funding. All Reform Agendas are structured along the same four policy areas: 1) business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes' chapter IV on structural challenges, as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

Box 1.2. *Economic Convergence Scoreboard for the Western Balkans 2023*: A spotlight on Kosovo

Kosovo's GDP per capita increased by 80% from 2008 to 2022 in comparison to the EUs and OECD areas comparatively modest increases of 15%. Between 2008 and 2022, Kosovo marginally narrowed the gap in GDP per capita with the EU and OECD area. In 2008 the EU rate was nearly six times higher, but by 2022, it had decreased the difference to roughly half that, showing progress. However, Kosovo's 2022 GDP per capita of USD (PPP international $) 12 675 (EUR 12 041)[1], compared to the EU's USD 45 978 (EUR 43 679) and the OECD's USD 46 208 (EUR 43 897), underscores the considerable progress that remains to be made for Kosovo to bridge the disparity and align with the EU and OECD area, emphasising the complexity of the task ahead (Figure 1.1).

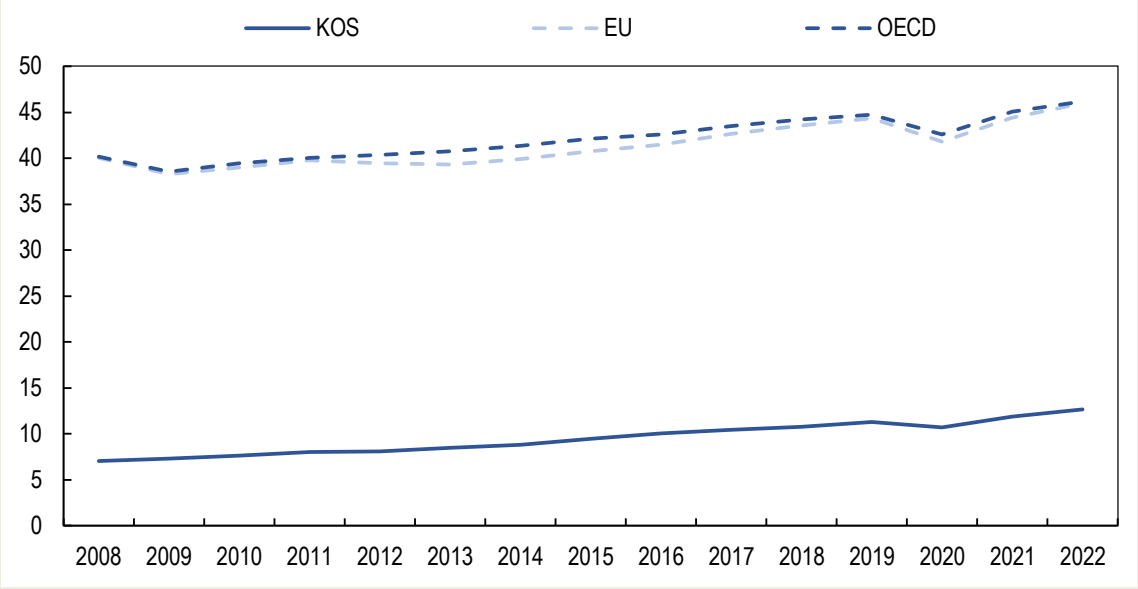
In this context, the OECD developed the *Economic Convergence Scoreboard* for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the EU and the OECD. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a

* In line with Communication on "Enhancing the accession process – A credible EU perspective for the Western Balkans" COM(2020)57, the fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics and chapter 32 – Financial control (Kosovo Commercial Court, 2023[46]).

decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters are *business environment*, *skills*, *infrastructure and connectivity*, *greening*, and *digital transformation*.

Figure 1.1. Kosovo's GDP per capita convergence with the OECD and the European Union (2008-2022)

In purchasing power parity 2017 USD (thousands)



Source: World Bank (2022[43]).

StatLink https://stat.link/76a9qb

Since 2008, Kosovo advanced in approximately half of the observed policy outcomes and OECD good policy practices, standards, and tools. Kosovo exhibited noteworthy progress in both the *business environment* and *digitalisation* clusters. Regarding of the *business environment*, Kosovo positively advanced in nearly all of the observed areas and is near parity with the EU in several areas, such as FDI net inflows, trade openness, private gross fixed capital formation, and new business density. Kosovo showed the most impressive improvements in new business density, improving by 91% across the defined periods (2008-12, 2013-17, and 2018-22), with policies indicating support for a growing business sector. In terms of *digitalisation*, Kosovo is making positive strides forward, although a comprehensive overview is lacking due to some unavailable data within the entire cluster. Nevertheless, Kosovo has consistently improved over the observed periods within the three key policy criteria – fixed broadband Internet penetration, mobile cellular penetration, and digital payments – implying the effective implementation of digitally focused policies.

By contrast, the *infrastructure and connectivity* and *skills* clusters require further development. Data in these clusters are largely unavailable, highlighting an underdeveloped understanding of the state of progress – or lack thereof – in two critical policy areas. Regarding *infrastructure and connectivity*, total power losses and time to obtain electricity have increased, hampering convergence toward the EU.

In the context of aligning with OECD standards, Kosovo has demonstrated positive strides forward, albeit

with several setbacks across multiple OECD good policy practices, standards, and tools. Kosovo regressed in CO investment policy and promotion, and finance, anti-corruption and employment policy. Notably, advancements have been made in CO trade, education, environment and energy policy, as well as digital society. Kosovo's limited understanding of progress made thus far, attributed to data unavailability, poses a challenge to effective policy development and implementation and, ultimately, achieving convergence, highlighting an essential area for growth.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international dollars into EUR.
Source: OECD (2023[42]).

EU financial and development support

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

In the framework of IPA I, IPA II and other EU instruments, from 2007 to 2020, the EU has invested more than EUR 1.5 billion in Kosovo. The IPA 2022 programme covers the areas of environmental protection, strengthening democracy and the judiciary, and support to other reforms to fulfil EU standards and norms. It also includes the dedicated EUR 75 million from the 2023 Energy Support Package immediate measures, 90% of which has already been disbursed to support vulnerable families and SMEs facing rising energy prices. The actions are also aimed at supporting policy measures to accelerate the energy transition (European Commission, 2023[24]).

The European Union has also been crucial in financially supporting Kosovo during COVID-19. In terms of direct assistance to the health sector, the EU granted the government EUR 7.03 million for the purchase of approximately 700,000 doses of the COVID-19 vaccine and provided for the delivery of equipment and goods for prevention, protection and treatment of COVID-19 in the amount of EUR 5 million. The EU also re-programmed parts of the planned annual programmes for 2019 and 2020 to create a financial package of EUR 50 million for the economic and social recovery; the package includes direct budget support via the "EU4 Resilience" project, "EU4 Social protection", and support to small businesses and other immediate needs. In terms of direct financial support, the EU provided Macro-Financial Assistance of EUR 100 million in the form of a loan (EEAS, 2021[44]). In addition, the EU accelerated the disbursements of EUR 13 million of ongoing direct budget support programmes on Public Administration Reform and Public Finance Management (EEAS, 2021[44]).

Additionally, through the Economic and Investment Plan (EIP) for the Western Balkans 2021-2027, the EU has already mobilised EUR 940 million in investments in Kosovo, out of which EUR 312 million are grants. Under the EIP, Kosovo is expected to benefit from significant flagship projects in the areas of sustainable transport and renewable energy. Flagship projects for Kosovo include the construction of the Peace Highway, which will connect Niš, Serbia via Pristina, to Tirana and Durrës in Albania, a photovoltaic plant that will increase the share of solar power in the energy mix of Kosovo from 0.2% to 2.3%; and the introduction of solar district heating in Pristina (WBIF, 2024[45]).

References

Assembly of Kosovo (2019), *The Commitment of Kosovo*, https://www.kuvendikosoves.org/eng/for-the-public/sutainable-development/the-commitment-of-kosovo// (accessed on 22 April 2024). [27]

CEFTA (2024), *Trade Statistics – Trade in Goods*, https://transparency.cefta.int/TradeStatistics/TradeInGoods (accessed on 22 April 2024). [19]

Central Bank of Kosovo (2024), *Statistics: Time Series*, https://bqk-kos.org/statistics/time-series/?lang=en (accessed on 22 April 2024). [20]

Cojocaru, A. (2017), "Kosovo jobs diagnostic", *World Bank*, https://documents1.worldbank.org/curated/en/814361497466817941/pdf/Kosovo-Jobs-Diagnostic.pdf (accessed on 22 April 2024). [4]

Di Bella, G. and Selim Thaci (2024), "Kosovo's electricity sector challenges and opportunities: Republic of Kosovo", https://doi.org/10.5089/9798400240010.018. [21]

EBRD (2024), *Transition Report 2023-24 Country Assessments: Kosovo*, https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/008/index.htmlhttps://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi-48bsvtWFAxWdVqQEHdw2Ag8QFnoECBQQAQ&url=https%3A%2F%2Fwww.ebrd.com%2Fpublications%2Ftransition-report-202324-kosovo&usg=AOvVaw3Cks4YWPrbfxWZAZs3_Yda&opi=89978449 (accessed on 22 April 2024). [9]

EEA (2020), *Kosovo Country Profile - SDGs and the Environment*, https://www.eea.europa.eu/themes/sustainability-transitions/sustainable-development-goals-and-the/country-profiles/kosovo-country-profile-sdgs-and (accessed on 22 April 2024). [30]

EEAS (2023), *Belgrade-Pristina Dialogue: Agreement on the Path to Normalisation Between Kosovo and Serbia, Brussels*, https://www.eeas.europa.eu/eeas/belgrade-pristina-dialogue-agreement-path-normalisation-between-kosovo-and-serbia_en (accessed on 22 April 2024). [38]

EEAS (2021), *An Overview of Relations Between the EU and Kosovo*, https://www.eeas.europa.eu/kosovo/eu-and-kosovo_en?s=321#:~:text=In%20terms%20of%20direct%20financial,the%20form%20of%20a%20loan (accessed on 22 April 2024). [44]

European Commission (2024), "EU candidate countries' and potential candidates' economic quarterly (CCEQ) Q4 2023", https://economy-finance.ec.europa.eu/document/download/00bb7307-1694-4c7e-99de-5c3e662b2172_en?filename=tp070_en.pdf (accessed on 8 April 2024). [6]

European Commission (2023), *Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions: New Growth Plan for the Western Balkans*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/COM_2023_691_New%20Growth%20Plan%20Western%20Balkans.pdf (accessed on 5 April 2024). [41]

European Commission (2023), *Kosovo 2023 Enlargement Package Factsheet*, https://neighbourhood-enlargement.ec.europa.eu/document/download/dde75c0b-408d-414c-b98a-1d59e979458d_en?filename=EU-MK%20FS.pdf (accessed on 22 April 2024). [24]

European Commission (2023), *Kosovo 2023 Report, Brussels: Directorate-General for Neighbourhood and Enlargement Negotiations*, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf (accessed on 22 April 2024). [8]

European Commission (2023), *Serbia 2023 Report Accompanying the Document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2023 Communication on EU Enlargement*, https://neighbourhood-enlargement.ec.europa.eu/document/download/9198cd1a-c8c9-4973-90ac-b6ba6bd72b53_en?filename=SWD_2023_695_Serbia.pdf (accessed on 28 May 2024). [39]

European Commission (2021), *Application of the Revised Enlargement Methodology to the Accession Negotiations with Montenegro and Serbia*, https://data.consilium.europa.eu/doc/document/ST-8536-2021-INIT/en/pdf (accessed on 12 April 2024). [37]

Eurostat (2024), "Electricity prices for household consumers - bi-annual data", https://ec.europa.eu/eurostat/databrowser/view/nrg_pc_204/default/table?lang=en&category=nrg.nrg_price.nrg_pc (accessed on 22 April 2024). [23]

Eurostat (2023), *Enlargement Countries - Health Statistics*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_health_statistics#Health_status (accessed on 22 April 2024). [34]

Eurostat (2023), *Enlargement Countries - Statistics on Living Conditions*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_statistics_on_living_conditions (accessed on 22 April 2024). [32]

FRED (2023), *U.S. Dollars to Euro Spot Exchange Rate*, https://fred.stlouisfed.org/series/AEXUSEU (accessed on 8 April 2024). [12]

GET (2022), "War in Ukraine: what are the implications for Kosovo?", https://www.german-economic-team.com/en/newsletter/war-in-ukraine-what-are-the-implications-for-kosovo/ (accessed on 16 May 2024). [22]

Gomez Ortiz, M., R. Zarate Vasquez and D. Taglioni (2023), "The economic effects of market integration in the Western Balkans", *The World Bank Policy Research Working Paper Series*, Vol. 10491, https://ideas.repec.org/p/wbk/wbrwps/10491.html (accessed on 8 April 2024). [40]

IEA (2024), *Kosovo: Energy Mix*, https://www.iea.org/countries/kosovo/energy-mix (accessed on 22 April 2024). [36]

ILOSTAT (2022), "Country profiles: Kosovo", https://ilostat.ilo.org/data/country-profiles/?ref_area=KOS (accessed on 27 May 2024). [3]

IMF (2024), *Datamapper: GDP, Current Prices*, https://www.imf.org/external/datamapper/profile/BIH (accessed on 12 April 2024). [1]

IMF (2024), *IMF Datasets - Kosovo*, https://www.imf.org/external/datamapper/profile/UVK (accessed on 25 April 2024). [5]

IMF (2024), *International Financial Statistics (IFS)*, https://data.imf.org/regular.aspx?key=61545855 (accessed on 8 April 2024). [17]

IMF (2023), *IMF Country Report No. 23/54 2022: Article IV Consultation- Press Release; Staff Report; and Statement by the Executive Director for Republic of Kosovo*, https://www.imf.org/en/Publications/CR/Issues/2023/01/27/Republic-of-Kosovo-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-528647 (accessed on 22 April 2024). [10]

INDEP (2019), *KOSOVO AND 2030 AGENDA: From Political Rhetoric to Concrete Actions*, https://indep.info/wp-content/uploads/2019/07/SDG_ENG.pdf (accessed on 30 April 2024). [33]

ITA (2024), *Kosovo - Country Commercial Guide. U.S. Department of Commerce*, https://www.trade.gov/country-commercial-guides/kosovo-market-overview?section-nav=12293 (accessed on 1 March 2024). [25]

Kosovo Commercial Court (2023), *Memorandum of Cooperation on the Digitization of the Commercial Court Has Been Signed*, https://komerciale.gjyqesori-rks.org/2023/07/07/memorandum-of-cooperation-on-the-digitization-of-the-commercial-court-has-been-signed/?lang=en. [46]

OECD (2023), *Economic Convergence Scoreboard for the Western Balkans 2023*, OECD, Paris, https://www.oecd.org/south-east-europe/ECS-Policy-Paper-2%20web-1.pdf (accessed on 5 April 2024). [42]

Prime Minister Office (2022), *National Development Strategy – 2030*, https://kryeministri.rks-gov.net/en/national-development-strategy-2030 (accessed on 22 April 2024). [26]

The World Bank (2024), *Poverty & Equity Brief Kosovo Europe & Central Asia: Kosovo*, https://www.worldbank.org/en/topic/poverty/publication/poverty-and-equity-briefs (accessed on 22 April 2024). [31]

The World Bank (2024), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators (accessed on 12 April 2024). [2]

The World Bank (2024), *World Development Indicators database: Foreign Direct Investment, Net Inflows (% of GDP) - Kosovo)*, https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=XK (accessed on 22 April 2024). [11]

The World Bank (2022), *GDP Per Capita, PPP (Constant 2017 International $)*, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD (accessed on 5 April 2024). [43]

The World Bank (2022), *World Development Indicators database: Total Reserves (Includes Gold, Current US $) – Kosovo*, https://data.worldbank.org/indicator/FI.RES.TOTL.CD?locations=XK (accessed on 22 April 2024). [15]

The World Bank (2021), *World Bank WDI Data*, https://databank.worldbank.org/source/world-development-indicators. (accessed on 8 April 2024). [16]

UNCTAD (2024), *Data Centre*, https://unctadstat.unctad.org/datacentre/ (accessed on 8 April 2024). [18]

UNKT (2020), *The Sustainable Development Goals in Kosovo: An Agenda for the Future of Kosovo*, https://kosovoteam.un.org/sites/default/files/2023-05/2021-2025%20UNKT%20Cooperation%20Framework_final_signed_shared%20with%20government_revised%20May%202023.pdf (accessed on 22 April 2024). [28]

UNKT (2020), *United Nations Sustainable Development Cooperation Framework 2021 – 2025*, https://kosovoteam.un.org/en/109024-united-nations-sustainable-development-cooperation-framework-2021-2025 (accessed on 22 April 2024). [29]

US Department of State (2023), *2022 Investment Climate Statements: Kosovo*, https://www.state.gov/reports/2022-investment-climate-statements/kosovo/ (accessed on 22 April 2024). [13]

WAREG (2022), *Water Services Regulatory Authority of Kosovo (ARRU)*, https://www.wareg.org/articles/water-services-regulatory-authority-of-kosovo-arru/ (accessed on 22 April 2024). [35]

WBIF (2024), *Beneficiaries: Kosovo*, https://www.wbif.eu/beneficiaries/kosovo (accessed on 22 April 2024). [45]

World Bank (2023), *World Bank Western Balkans Regular Economic Report*, https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report (accessed on 8 April 2024). [7]

World Bank (2022), *World Development Indicators database: Personal Remittances, Received (Current US $) – Kosovo*, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=XK (accessed on 22 April 2024). [14]

2 Investment policy and promotion

Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

Key findings

Kosovo has significantly improved its performance in the investment policy and promotion dimension. The economy's score increased to 3.4, compared to 2.0 in the 2021 assessment, with important progress across all policy areas (Table 2.1). Kosovo performs on par with the regional average and outperforms the region in mobilising sustainable investment.

Table 2.1. Kosovo's scores for investment policy and promotion

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.8	3.9
	1.2: Investment promotion and facilitation			3.0	3.3
	1.3: Mobilising sustainable investment			3.5	2.8
Kosovo's overall score		**2.6**	**2.0**	**3.4**	**3.4**

The **key findings** are:

- Kosovo's foreign direct investment (FDI) remains overly concentrated in non-tradable sectors – construction and real estate account for 80% of the FDI stock. Despite an increase in investment promotion activities by the Kosovo Investment and Enterprise Support Agency (KIESA), initiatives targeted at attracting investment in high-value and export-oriented sectors will be crucial.
- Recent reforms concerning dispute settlement create a more favourable business environment in Kosovo. The economy established a dedicated Commercial Court in August 2022 tasked with handing all business disputes and administrative conflicts and introduced an online mediation tool – the number of civil cases resolved through mediation saw a notable increase, from 184 in 2020 to 887 in 2021.
- The adoption of the new Law on Sustainable Investments is expected to strengthen the institutional setting for attracting and promoting investments. The Law includes the establishment of a new investment promotion agency (IPA) that will supplant KIESA in functions related to foreign investment facilitation and assistance. However, at the time of writing, the IPA had yet to be established.
- With the adoption of several new laws in 2022, the economy considerably improved its legislative framework for intellectual property rights, increasing its alignment with international standards. Nevertheless, intellectual property rights (IPR) enforcement and awareness raising continue to remain challenging in Kosovo.
- Kosovo is in the process of developing a National Investment Policy, expected to be finalised in late 2024. This policy is partially aligned with the Sustainable Development Goals (SDG)-linked sustainable investment objectives set out in the OECD FDI Qualities Policy Toolkit. However, Kosovo already counts on financial and technical supports for investments responding to all four SDG-linked sustainability objectives.

State of play and key developments

Unlike many other economies in the region, Kosovo did not experience a decline in inward foreign direct investment flows in 2020 and 2021 during the COVID-19 pandemic. Rather, inward FDI has increased year-on-year since 2019, reaching EUR 844.3 million in 2022, over three times its 2019 level (EUR 255 million) (Central Bank of Kosovo, 2023[1]). In terms of GDP, annual net FDI inflows reached 8.6% in 2022, such that Kosovo was second only to Montenegro by this measure that year (World Bank, 2023[2]). FDI inflows remain highly concentrated in the real estate sector,[1] which has accounted for a majority every year since 2014. Together with construction, it accounts for 80% of FDI (European Commission, 2023[3]). While inward investment into the manufacturing sector was significant in the past, that has not been the case over the past decade. The EU remains the most important source of FDI, accounting for 40% as of June 2023 (Central Bank of Kosovo, 2023[1]).

Sub-dimension 1.1: Investment policy framework

Kosovo considerably reformed its **legal framework for investment.** In October 2023, the government approved a new draft stand-alone Law on Sustainable Investments (Box 2.1). The new legislation will consolidate and streamline the legal framework, while strengthening the institutional setting for investment promotion and SME development. By clearly defining the respective roles of both KIESA and the Agency for Investment and Export (AIE), the two agencies could enhance their efficiency in assisting existing companies and attract more quality FDI. In 2022, the government also passed the Law on Technological and Industrial Parks, which regulates the creation, oversight, organisation, promotion, and usage of industrial parks and technological parks. The law came into force in November 2023. The government is also developing a new National Investment Policy, expected to be adopted in late 2024.

Kosovo maintains an open market with minimal **exceptions to national treatment**. According to the 2019 OECD FDI Regulatory Restrictiveness Index, Kosovo scored the lowest (0.001) among the WB6 economies, significantly below the OECD average (0.064) (OECD, 2020[4]). This exceptionally low score signifies that Kosovo imposes very few restrictions on foreign investment. Foreign firms operating in Kosovo enjoy the same privileges as local businesses, as there are no screening mechanisms in place. Article 40 of the draft Law on Sustainable Investments envisages investment screening on the basis of public order and security (see Box 2.1).

Kosovo has made important strides in terms of upgrading its **dispute settlement** regime. In line with a Recommendation from the *Competitiveness Outlook 2021*, a dedicated Commercial Court commenced operations in August 2022. Previously, commercial disputes had been handled by the Pristina Basic Court, but due to a deficiency in specialised expertise, ineffective management, and insufficient processes, cases often became stalled in a state of uncertainty, requiring several years to achieve resolution (USAID, 2023[5]). The commercial court adjudicates all commercial disputes and administrative conflicts and serves as both a first- and second-instance court. The new court was expected to be assigned more and better trained judges and court staff, leading to shorter deliberation times, better quality decisions and more transparent processes (USAID, 2023[5]). In July 2023, Kosovo Judicial Council (KJC) and the United States Agency for International Development (USAID) Programme for Commercial Justice signed a Memorandum of Co-operation on the Digitisation of the Commercial Court. The Memorandum encompasses improvements in the Case Information Management System to make it the primary data source for supplementary procedures in administrative and managerial decision making. USAID will also support KJC in setting modules for managing performance indicators, enhancing the Open Data Platform, addressing data protection challenges, harmonising processes with the platform of the Tax Administration and implementing the mobile application for notifications, along with linking the Registry of Bank Accounts to the Case Information Management System (Kosovo Commercial Court, 2023[6]).

Box 2.1. Kosovo's draft Law on Sustainable Investments

In October 2023, the government adopted a new Law "to regulate protection, promotion and encouragement of sustainable investments in Kosovo" (Article 1). The new Law will also contribute to compliance with EU Regulation 2019/452[2] establishing a framework for the screening of FDI entering the EU. In stating its basic principles (Article 4), the Law commits to responsible and sustainable investment in line with both the UN Principles for Responsible Investment and the Declaration and Decisions on International Investment and Multinational Enterprises of the Organisation for Economic Co-operation and Development". The legislation also commits to non-discrimination (Article 6), protection from expropriation "except when it is necessary for the purpose of public interest, according to the legal provisions of the Law on Expropriation" (Article 10), and market value compensation in the event of expropriation (Article 13).

Substantively, the draft Law identifies 10 priority sectors for investment[3] (Article 16): i) manufacturing and processing industry, ii) agriculture, iii) information and communication technology (ICT), iv) education, training, research and innovation, v) health, vi) tourism, vii) sewage and waste administration, viii) transport, ix) energy, and x) mines.

The draft Law defines both "strategic" and "sustainable" investments and foresees the creation of a new IPA – the AIE – which would supplant KIESA. It also envisions the establishment of an aftercare unit within the agency, which would be tasked with supporting the strategic expansion of foreign-owned firms already operating in Kosovo. Unlike its predecessor, the AIE will fall under the remit of the prime minister's office (Article 19) rather than the Ministry of Industry, Entrepreneurship, and Trade. This suggests a high degree of political commitment to the sustainable investment agenda.

The AIE is also to be assigned responsibility "for co-ordination with competent bodies of the ministries and agencies for processes of evaluation and additional verification of investments" (Article 19). A second body, the Agency for Support to Enterprises in Kosovo (ASEK), will be established in parallel to take on the SME promotion activities currently undertaken by KIESA. In addition, a new Investment Council, chaired by the prime minister and with the AIE operating as its secretariat, is to be established (Article 21) to "evaluate, select, implement, supervise and decide on strategic investment projects". It will also "approve action plans and publish reports on the promotion and protection of investments".

A new investment screening regime, for purposes of "public order or national security" (Articles 40-44) is to be established. With respect to dispute resolution, the AIE is to be a first potential port of call by way of providing an investor with a "consultation" (Article 45), while recourse to a Complaints Panel (Article 46), domestic courts (Article 46), and arbitration (Article 48) is also explicitly provided for. With respect to the latter, it is stipulated that an "arbitral award shall be recognized and enforced in accordance with the relevant law on arbitration".

Taken as a whole, the draft Law represents an important advance in, and streamlining of, Kosovo's legal framework for investment.

Source: Government of Kosovo (2023[7]).

The Commercial Court has reached its intended roster of 18 appointed judges. In July 2022, a total of 6 754 cases were relocated to the first-instance chambers of the Commercial Court, while 1 342 cases were transferred to the second-instance chamber (European Commission, 2023[3]). At the time of writing, there were 2 126 published judgements of the first instance chambers and 3 027 of the second instance chambers since the court began its operations (Kosovo Commercial Court, 2024[8]; Kosovo Commercial Court, 2024[9]). The court services have received a generally positive evaluation from users, with 65%

expressing satisfaction with the accuracy of information provided by court employees regarding their respective cases. Additionally, 68% reported timely notification of court schedules. A significant majority, 68%, stated that they were adequately informed about their rights in court, were treated fairly alongside other parties, and could use their mother tongue during proceedings. However, there is room for improvement in the efficiency of proceedings, as 57% of surveyed users indicated challenges in completing their tasks within a reasonable time frame (Kosovo Commercial Court, 2024[10]).

There is evidence of a sharp increase in the number of civil cases resolved through mediation (from 184 in 2020 to 887 in 2021 (USAID, 2022[11]). As a response to the COVID-19 pandemic, the government introduced an online mediation tool. When the courts returned to pre-pandemic activities, online mediation remained as a viable tool for dispute resolution. In line with another Recommendation from the *Competitiveness Outlook 2021*, significant efforts have been made, in partnership with USAID, to increase public awareness and implementation of mediation mechanisms. As part of these efforts, in September 2022 USAID, in collaboration with the government, the private sector and professional mediators, organised Kosovo's Mediation Week, which comprised awareness-raising workshops, roundtables and information sessions. Moreover, from February 2019 to February 2024, USAID led an initiative – Commercial Justice Activity – focused on limiting corruption opportunities and enhancing public and business perceptions by refining commercial dispute resolution and reinforcing the implementation of judgements. The initiative also piloted an internship programme – the Commercial Justice Academy initiative – and fostered outreach and awareness messaging targeted toward youth (USAID, 2019[12]).

In 2022 there were several significant reforms to Kosovo's **IPR legal framework** aimed at bringing the economy into closer alignment with international norms. In 2022 new laws entered into force, including Laws on Trademarks, Protection of Trade Secrets, Topographies of Semiconductors, Industrial Design and Patents. Nevertheless, IPR enforcement and awareness raising remain challenging in Kosovo, as insufficient co-ordination between law enforcement and policy makers hinders effective enforcement (European Commission, 2023[3]). The public's awareness of IPR remains low. The National Strategy for Strengthening the Copyright System 2019-23 included endeavours to improve this**,** as two specific objectives of the National Strategy aim at raising awareness through written materials, lectures and workshops. Nonetheless, public awareness of the importance of IPR remains below potential, suggesting the need to further reinforce these efforts going forward.

Sub-dimension 1.2: Investment promotion and facilitation

Kosovo's **investment promotion agency structure and strategy** is set for fundamental reform. The Kosovo Investment and Enterprise Support Agency (KIESA) currently has a broad mandate, which includes investment promotion and facilitation. Following KIESA's restructuring later in 2024, one of the proposed new successor agencies, the AIE, would be a dedicated IPA coming under the auspices of the prime minister's office. Even in advance of implementation of this institutional reform, KIESA has been stepping up its activity levels, backed by improved financial resources. The agency organised 29 investment promotion or matchmaking events in 2022, up not only from the artificially low pandemic-era levels (5 in 2020 and 11 in 2021), but also from the pre-pandemic peak of 24 seen in both 2017 and 2018. KIESA's budget reached EUR 10.5 million in 2022, having increased steadily during the pre-pandemic years (from EUR 2.6 million in 2016 to EUR 6.7 million in 2019). Staffing at the agency has, however, remained stable since 2019 at 24, of which 6 are dedicated to investment promotion, facilitation and aftercare activities. It will be important that the new AIE, once established, is assigned sufficient financial and, in particular, human resources with which to deliver on its mandate.

Kosovo has a fairly well developed framework in place for **investment facilitation services and aftercare activities**. Within the Investment Promotion Sector, KIESA offers pre-investment services, aiding foreign investors in starting a new business, facilitating registration procedures, and assisting in obtaining necessary permits. During the investment phase, the agency provides support in finding suitable real

estate, applying for economic zones and business incubators, and offering information on specific sectors and potential partners. While KIESA does not have a dedicated aftercare unit tasked with helping existing businesses with strategic expansion, the draft Law on Sustainable Investments mandates its establishment. Nevertheless, KIESA provides aftercare services and support for existing companies, facilitating meetings, and keeping them informed about legal and tax changes. Companies can be registered digitally through the Kosovo Business Registration Agency (KBRA), which offers e-registration on their website.[4] While the companies can be registered on line and perform various administrative changes[5] on line, the companies cannot access business support services or aftercare services through the KBRA system. The eKosova platform expanded its coverage from 21 services available on line in 2021 to 140 in 2023 (European Commission, 2023[3]); it now also includes a feature for companies to apply for grants and subsidies. The agency regularly conducts a needs analysis among potential investors, visiting approximately over 300 foreign investors to gather their input on the investment climate and doing business in the economy. Based on the visits, a report is then submitted to the National Council for Economy and Investment, with a review of the required measures being adopted.

In contrast to the other WB6 economies, Kosovo does not employ **investor incentives** to attract investments. Nevertheless, it does boast an appealing taxation system and supportive measures for strategic projects, encompassing both tax benefits based on costs and those tied to profits. With a flat corporate tax rate of 10%, Kosovo also extends VAT (value added tax) benefits, such as deferments and exemptions, particularly for the importation of raw materials and machinery. The standard VAT rate is 18%, while the reduced rate for basic consumption products is 8% and 10% in certain cases.[6] Moreover, the tax on dividends is 0%, making the investment climate more favourable. Additionally, the current Law on Strategic Investments offers supplementary advantages to enterprises, including the allocation of state-owned immovable property and facilitated access to essential infrastructure. KIESA promotes the emergence of industrial clusters in the special economic zones, subject to the Law on Economic Zones (first introduced in 2009 and amended in 2013 and 2023). These clusters and technology parks play a crucial role in establishing linkages between public and private sector stakeholders and often offer solutions for investment facilitation (Box 2.2). In December 2020 the government approved a draft Law amending the Law on Economic Zones. The Law was replaced in November 2023 as the Law on Industrial and Technological Parks, which is in the process of implementation.

Box 2.2. Investment facilitation at the Innovation and Training Park (ITP) Prizren – Kosovo

ITP Prizren plays a crucial role in establishing collaborative connections among diverse stakeholders within the park, cultivating an environment that encourages synergies among the private sector (companies, enterprises and start-ups), public sector (public institutions, entities and agencies), civil society organisations (NGOs and non-profit entities) and academia (public and private universities, research and education institutions, vocational education and training providers). This approach leads to improvements in job creation, focusing on enhanced skills and practical knowledge.

Situated on approximately 40 hectares of green spaces with nearly 50 buildings, ITP Prizren strategically targets various sectors:

1. *Kosovar, regional and international companies* – These entities commercialise innovations derived from research and product development activities, stimulating economic growth and providing opportunities for practical learning.
2. *Innovations and support centres* – These organisations promote entrepreneurial activities and facilitate inter-sector interaction and partnerships.
3. *Start-ups* – ITP Prizren supports the growth and scaling up of start-ups through business incubators, capacity development and interaction with other segments within the park.
4. *Academic institutions* – These institutions play a crucial role in offering high-quality, application-oriented education tailored to meet the demands of the labour market.
5. *Public institutions and agencies* – These entities provide access to services and shared infrastructure and equipment.
6. *Civil society organisations* – Their role involves delivering nonformal education and contributing to the park's social and cultural activities.

One of the services offered by ITP Prizren is a **Soft-Landing Service** targeting investors from German speaking countries. The service bundle aims to streamline and simplify the integration process in the economy, serving as a reliable local entry point. In partnership with the Kosovo-German Chamber of Commerce (KDWV), personalised consultations are provided for investors. These consultations cover essential aspects such as customs procedures, legal export guidance, supply chain advice, and assistance in identifying partners, suppliers, and clients in Kosovo. The service package provides a one-year membership in KDWV, granting access to a host of benefits and resources. In addition, participants receive courses on effectively navigating the business landscape in Kosovo, facilitating a deeper understanding of local practices. The package extends support in the crucial process of company registration, ensuring a smooth entry into the market. Moreover, connections to legal, audit, and tax offices are facilitated, offering essential guidance and compliance. In 2022-23, KIESA provided EUR 6 million for the development of an innovation ecosystem within ITP.

Source: ITP Prizren (2024[13]).

Sub-dimension 1.3: Mobilising sustainable investment

Two reforms under development are expected to underpin a solid **strategic framework and governance for sustainable investment** in Kosovo going forward. First, with respect to the National Investment Policy under development, two of the five envisioned objectives are i) the generation of comprehensive and decent employment, and ii) supporting the growth of green industry, broadly aligned with two of the four Sustainable Development Goals (SDG)-linked sustainable investment objectives set out in the OECD FDI

Qualities Policy Toolkit. Moreover, two of the ten expected priority policy actions are, respectively, i) the establishment of modern industrial parks with eco-friendly features, to attract investment and facilitate inter-firm horizontal and vertical collaboration, and ii) supporting increased investments in green technologies through combining loans and grants to improve efficiency and digitalisation. Secondly, the draft Law on Sustainable Investments will provide an overarching legislative and institutional framework for sustainable investment. Nonetheless, the draft legislation does not explicitly link the framework to, for example, the SDGs. Rather, it defines a sustainable investment as being "in an economic activity that contributes to the fulfilment of one or more of the objectives and priority sectors" defined in the law itself. However, the definition goes on to call for "giving priority to the improvement of the environment [and] the social aspect".

Kosovo already counts on **financial and technical supports for investments** responding to each of the four SDG-linked sustainability objectives set out in the OECD FDI Qualities Policy Toolkit, while further such supports are under consideration following the conducting of a needs assessment.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Progress in implementing the 2021 Competitiveness Outlook Recommendations has been rather strong, especially in the area of reinforcing the strategic and legal framework for investment, as well as enhancing the commercial dispute settlement system, notably through the establishment of the Commercial Court. Moderate progress was achieved in increasing public awareness about the availability of a mediation mechanism and reinforcing KIESA's investment facilitation role. Moreover, there is room for improvement in the co-ordination of IPR bodies, in which limited progress was achieved despite reforms in the area (Table 2.2).

Table 2.2. Kosovo's progress on past recommendations for investment policy and promotion

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Adopt and develop a clear strategy to attract FDI and proactively target investors	In October 2023, the government adopted the Draft Law on Sustainable Investments, which identifies 10 priority sectors for investment attraction.	Strong
Reinforce the independence, resources and capacity of the court system, notably for commercial disputes	Kosovo established a Commercial Court in August 2022, which significantly improved the business environment in the economy. The court has 18 appointed judges.	Strong
Increase public awareness and implementation of the recently adopted mediation mechanisms	Online mediation was instituted as a response to COVID-19, and has been maintained thereafter. There is also evidence of significant increases in the take-up of mediation.	Moderate
Reinforce the co-ordination between IPR implementation and enforcement bodies, increase IPR agency capacity and resources, and step up IPR awareness-raising efforts	While there have been several important reforms in the legal regime governing IPR, there is no significant evidence of institutional strengthening of the nature envisaged in the Recommendation.	Limited
Reinforce KIESA's investment facilitation role, notably through better co-ordination with other government bodies and agencies	Article 19 of the Sustainable Investments Law clearly delineates the competencies of two successor agencies, namely the AIE and the Agency for Support to Enterprises in Kosovo (ASEK). The AIE will assume responsibility for investment promotion, facilitation and aftercare, as well as taking responsibility "for co-ordination with competent bodies of the ministries and agencies for processes of evaluation and additional verification of investments". ASEK will be focused on financially supporting SMEs through several grant schemes, including the Innovation Fund, establishing, developing and promoting industrial and technological parks and business incubators, and promoting tourism activities.	Moderate

Ensure adequate capacity and resources for KIESA to allow it to fully implement its comprehensive mandate	Progress has stalled or – based on budget and staffing – gone into reverse in recent years. However, a new successor agency is to be established under the Sustainable Investments Law, which will come under the remit of the prime minister's office.	Limited
Integrate green growth priorities into the National Development Strategy	Kosovo is in the process of developing a National Investment Policy, with one of its five objectives being to support "the growth of green industry".	Moderate

The way forward for investment policy and promotion

While Kosovo has made significant progress across all areas since the last CO assessment, improving the attractiveness of Kosovo as an FDI destination will require the adoption of further investment policy reforms, policy adjustments, and institutional reinforcements in the following areas:

- **Ensure that the AIE is adequately resourced to deliver on its mandate.** It will be crucial that the two successor agencies to KIESA to have a clear separation of mandates and competencies. Establishment of the AIE should ensure better focus on the investment promotion, facilitation and aftercare mandate. It will be important that the AIE is equipped with sufficient financial and human resources to deliver on this mandate in addition to playing its co-ordinating role on the new Investment Council, without impacting KIESA's personnel levels. In particular, sufficient resources should be made available to reinforce efforts to promote linkages effectively between SMEs and multinational enterprises.
- **Enhance the co-ordination between entities responsible for implementing and enforcing IPR, bolster the capacity and resources of IPR agencies, and intensify efforts to raise awareness about IPR.** Presently, IPR bodies can only conduct modest awareness-raising campaigns as they lack the capability to train and assign specialised judges and prosecutors to address IPR disputes. These aspects should be made central to any successor to the National Strategy for the Strengthening the Copyright System 2019-23.
- **Ensure that the updated Law on Industrial and Technological Parks fully integrates SDG-linked sustainability objectives.** In accordance with the National Development Strategy – 2030,[7] the forthcoming Investment Policy, and the draft Law on Sustainable Investments, the Law on Industrial and Technological Parks should make explicit provision for measures that contribute to Kosovo's sustainable development priorities, and to decarbonisation in particular. Consideration could be given to the establishment of one or more "green" economic zones, similar to the Gevgelija zone in North Macedonia.[8] While there is already evidence of progress in that area, specifically with the Law on Industrial and Technological Parks paving way for integrating greening-oriented, eco-friendly practices in industrial parks, the legal framework should also make provision for the conducting of rigorous cost-benefit analyses of new and existing special economic zones (SEZs), taking into account economic, social and environmental as well as fiscal aspects.

References

Central Bank of Kosovo (2023), *External Sector Statistics*, https://bqk-kos.org/statistics/time-series/?lang=en (accessed on 1 March 2024). [1]

European Commission (2023), *2023 Kosovo Report*, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [3]

Government of Kosovo (2023), *Draft Law on Sustainable Investments*, https://kryeministri.rks-gov.net/en/blog/draft-law-on-sustainable-investments/ (accessed on 1 March 2024). [7]

ITP Prizren (2024), *Innovation & Training Park Prizren: Welcome Page*, https://itp-prizren.com/ (accessed on 30 May 2024). [13]

Kosovo Commercial Court (2024), *Assessment of Court Services*, https://komerciale.gjyqesori-rks.org/online-assessment/?lang=en (accessed on 1 March 2024). [10]

Kosovo Commercial Court (2024), *List of Judgments of the First Instance Chambers*, https://komerciale.gjyqesori-rks.org/verdicts/list-of-judgments-of-the-first-instance-chambers-page42/?lang=en (accessed on 1 March 2024). [9]

Kosovo Commercial Court (2024), *List of Judgments of the Second Instance Chambers*, https://komerciale.gjyqesori-rks.org/verdicts/list-of-judgments-of-the-second-instance-chambers-page41/?lang=en (accessed on 1 March 2024). [8]

Kosovo Commercial Court (2023), *Memorandum of Cooperation on the Digitization of the Commercial Court Has Been Signed*, https://komerciale.gjyqesori-rks.org/2023/07/07/memorandum-of-cooperation-on-the-digitization-of-the-commercial-court-has-been-signed/?lang=en. [6]

OECD (2020), *FDI Regulatory Restrictiveness Index (database)*, http://www.oecd.org/investment/fdiindex.htm (accessed on 1 March 2024). [4]

USAID (2023), *Kosovo's Assembly Passes the Law on Creating a Commercial Court*, https://www.usaid.gov/kosovo/news/feb-10-2023-kosovos-assembly-passes-law-creating-commercial-court (accessed on 1 March 2024). [5]

USAID (2022), *Mediation is Helping Reduce Costs for its Users and Time in Courts*, https://www.usaid.gov/kosovo/news/nov-24-2022-mediation-helping-reduce-costs-its-users-and-time-courts (accessed on 1 March 2024). [11]

USAID (2019), *Commercial Justice Activity*, https://2017-2020.usaid.gov/kosovo/news-information/fact-sheets/commercial-justice-activity (accessed on 1 March 2024). [12]

World Bank (2023), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators (accessed on 1 March 2024). [2]

Notes

[1] The source of the majority of the real estate investments in Kosovo is the diaspora.

[2] See the regulation on EUR-Lex for more: https://eur-lex.europa.eu/eli/reg/2019/452/oj.

[3] The list of priority sectors can be amended by way of secondary legislation (per Article 16 of the draft Law).

[4] See the System for Registration of Businesses in Kosovo for more: https://rbk.rks-gov.net.

[5] The system allows changing the following: name, address, activity, owners, board, capital and representative. The system also allows closing the company, adding additional information and requesting duplicates of certificates.

[6] For example, the supply of electricity, supply of water, agrifood products, medicine, information technology (IT) equipment and medical equipment.

[7] Read the National Development Strategy 2030 here: https://kryeministri.rks-gov.net/en/national-development-strategy-2030.

[8] The Technological-Industrial Development Zone Gevgelija, situated near the Bogorodica border crossing to Greece, will be the first green zone in the Balkans, covering a total area of 502 500 m^2. The establishment of this green zone is anticipated to align with the Western Balkans' green agenda beginning in 2020, emphasising the development of medical components within the zone and aiming for zero greenhouse gas emissions by 2050.

3 Trade policy

Effective trade policy is vital for regional integration and alignment with the European Union. This chapter examines how the government of Kosovo uses trade policy to ease market access and harness digitalisation for enhanced trade facilitation. The first sub-dimension, trade policy framework, assesses the government's ability to formulate, implement and evaluate trade policy, examining the institutional formulation and co-ordination of trade policy, public-private consultations and the network of free trade agreements. The second sub-dimension, digital trade, focuses on the legal framework for digital trade policy and digital trade facilitation and logistics. The third sub-dimension, export promotion, explores the effectiveness of export promotion agencies and programmes, especially in the context of deepening regional integration.

Key findings

Kosovo has continued to improve its overall trade policy score since the last *Competitiveness Outlook* (Table 3.1) by making progress in all policy areas and scoring above the regional average. Since the 2018 assessment, the overall trade policy dimension score increased by 1.8 points. The biggest improvement was observed in the trade policy framework.

Table 3.1. Kosovo's scores for trade policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Trade	2.1: Trade policy framework			4.5	4.4
	2.2: Digital trade			4.0	3.8
	2.3: Export promotion			3.8	3.6
Kosovo's overall score		**2.3**	**3.5**	**4.1**	**3.9**

The **key findings** are:

- Kosovo has made significant strides in enhancing its trade policy framework through the adoption of a new Foreign Trade Law in accordance with international standards, aligning with the World Trade Organisation (WTO) agreements and European Union legislation.
- The government adopted the 2030 Strategy for Industrial Development and Business Support, which is expected to have positive implications for the trade landscape, mainly in the industrial sector. An Action Plan has been formulated to outline specific activities scheduled for the initial three years of the strategy's implementation.
- Kosovo strengthened its policy framework for digital trade, although room for improvement remains in incorporating electronic payment systems to further facilitate digital trade.
- The implemented export promotion programmes were successful in boosting exports but companies still lack access to systematic counselling and advisory services in building their capacity and export readiness.

State of play and key developments

Over the past two decades, foreign trade in goods has significantly grown, rising from EUR 1.2 billion in 2005 to over EUR 6.5 billion in 2022, showcasing substantial expansion. In 2022, Kosovo had a trade deficit of EUR 4.7 billion, marking an increase of around EUR 800 million compared to 2021 and highlighting a persisting trade imbalance. Exported goods rose to EUR 920.4 million, a 22% increase from the previous year, while imports amounted to over EUR 5.6 billion, reflecting a 20.4% increase (Ministry of Industry, Entrepreneurship and Trade, 2023[1]).

Around 67% of Kosovo's foreign trade exchange is concentrated in the EU and Central European Free Trade Agreement (CEFTA) countries. Kosovo's exports to CEFTA countries amount to EUR 333.5 million, covering 36% of the total, while exports to EU markets reached EUR 311.7 million, representing 34% of total exports. On the import side, EU countries remain Kosovo's main partners at 42.4% of total imports (European Commission, 2023[2]). Regarding exports, during the 2021-22 period, the United States stood as Kosovo's main export partner beyond the EU, constituting 14.8% of the total export value in 2022, followed by North Macedonia (12.9%), Albania (11.1%), Germany (9.5%), Switzerland (7.6%) and Serbia (6.8%) (Ministry of Industry, Entrepreneurship and Trade, 2023[1]). In June 2023, Kosovo introuced a ban

against entry of Serbian final products and postal parcels due to security concerns (European Commission, 2023[2]). Companies owned by foreign entitities have reported a negative impact on their operations due to supply chain disruptions (US International Trade Administration, 2024[3]).

Sub-dimension 2.1: Trade policy framework

The Ministry of Industry, Entrepreneurship and Trade (MIET) oversees various trade-related mechanisms and agencies, including **trade policy formulation**, private sector support, and export and investment promotion. Other government institutions like the Ministry of Finance, Ministry of Agriculture, Ministry of Economy, and Ministry of Foreign Affairs are also involved in trade policy. Public and private sector entities, including business associations, play vital roles in advocating and promoting international trade. The Ministry of Trade and Industry established the National Trade Facilitation Committee (NTFC) in 2016 to co-ordinate trade activities among various ministries, the private sector, and civil society.

Kosovo made considerable progress in improving its trade policy framework by adopting a new Foreign Trade Law, which entered into force in February 2022, abrogating the previous Law no. 04/L-048 on Foreign Trade. The new law sets forth the fundamental principles and regulations that govern the import, export, and transit of goods and services to and from Kosovo's territory in alignment with the highest international standards, WTO agreements, and European Union legislation. In the area of merchandise trade, the law emphasises the most-favoured-nation treatment for imports and exports, outlining customs duties, charges, internal taxes, and other related formalities. It also ensures national treatment for imported products, prohibiting discriminatory taxes or charges compared to domestic counterparts. These principles extend to trade in services and intellectual property rights. The law also lowers barriers to entry by prohibiting quantitative restrictions, such as quotas, on imports or exports. It establishes requirements for imported goods, including sanitary and phytosanitary (SPS) standards and technical regulations. The law guarantees freedom of transit and allows individuals to import and export goods for non-commercial purposes. Moreover, the law addresses customs duties, customs valuation, and goods classification. Procedures for licences adhere to existing laws and appeals against decisions can be made in accordance with the relevant administrative procedure laws (Ministry of Industry, Entrepreneurship and Trade, 2022[4]). There is one provision to preserve the sustainability of trade flows, although it remains somewhat limited. The law mandates that technical trade regulations must be no more restrictive than necessary, as deemed by the MIET, to achieve legitimate objectives, such as national security, consumer protection, and safeguarding human, animal and plant life and, notably, the environment. Incorporating green provisions into new foreign trade laws is crucial as it signifies a commitment to sustainable practices, aligning trade policies with global environmental goals. The environmental standards specified in domestic laws and regulations are integral in promoting green global supply chains and fostering environmentally responsible production and consumption practices internationally (Deere Birkbeck, 2021[5]).

In an effort to have a stronger inter-institutional co-ordination mechanism in trade facilitation, in December 2021 the government established the Task Force for the Protection of the Market. The Task Force's core mandate is to observe barriers to trade, proposing strategic measures to alleviate or diminish their impact. Since its establishment, the Task Force has implemented a range of measures[1] focused on addressing the pricing and regulatory aspects related to oil prices in order to prevent shocks to the economy. This initiative aims to protect consumer interests by ensuring fair competition, all the while adhering to the legal framework in place.

Since the last assessment cycle, the government further developed the overarching strategic framework for enterprise and industry development by adopting the Strategy for Industrial Development and Business Support. The strategy will have considerable implications for the economy’s international trade landscape; one of its main goals is to reduce the trade deficit in the manufacturing industry (Box 3.1). Kosovo’s industrial trade balance is notably unfavourable and continues to worsen, with imports in the industrial sector surpassing exports by a substantial margin of 7 to 1 (Ministry of Industry, Entrepreneurship and

Trade, 2023[6]). The degree of global integration of Kosovo's productive industry is limited, as the export contribution to GDP stood at just 22%, considerably lower than the Western Balkans average of 35% in 2021 (Ministry of Industry, Entrepreneurship and Trade, 2023[6]). Moreover, the share of manufactured goods in Kosovo's overall exports and the per capita capacity for exporting manufactured goods are notably lower compared to other Western Balkan economies. Specifically, Kosovo's proportion is only at 84%, in contrast to the WB6 average of 90% (Ministry of Industry, Entrepreneurship and Trade, 2023[7]). Simultaneously, the domestic productive sector faces challenges in fulfilling local demand, resulting in higher imports of manufactured goods from abroad to meet the shortfall. This tendency highlights the need for strategic measures to enhance the competitiveness of Kosovo's manufacturing sector and bolster its capacity to meet both domestic and international market demands.

Box 3.1. The 2030 Strategy for Industrial Development and Business Support

The 2030 Strategy for Industrial Development and Business Support marks the first of it's kind in Kosovo. Following adoption of the strategy in April 2023, an Action Plan has been crafted to delineate specific activities scheduled for the strategy's initial three years of implementation. These endeavours are anticipated to play a crucial role in attaining predefined objectives, notably the reduction of the trade deficit in the industrial sector. The Action Plan provides clear definitions of anticipated outcomes, as well as quantifiable performance indicators, thus facilitating monitoring and evaluation.

Among trade-related goals, the strategy has set the following:

- increasing the number of industrial products exported to the EU from the 2021 baseline of 298 to 630 in 2026 and 895 in 2030
- creating the National Product Certification Instrument by Q3 2025 with the goal of certifying at least 30 beneficiaries per year
- finalising the Law on the Supervision of the Conformity of Products on the Market by the end of 2024
- reducing the trade deficit in the manufacturing industry from the 2021 baseline of EUR 2 327.6 million to EUR 2 037 million in 2026 and EUR 1 744.4 million in 2030
- increasing the number of exporting manufacturing enterprises from the 2021 baseline of 733 to 1 239 in 2026 and 2 478 in 2030
- expanding the Export Window2 within the framework of the Kosovo Credit Guarantee Fund with a goal of 400 beneficiaries
- establishing the Export Market Information Centre
- improving the diversification of export markets
- negotiating three trade agreements by the end of 2025
- drafting the Trade Policy Document[3] by the end of 2023.

All the trade-related goals have a clearly defined timeline and an allocated budget. The Action Plan also assigned responsibilities to leading and supporting institutions. Despite the goals set by the strategy, implementation might be stalled by the impending restructuring of the Kosovo Investment and Enterprise Support Agency (KIESA) into an Agency for Support to Enterprises within the MIET, and transferring the Agency for Investment and Export (AIE) under the jurisdiction of the prime minister's office.

Source: Ministry of Industry, Entrepreneurship and Trade (2023[6]).

Public-private consultations within the MIET demonstrate clear definition in terms of both scope and authority. Notably, the MIET's website facilitates open access to both preliminary and ultimate trade measures, enabling the private sector to post comments on proposed legislation. The private sector, represented by various chambers of commerce, plays a proactive role in all phases of policy formulation through engagement in working groups, the NTFC and National Council for Economic Development (NCED). Moreover, chambers of commerce and civil society actively partake in public consultations. These consultations extend beyond the private sector, involving non-governmental organisations, academia, EU offices, and other institutions relevant for trade policy. Despite the well-developed framework for public-private consultations, existing regulation lacks a mandated deadline for the relevant institution to respond to stakeholder comments. This aspect calls for potential improvements in ensuring timely and effective communication between the public and private sectors in the policy-making process.

The evaluation of stakeholder participation in governance is systematically carried out through the generation of annual reports and compliance reports, both of which are conveniently accessible online.[4] The Office of Good Governance is responsible for preparing an annual report that assesses the effectiveness and inclusivity of the public consultation process. This involves ensuring that draft proposals align with established public consultation standards before their submission to the government. Through these measures, the Office of Good Governance contributes to transparency, accountability, and the overall enhancement of the democratic decision-making process, by providing a structured and accessible assessment of stakeholder involvement in governance initiatives.

Kosovo established co-operation with the European Free Trade Association (EFTA) in 2018, holding its inaugural virtual joint committee meeting in November 2020. The official free trade negotiations started in June 2022, with the first and second round held between November and December 2022. Bilateral trade between EFTA parties and Kosovo has been steadily increasing. Since 2012, EFTA's imports from Kosovo rose ninefold to reach USD 90 million in 2021, while EFTA's exports to Kosovo increased twofold since 2021 to reach USD 70 million in 2021 (EFTA, 2022[8]). The proposed provisions in the agreement resemble the concluded FTAs with other Western Balkan economies and include elimination of all customs duties for traded goods, rules of origin and customs co-operation, trade facilitation measures and trade remedies, technical barriers to trade and SPS measures aligned with the WTO agreements. The FTA also foresees a trade and sustainable development chapter, which constitutes a standard practice in all EU agreements. The next round of negotiations is expected mid-2024.

Sub-dimension 2.2: Digital trade

Kosovo has a **digital trade policy framework** in place, albeit with some shortcomings. The 2012 Law on Information Society Services aligns with the EU e-commerce directive[5] and constitutes an overarching legal framework for e-commerce. It covers electronic signatures, contracts, and payments, aiming to facilitate electronic trade and transactions while minimising potential issues and misuse. Furthermore, the Law on Electronic Identification for Trusted Electronic Transactions, based on the EU's electronic identification and trust services (eIDAS) regulation,[6] was approved by parliament in December 2021. This law complements the Law on Information Society Services, creating a favourable legal environment for e-commerce and electronic services. Digital trade regulations are within the purview of various institutions. The Ministry of Economy (MoE) oversees legislative and policy development for e-commerce, while the MIET and the Electronic and Postal Communications Regulatory Authority (ARKEP) are tasked with law implementation. Digital trade is also covered under the Additional Protocol 6 of CEFTA. The regulatory environment is well integrated into the strategic framework for the development of the digital economy, which includes the Digital Agenda of Kosovo 2030 and the Kosovo IT Strategy. However, the draft Law on Electronic Commerce, which was part of the MoE's work plan for 2021-22, has not been drafted yet, signalling potential challenges in the progress of formulating and finalising the proposed legislation.

Despite a legal and strategic framework for e-commerce and digital trade in place, Kosovo maintains a weak electronic payment system (European Commission, 2023[2]). Furthermore, lack of safe online payment systems contributes to the lack of trust in the digital economy and thereby in digital trade (IMF, OECD, UN, World Bank, WTO, 2023[9]).

However, an examination of the domestic legal framework pertaining to the free movement of capital, particularly in payment services, was conducted. The analysis assessed compliance with the EU acquis and readiness for involvement in the Single Euro Payments Area (SEPA). As part of this assessment, legal modifications were identified and formulated to align with the prerequisites for SEPA participation. Kosovo has yet to align its legislation with the updated EU Payment Services Directive,[7] which can lead to regulatory discrepancies and challenges and potentially affect financial institutions, payment service providers and businesses.

In September 2023, supported by USAID/Kosovo Economic Governance Activity, the self-assessment report on trade facilitation was finalised. Following the 2014 trade facilitation self-assessment, Kosovo has achieved notable advancements in various aspects of trade facilitation, especially using digital tools: enhanced transparency and information accessibility; streamlining and standardising export, import, and transit procedures; fostering increased collaboration among domestic and international border agencies; and strengthening human, technical, and institutional capacities.

Assessment of the digital trade policy framework is conducted through annual reports of the ministries in charge of regulation and implementation, yet there is a notable absence of performance indicators specifically crafted to systematically monitor and measure the effectiveness of digital trade initiatives. Furthermore, the annual reports are not available on line. This lack of dedicated performance indicators poses a challenge in comprehensively evaluating the impact and success of digital trade policies, hindering the ability to gauge their efficiency and make informed decisions for future enhancements.

There has been some progress in adopting **digital trade facilitation measures**. Notably, in 2022, Kosovo joined the EU Customs Programme (Box 3.2). Several initiatives are under way to streamline the transit process and accelerate the movement of goods across borders by supporting pre-arrival processing. This involves the electronic submission of necessary documentation and customs declarations before the goods reach the border crossing point (BCP). The Electronic Exchange of Data (SEED) system plays a crucial role in this effort, facilitating systematic electronic exchange of pre-arrival information, data matching, and alarm functions across all procedures – export, transit, and import – at Western Balkan BCPs and Customs Control Points (CCPs). Notably, there are 11 certifications issued for the Authorised Economic Operator scheme (AEO). These combined initiatives reflect a concerted effort to enhance efficiency, compliance, and security in the customs processes and bring tangible results in trade facilitation. In 2022 this procedure was employed for 42 853 shipments, representing 17.43% of the total import traffic for goods (Regional Cooperation Council, 2022[10]).

Box 3.2. European Union Customs Programme

In 2022, Kosovo signed an agreement to join the European Union Customs Programme

The Customs Programme facilitates the establishment and functioning of central information technology (IT) systems for customs in the European Union. This initiative aids customs administrations in managing growing trade volumes and adapting to emerging trends and technologies, including e-commerce and blockchain.

The programme is driven by overarching goals designed to strengthen the Customs Union and promote seamless collaboration among customs authorities. It seeks to unite these authorities in a cohesive effort to protect the financial and economic interests of both the Union and its Member States, ensuring

security and safety, and guarding against unfair and illegal trade practices, all while facilitating legitimate business activities. To effectively realise these objectives, the programme actively supports the preparation and consistent implementation of customs legislation and policy, fosters customs co-operation, and champions administrative and IT capacity building. This comprehensive approach extends to general capacity building and training, as well as the development and operation of European electronic systems in customs administration. Emphasising innovation in customs policy, the programme addresses the diverse challenges faced by the Customs Union and its Member States.

Through the Customs Programme, the EU Commission oversees over 50 European IT systems, streamlining the control of goods' import, export, and transit while reducing bureaucracy for traders. Notably, it funds the operation of TARIC (Integrated Tariff of the European Union). Through the programme's features, like the Customs Decision System, businesses can receive import and export authorisations valid across the entire EU, while the Registered Exporters Systems provide current and comprehensive information on exporters outside the EU with preferential arrangements.

Participation in the Customs Programme holds substantial advantages for Kosovo, as it allocates funds to assemble expert teams of customs officials from diverse Member States. These teams collaborate across various domains, allowing EU countries to harness collective expertise. The programme not only supports this collaboration through online services but also provides crucial administrative assistance, along with access to necessary infrastructure and equipment. By joining, Kosovo can use this comprehensive support system to enhance its customs operations, benefiting from shared knowledge and resources for increased efficiency.

Source*:* European Commission (2023[11]).

Sub-dimension 2.3: Export promotion

The Kosovo Investment and Enterprise Support Agency (KIESA) functions as the key **export promotion agency** in Kosovo, operating under the direct supervision of the NCED, which is led by the prime minister and is comprised of relevant ministries and economic business associations. KIESA aligns and harmonises efforts across various government bodies to address business challenges and eliminate obstacles to the business environment in Kosovo. A comprehensive institutional co-ordination mechanism involves multiple ministries, government agencies, and chambers of commerce. KIESA's broad mandate encompasses export promotion, trade facilitation, one-stop-shop operations, investor screening, the provision of financial incentives, and the promotion of outward investments, thereby contributing significantly to the economic development and facilitation of business activities in Kosovo.

In addition to delivering services in trade policy information, commercial intelligence, economy representation at prominent trade fairs, export promotion, marketing, product development and training, KIESA also provides services related to networking platforms and product certification. Despite a modest increase in human resources capacity, from three to four employees dedicated to export promotion in 2021, KIESA faces challenges in executing its extensive mandate for comprehensive SME support (OECD, 2022[12]). On top of structural challenges, KIESA is facing a restructuring into an Agency for Support to Enterprises within the MIET and transferring the Agency for Investment and Export under the jurisdiction of the prime minister's office.

Kosovo made significant progress in the implementation of **export promotion programmes**, encompassing financial and non-financial support. An example is the Matching Grants Programme,[8] a collaborative initiative between the Ministry of Industry, Entrepreneurship and Trade and KIESA. This programme is designed to enhance the export readiness of micro, small and medium enterprises (MSMEs) and improve the quality of local SME suppliers. It offers support covering up to 90% of project activities, with a maximum allocation of EUR 10 000 for MSMEs. The programme has been successful in boosting the exports of beneficiaries, who exported EUR 2.07 million more in 2022 than in 2021. The increase was the most visible in the metal processing sector (24.17%) and the manufacturing of construction products (21.52%) (Ministry of Industry, Entrepreneurship and Trade, 2023[13]). One notable aspect of the Matching Grants Programme is its environmental component. Every application received and approved for funding must provide a comprehensive explanation regarding the environmental management system it currently employs or intends to adopt under the Matching Grants Programme support. Out of the grant beneficiaries, 28 are actively implementing an environmental management system[9] designed to enhance their environmental performance. Additionally, four beneficiaries[10] of the programme have actively undertaken environmental protection activities, facilitated by the grant programme.

Nevertheless, even with advancements in the implementation of export promotion programmes, these initiatives fall short of effectively tackling the challenges encountered by companies in Kosovo. The prevailing export composition, accompanied by a substantial trade deficit, underscores a notable lack of competitiveness in both domestic and foreign markets, coupled with a limited product variety. About 10.3% of the GDP is derived from exported goods primarily concentrated in sectors characterised by low value added components, particularly in metals and minerals (Ministry of Industry, Entrepreneurship and Trade, 2023[1]). The current export promotion programmes in Kosovo especially do not adequately address the challenges faced by SMEs, which do not have access to incentives to shift to higher value added products and services. The trade deficit also points to the relatively limited scope of domestic production, as well as the companies' capacity to export. The percentage of surveyed companies' sales, exported to the EU, CEFTA or other economies, decreased from 21.1% in 2022 to 16.8% in 2023, while the number of companies that do not know how to export almost doubled. In parallel, in 2023 over four times more companies reported the lack of capacity as a barrier to export, compared to 2022 as a reason (Balkan Barometer, 2022[14]). While the accessibility of export promotion services has improved through the eKosova platform, the companies still lack access to online training in internationalisation, counselling, and advisory services through the platform (OECD, 2022[12]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress in implementing 2021 Competitiveness Outlook Recommendations has been progressing at a moderate pace. The economy advanced in strengthening public consultations mechanisms and improving their transparency, although room for improvement remains. There is still scope for reinforcing the regulatory regime in place for e-commerce, as regulation remains incomplete (Table 3.2).

Table 3.2. Kosovo's progress on past recommendations for trade policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen public consultation mechanisms and make them more transparent	Stakeholder participation's impact is evaluated through annual and compliance reports, conveniently available on line. The Office of Good Governance oversees the creation of an annual report detailing the public consultation process, ensuring draft proposals align with established standards before submission to the government. This measured approach reflects an ongoing commitment to transparency and inclusivity in governance. When the government plans to draft the law, a dedicated budget is allocated to it, which also includes submitting the law for public consultation. Furthermore, the government allocated budgetary provisions for arranging meetings and workshops when drafting policies or legislation in which they involve the private sector.	Moderate
Strengthen the regulatory regime for e-commerce	The Law on Electronic Identification for Trusted Electronic Transactions, based on the EU's eIDAS regulation, was approved by parliament in December 2021. This law complements the Law on Information Society Services, creating a favourable legal environment for e-commerce and electronic services. However, the Law on Electronic Commerce, which has been envisioned in the MoE's work plan, has not been completed.	Moderate

The way forward for trade policy

- **Incorporate environmental provisions into domestic trade legislation.** This could involve the inclusion of regulations and guidelines within the national trade laws that specifically address environmental considerations and responsibilities. By incorporating such provisions, the legal landscape aims to foster sustainable business practices, encourage eco-friendly initiatives, and ensure that trade activities align with environmental preservation objectives and multilateral climate goals, including Sustainable Development Goals. Currently, there is a growing demand for more explicit, robust, and enforceable environmental standards within national laws. This extends to various products and their production methods, encompassing considerations like carbon footprints, recyclability of industrial materials and packaging, efficient natural resource management, sustainability in food production, animal welfare, and factors related to product design and repairability.
- **Accelerate the completion of the draft Law on Electronic Commerce.** Expediting the finalisation of the draft Law on Electronic Commerce involves dedicating resources, streamlining workflows, and fostering collaboration among stakeholders to address any obstacles or delays in legislative development.
- **Improve the integration of safe online payment systems to facilitate digital trade.** By focusing on the improvement of these systems, the economy can create a more conducive environment for businesses and consumers engaging in electronic transactions. This entails strengthening the security and reliability of online payment platforms, streamlining the user experience, and staying abreast of technological advancements in the digital payment landscape. Facilitating safe online transactions is integral to building trust in digital trade, both domestically and internationally. It not only encourages local businesses to embrace digital platforms but also attracts foreign investors and partners seeking secure and efficient online commerce channels. A robust and well-integrated online payment infrastructure is essential for driving the growth of e-commerce, enabling businesses to expand their reach and connect with a global customer base. Furthermore, aligning with international standards, such as those set by the EU and the OECD (Box 3.3), can enhance Kosovo's compatibility with global digital trade practices.

Box 3.3. OECD Recommendation of the Council on Consumer Protection in E-commerce

Acknowledging the diversity in payment protection levels associated with different payment mechanisms, the Recommendation advocates for collaborative efforts between governments and stakeholders to define universally applicable minimum standards for consumer protection across all payment methods in e-commerce.

The Recommendation mandates businesses to provide consumers with secure payment mechanisms and protect them from potential fraud. This protection should encompass regulatory or industry-driven constraints on consumer responsibility for unauthorised or fraudulent charges, along with the implementation of appropriate chargeback mechanisms. Additionally, the Recommendation advocates for the promotion of alternative payment structures that can bolster consumer confidence in e-commerce.

Governments and stakeholders are encouraged to investigate various areas where achieving greater consistency in payment protection rules across different jurisdictions could bring about significant benefits. This involves a thorough examination of the existing regulatory landscape to identify opportunities for harmonisation. There should be a concerted effort to clarify and establish effective mechanisms for addressing challenges that may arise in the context of cross-border transactions, especially when there are variations in payment protection levels among different regions. The goal is to create a more cohesive and transparent framework that fosters smoother cross-border financial transactions and ensures a consistent level of protection for consumers engaged in international commerce.

Source: OECD (2016[15]).

- **Provide export promotion support to companies to shift to higher value added goods and services and improve their export readiness.** This support is designed to enhance their overall export readiness by addressing various aspects of their operations and strategies. This may include guidance on product and service development, market research, compliance with international standards, and the implementation of effective marketing strategies. While the scope of the Matching Grants Programme was expanded in 2019 to include standardisation, certification and accreditation to comply with international standards (OECD, 2022[12]), the companies are still lacking access to adequate advisory services, counselling and capacity building. In addition, KIESA should offer targeted support to companies looking to elevate the quality and sophistication of their exported goods and services. This involves providing guidance on product innovation, process improvement, and adopting advanced technologies to meet the higher standards and demands of international markets. Additionally, assistance may be extended in developing strategic partnerships, exploring new markets, and optimising supply chain management. The objective is to enable companies not only to meet current market demands but also to excel in delivering premium offerings that can command higher value in the global marketplace.

References

Balkan Barometer (2022), *Balkan Barometer - Business Opinion 2022*, http://www.rcc.int/download/docs/Balkan%20Barometer%202022%20-%20BO.pdf/56acb2cb729b5f1a74308ea7052bda10.pdf. [14]

Deere Birkbeck, C. (2021), *Greening International Trade: Pathways Forward*, https://doi.org/10.1787/19901097. [5]

EFTA (2022), *Ongoing Negotiations or Talks: Kosovo*, https://www.efta.int/free-trade/Ongoing-Negotiations-or-Talks/Kosovo (accessed on 1 March 2024). [8]

European Commission (2023), *Customs Programme*, https://taxation-customs.ec.europa.eu/eu-funding-customs-and-tax/customs-programme_en (accessed on 1 March 2024). [11]

European Commission (2023), *Kosovo 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_692%20Kosovo%20report_0.pdf. [2]

IMF, OECD, UN, World Bank, WTO (2023), *Digital Trade for Development*, https://www.wto.org/english/res_e/booksp_e/dtd2023_e.pdf. [9]

Ministry of Industry, Entrepreneurship and Trade (2023), *Competitiveness and Export Readiness Project - Matching Grants Programme*, https://mint.rks-gov.net/desk/inc/media/3D484A75-7163-45D2-8374-17EA6F2BCD5C.pdf. [13]

Ministry of Industry, Entrepreneurship and Trade (2023), *Draft Action Plan for the 2030 Strategy for Industrial Development and Business Support*, https://mint.rks-gov.net/desk/inc/media/BA0E8A1F-206D-4902-B9E9-83DDE8538754.pdf. [6]

Ministry of Industry, Entrepreneurship and Trade (2023), *Strategy for Industrial Development and Business Support 2030*, https://mint.rks-gov.net/desk/inc/media/8721BDAD-6637-435F-897B-6938E6C75907.pdf. [7]

Ministry of Industry, Entrepreneurship and Trade (2023), *Trade Exchanges of Kosovo*, https://mint.rks-gov.net/desk/inc/media/5407C063-7D6B-4A82-ADBE-9DECB33E2187.pdf. [1]

Ministry of Industry, Entrepreneurship and Trade (2022), *Law on Foreign Trade*, https://mint.rks-gov.net/desk/inc/media/BDC09F51-85FC-4158-A586-A706709DDE84.pdf. [4]

OECD (2022), *SME Policy Index 2022: Western Balkans and Turkey*, https://www.oecd-ilibrary.org/development/sme-policy-index-western-balkans-and-turkey-2022_b47d15f0-en. [12]

OECD (2016), *Recommendation of the Council on Consumer Protection in E-commerce*, https://doi.org/10.1787/9789264255258-en. [15]

Regional Cooperation Council (2022), *Common Regional Market - Report on Implementation 2022*, https://www.rcc.int/download/docs/2023-05-Common-Regional-Market-2022-spread.pdf/3e4e41db978a0f1aa37353f8152ef683.pdf. [10]

US International Trade Administration (2024), *Trade Barriers*, https://www.trade.gov/country-commercial-guides/kosovo-trade-barriers (accessed on 1 March 2024). [3]

Notes

[1] Administrative Instruction (QRK) No. 03/2022 on Regulation of Prices of Petroleum Products and Renewable Fuels and Other Protective Measures mandates price regulation in case of sudden shortages of petroleum products and renewable energy within established trade margins.

[2] The Export Window is a credit guarantee mechanism with the goal of facilitating more accessible and streamlined financial access for businesses. Supported by the United States Agency for International Development (USAID), the Export Window is designed to empower businesses by enhancing their production capacities and diversifying their product range, boosting their competitiveness in both regional and international markets.

[3] The Trade Policy Document will be part of the strategic framework for trade policy and differs from the Law on Foreign Trade.

[4] Access Kosovo's Office on Good Governance documents database here : https://konsultimet.rks-gov.net/documents.php.

[5] Read more on the e-Commerce Directive here: https://digital-strategy.ec.europa.eu/en/policies/e-commerce-directive.

[6] The eIDAS Regulation facilitates secure electronic interactions for businesses, citizens, and public authorities. It allows the use of national electronic identification schemes for accessing online public services across EU countries, and establishes a European internal market for trust services, ensuring their cross-border functionality and legal equivalence to traditional paper-based counterparts.

[7] The updated Payment Services Directive (PSD2) revises and improves upon the EU regulations established by the original PSD enacted in 2007. PSD2 came into effect on 12 January 2016.

[8] The programme operates within the broader scope of the Competitiveness and Export Readiness project.

[9] The beneficiaries are implementing the ISO14001:2015.

[10] RecPlast LLC, AL-TEC LLC, MSM Sh.P.K. LLC and BTP Holding.

4 Access to finance

Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

Key findings

Kosovo's access to finance score has been relatively stable since the 2021 assessment, marginally increasing from 2.1 to 2.3 (Table 4.1). Notably, the economy has taken measures to develop the banking legal framework. However, with a score of 1.4, Kosovo exhibits the lowest score on access to alternative financing sources.

Table 4.1. Kosovo's scores for access to finance

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Access to finance	3.1: Bank financing framework			3.7	3.5
	3.2: Access to alternative financing sources			1.4	2.4
	3.3: Digital finance			1.4	2.3
Kosovo's overall score		**2.4**	**2.1**	**2.3**	**2.8**

The **key findings** are:

- Small businesses benefit from robust support in accessing bank finance through extensive credit guarantee schemes and public credit lines offered by the Kosovo Credit Guarantee Fund. As a result, small and medium-sized enterprise (SME) loans from commercial banks make up 61.8% of total loans in Kosovo in 2022. This closely aligns with comparable economies from the EU, such as Lithuania (59.6%).
- Kosovo's capital markets are still nascent, with limited legal advancements observed recently. However, plans are underway to broaden the legal framework of the bond market to include corporate bonds, with ongoing drafting of a capital market law, albeit without a specific timeline.
- Alternative forms of financing, including business angel networks, exist but their outreach and impact remains limited. For instance, Kosban, the sole operating Business Angel Network (BAN) in Kosovo, has not generated any investment in 2022.
- Kosovo is in the initial phases of bolstering its legal infrastructure for digital payments through the formulation of the "Payment Services Law". This legislation aims to align with the EU's Second Electronic Money Directive (EMD2) and Second Payment Services Directive (PSD2), facilitating the issuance of electronic money and expanding bank payment services to third-party providers with specified security protocols.
- The progression of digital finance in Kosovo is challenged by the relatively low adoption rates of digital payment technologies. In 2021, only 47.6% of the Kosovar adult population reported having made or received a digital payment, which remains below the Western Balkan average (61.7%). The data suggest Kosovo may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods.

State of play and key developments

Kosovo is the Western Balkan economy whose financial sector relies the least on the banking industry. In 2022, banks comprised only 68.3% of total financial system assets (Central Bank, 2023[1]), marking a marginal rise from 65.7% in 2019 (Central Bank, 2020[2]). However, this figure still remains above the euro area's average, where the banking sector represents only 50% of total financial assets (European Central Bank, 2023[3]).[1] In contrast to other Western Balkan economies, the number of commercial banks in Kosovo increased to 12 in 2022 (from 11 in 2021 and 9 in 2013). This growth has led to a continuous decrease in concentration within the banking sector, as the top three banks in Kosovo collectively held around 52.5% of assets in 2022, compared to 67.4% in 2013 (World Bank, 2022[4]); this suggests that there are still competitive pressures in the Kosovar banking industry remain. Notably, that percentage remains considerably lower than the averages observed in the Western Balkans (68.8%) and the EU (71.5%)

The total credit the Kosovar financial sector provided substantially increased over the last decade. In 2022, domestic credit to the private sector was equivalent to 52.4% of GDP, while only 36.7% in 2013, indicating a substantial development in Kosovo's primary means of accessing finance. This figure is substantially higher than in the Western Balkan region (46.4% in 2022) and lower than the EU's average (69.5%) (World Bank, 2022[4]). Simultaneously, the significant expansion of credit did not correspond with diminished credit quality, evidenced by the decline in the share of non-performing loans in Kosovo from 8.1% in 2013 to 1.9% in 2022 (International Monetary Fund, 2023[5]).

Sub-dimension 3.1: Bank financing network

Kosovo's **banking industry** legal framework has been increasingly aligned with Basel III requirements since the last assessment cycle. Ongoing harmonisation with Basel III suggests a continual enhancement in the reliability of the bank finance supply thanks to increased financial stability. Specifically, the January 2023 implementation of the "Regulation on Liquidity Coverage Ratio" and "Regulation on Net Stable Funding Ratio", along with the August 2023 enforcement of amendments to the "Regulation on Liquidity Risk Management", enables Kosovo to advance in meeting capital and risk management requirements. However, the legislation's disclosure requirements remain partially compliant with Pillar III of Basel III, and the regulation dealing with large exposures is not entirely aligned with Basel II.

Kosovo maintains relatively stringent lending requirements; there are no flexible collateral requirements below specific thresholds for SME lending. However, it is worth noting that the Central Bank of Kosovo (CBK) mitigates banks' provisioning requirements through decreased risk-weight coefficients specific to loans targeted to SMEs, which is intended to foster SME lending.[2] Moreover, the CBK offers capital relief for loan exposures guaranteed by the Kosovo Credit Guarantee Fund (KCGF), as per the Capital Adequacy Regulation requirements, which constitutes another incentive to promote SME lending.

Since the last assessment cycle, Kosovo has not recorded any changes in **registration systems**, which were already well developed. The real estate cadastre is available through the Kosovo Cadastral Information System (KCIS) on the digitised eKosova platform and covers the entire territory. It is updated daily, but access is restricted to authorised intermediaries.[3] The registry of security pledges is maintained in the Pledge Registry, an integrated electronic database with daily updates, but is also restricted to authorised intermediaries. However, the system has limitations, as it exclusively records fixed assets, omitting registration for non-fixed ones.

Credit information systems in Kosovo are well developed, providing Kosovar banks with comprehensive information on borrowers. Kosovo's primary credit information service is the Credit Registry, which is managed CBK. It serves both financial institutions and the public. Financial institutions offering loans must report the comprehensive history of an individual's or business's credit and loan-related activities. The system also includes non-regulated entities like non-bank financial institutions, retailers, and utilities. The

Credit Registry provides online data to financial institutions about existing or potential borrowers, contingent on obtaining written consent from the borrower. Finally, credit information data in Kosovo are protected by robust measures to preserve confidentiality, prevent unauthorised access, and minimise the risk of data loss or destruction.

Regarding the **accessibility of bank finance** for all businesses, Kosovar SMEs have relatively high access to bank finance and can rely on substantial policy initiatives. Indeed, SME loans from commercial banks make up 61.8% of total loans in Kosovo in 2022, a notable increase from 57.4% in 2018. This surpasses the Western Balkans' average of 39.0% and closely aligns with comparable economies from the EU, such as Lithuania (59.6%) (OECD, 2022[6]). After the COVID-19 pandemic, Kosovo emerged as one of the few Western Balkan economies where public credit lines and credit guarantee funds still operate and have maintained similar activity levels. The KCGF, a pivotal institution in this regard, has been reinforced by the implementation of the amendments to the "Law on Establishment of the KCGF" in August 2022, increasing the credit guarantee coverage from 50% to up to 80% and enabling prepayment up to 30% of the previous outstanding loan with the loan guaranteed from the KCGF. Moreover, numerous additional programmes were introduced in 2022, widening the scope of the KCGF. Notably, the Green Recovery Opportunity Window was launched in June 2022 with a capital base of EUR 5.6 million, and the European Investment Bank (EIB)'s "Kosovo COVID-19 Response to SMEs" project's EUR 40 million funds will expand the credit guarantee schemes provided by the KCGF.[4] Following this set of measures, the KCGF witnessed an upsurge in its activities following the pandemic, reporting total outstanding loans amounting to EUR 211.4 million (2.37% of GDP) in December 2022 (Kosovo Credit Guarantee Fund, 2023[7]), compared to EUR 146.5 million (1.84% of GDP) in December 2021 (Kosovo Credit Guarantee Fund, 2022[8]) and EUR 115.0 million (1.70% of GDP) in December 2020 (Kosovo Credit Guarantee Fund, 2020[9]). A similar trend is observed in credit guarantees, with total outstanding guarantees reaching EUR 116.2 million in December 2023 (1.20% of GDP), EUR 126.1 million (1.58% of GDP) in December 2021, and EUR 56.0 million (0.83% of GDP) in December 2020. This evolution of the KCGF partly mitigated the conclusion of the Economic Recovery Package, which sanctioned a total of EUR 105.5 million in loans and EUR 74.9 million in guarantees during the year 2021 (Kosovo Credit Guarantee Fund, 2021[10]).[5]

The smallest Kosovar businesses can also rely on microfinance to access finance, as microfinance has gained momentum in recent years in Kosovo, with 30 institutions operating in 2022 (only 25 in 2017). With a robust legal framework, Kosovo stands out in the Western Balkans for having the most advanced microfinance sector, constituting 3.2% of GDP in outstanding loans.[6] However, the sector's growth had decelerated since 2019, when outstanding loans reached 3.1% of GDP, compared to 1.4% in 2013 (World Bank, 2022[4]). Nevertheless, the industry's long-term growth and sustainability in Kosovo may need more policies supporting microfinance development, including the absence of interest rate regulation and a central portal providing information to businesses.

Sub-dimension 3.2: Access to alternative financing sources

Alternative financing sources for banking remain very limited in Kosovo, with a maintained dependency on traditional banking.

The primary focus of **capital market** activity in Kosovo revolves around the auctioning of government bonds by the Central Bank, which are mainly purchased by the Kosovar pension funds. Although no stock market operates in Kosovo, the primary government bond market is open to banks. However, non-financial institutions are not allowed to access the market, which limits the number of potential investors and financial resources that could be raised by the government. Kosovo plans to extend the legal framework of bond markets to corporate bonds as the drafting of a capital market Law is ongoing, with no specific timeline announced.[7] These legal developments will be supported by the "Investment Promotion and

Access to Finance" project funded by USAID, which was launched in March 2023 for five years in partnership with the consulting firm DT Global (United-States Agency for International Development, 2023[11]).

Kosovo has no legal framework for **private equity** investment funds, venture capital or Business Angel Networks (BANs). The sole operating Business Angel Network (BAN) in Kosovo, Kosban, raises funds but its impact remains limited. In 2022, it did not generate any investments, while cumulative fundraising amounted to EUR 300 000 in 2021 and EUR 500 000 in 2016 (European Business Angel Network, 2022[12]).

The legal framework related to **factoring** is incomplete, generating high transaction costs for factoring contracts and finally hindering its development. In detail, the associated legal framework does not cover the assignment of receivables or the registration of assignments**.** Moreover, no active policies support the development of factoring, such as tax incentives, assistance, or training for SMEs. As a result, volumes are very marginal, while factoring turnover was equivalent to 12.6% of GDP in the EU in 2022 (EU Federation of Factoring & Commercial Finance, 2023[13]).[8]

Concerning **leasing**, aspects such as leasing mediators, offences, penalties, stipulations for additional or related services, and leaseback conditions lack clear definitions within the legal framework. However, leasing has become a growing financing resource for businesses over the past decade, and microfinance institutions primarily deliver it. In 2013, leasing amounts delivered by microfinance institutions were equivalent to EUR 22.4 million (0.42% of GDP) (Central Bank, 2023[1]), while EUR 73.7 million in 2022 (0.82% of GDP) (Central Bank, 2024[14]).[9] To further develop leasing, in October 2023, the International Finance Corporation (IFC) extended a EUR 5 million loan to Raiffeisen Leasing Kosovo (RLKO), the largest leasing company in Kosovo, earmarked for supporting women-owned SMEs and financing climate-related projects in Kosovo (International Finance Corporation, 2023[15]).

Sub-dimension 3.3: Digital finance

Kosovo is in the early stages of enhancing its legal framework for digital payments, aligning with the EU's Second Electronic Money Directive (EMD2) and Second Payment Services Directive (PSD2).[10] The upcoming "Payment Services Law" aims to facilitate electronic money issuance, allowing banks to extend their payment services to third-party payment service providers (TPPs) with strict security requirements. These regulatory changes are expected to promote the emergence of Kosovar firms in the digital payments sector, although as of 2022, Kosovo boasts 11 non-bank payment service providers, with seven of them licensed to issue electronic money. The "Payment Services Law" has been submitted to the government and is expected to be approved in June 2024.

Despite Kosovo's ambition to develop the legal framework of **digital payments**, their adoption remains limited. In 2021, only 47.6% of the Kosovar adult population reported having made or received a digital payment (World Bank, 2022[4]), which remains below the Western Balkan average (61.7%) and significantly lower than the EU's (93.0%). The data suggest that Kosovo may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods. The overall low penetration of digital payments poses several challenges regarding access to finance, ranging from increased remittance costs for businesses and citizens to lower penetration of bank finance. This is particularly crucial for Kosovo considering the importance of remittance inflows standing at 21.3% of GDP in 2022 (World Bank, 2024[16]), the highest figure in the Western Balkan region. The increased digitisation of the financial system can also promote the use of bank accounts (Khera et al., 2021[17]). This too is particularly crucial for Kosovo, given the relatively low bank penetration and the substantial diaspora. Only 58.0% of the adult population in Kosovo held a bank account in 2021, in contrast to 71.2% in the Western Balkans and 95.1% in the EU (International Monetary Fund, 2023[5]). The CBK identified the high banking fees as a bottleneck for financial inclusion with the launch of the "National Strategy for Low-Value Payments (2021-26)". As a noticeable outcome, the CBK approved the "Regulation on Access to Payment Accounts with Basic

Services" to foster inclusion in bank finance. The law entered into force in August 2023, requiring commercial banks to provide basic payment accounts to all citizens of Kosovo for a monthly fee that should not surpass 0.12% of Kosovo's average net salary or EUR 0.53 in August 2023. It can also be noted that a web-based price comparison platform for customers of Kosovo's financial institutions to compare banking sector product and service prices is expected to operate in the second half of 2024. Finally, the CBK has specifically addressed the challenge of digital skills by implementing several projects to promote digital products and services addressed to consumers and underserved groups. In detail, the CBK has undertaken various educational initiatives, collaborating with the World Bank on a study promoting digital services and financial access. Additionally, in partnership with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), brochures were created to boost awareness of digital financial services, and the CBK Award to Young Economists focuses on topics related to the digitisation of financial products and services.

Kosovo currently lacks a legal framework for **crowdfunding**, leaving it without active operators. Moreover, there is no legal framework for **Distributed Ledger technology (DLT) for financing**. However, a law on cryptocurrency assets is expected to be adopted in February 2024, in line with the security requirements of the fifth Anti-Money Laundering Directive (AMLD5), which aims to detect and prevent money laundering using virtual currency exchanges and wallets.[11] The draft law is in its early stages, and no clear timeline has been communicated. Developing these digital finance tools may offer smaller businesses an alternative means to access finance, allowing them to circumvent traditional banking and regulatory requirements associated with capital markets (OECD, 2019[18]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

There is still a need for additional policies to foster the growth of capital markets, particularly alternative funding sources like private equity and crowdfunding. The lack of developments based on the previous CO Recommendations are elaborated in Table 4.2 below.

Table 4.2. Kosovo's progress on past recommendations for access to finance

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Support crowdfunding by adopting dedicated legal frameworks	While crowdfunding operates in Kosovo, no legal framework governs these activities.	None
Make use of the new factoring legislation by introducing new factoring services as an additional source of finance from financial institutions	The legal framework of factoring has not experienced any change since the last assessment cycle.	None
Consider a review of the business angel network	No assessment of the business angel network has been conducted, and no change in the associated legal framework has been recorded since the last assessment cycle.	None

The way forward for access to finance

To make bank finance accessible, support alternatives to bank finance and develop digital finance, policy makers should:

- **Pursue efforts to harmonise banking regulations with Basel III standards**. In Kosovo, the banking sector is the primary player in the financial industry, accounting for two-thirds of the total assets. Given the importance of the banking sector for access to finance, it is essential to create a more robust and more stable global banking system that can withstand economic downturns and financial shocks.

- **Continue efforts to harmonise further capital markets' legal framework with the EU standards to develop market-based financing.** Adopting EU *acquis* regulations on stock and debt markets can increase investor confidence, strengthening cross-border co-operation. This can create opportunities for local businesses to attract investment and raise capital from a larger pool of investors.
- **Continue efforts to diversify financing sources.** Non-bank financial intermediaries (e.g. leasing or factoring companies), as well as alternative investment funds (e.g. private equity) or crowdfunding (Box 4.1), can provide financing alternatives for larger corporates and mitigate the lack of availability of early (e.g. seed or venture) capital financing that constrains the growth opportunities for promising SMEs. Efforts to develop these new financing sources should be coupled with financial literacy programmes tailored for businesses to enhance their awareness.
- **Make digital finance available for all individuals and businesses.** Financial services are becoming increasingly digitalised, and individuals with low education levels, those residing in rural areas and elderly people face more significant financial exclusion. To address this issue, Kosovo should implement financial inclusion policies that identify emerging financial competency requirements from digitalising financial services to promoting digital capability. Similarly, the smallest businesses might be the least likely to adopt digital financial solutions. Given the importance of remittance flows, Kosovo would benefit from spreading digital financial solutions in its economy following the substantial savings on transaction costs.

Box 4.1. Crowdfunding in Estonia

Estonia stands out as a leader in the European crowdfunding sector, contributing to its status as one of the top economies in terms of risk capital availability. This strong position is primarily fueled by activities in equity crowdfunding, private equity, and business angel investment (Association for Financial Markets in Europe, 2022[19]).

The first crowdfunding platform (Peer-to-Peer Consumer Lending) appeared in 2009, and in 2023 Estonia hosted the most platforms per capita – about 22 per 1 million people, followed by Latvia (4.7) and Lithuania (3.9) (P2P Market Data, 2023[20]).

The stock of funding intermediated by the Estonian crowdfunding platforms grew rapidly over past years from EUR 150 million in 2017 to EUR 660 million in 2022 (Eesti Pank, 2023[21]). Moreover, crowdfunding flows are increasingly internationalised, a pattern encouraged further by the pan-European regulation that came into force last year and requires all market participants allowing investment in companies to apply for a pan-European operating licence since November 2023.

Estonian financial market legislation is based on European Union regulation, the Directive on Investment Services in the Securities Field (93/22/EC), and the Directive on Markets in Financial Instruments (2004/39 EC) (MiFID / MiFID II). The Ministry of Finance oversees the alternative finance market.

In addition to existing regulations, a 5-page guide providing a code of conduct for all the Internet-based crowdfunding platforms has been prepared by Finance Estonia and the Deloitte Legal law firm (Deloitte Legal, 2016[22]). The guide aims to increase the transparency of crowdfunding platform providers' activities for clients and investors. The guide defines best practices, which do not substitute for the legal responsibility to adhere to applicable laws (Sadzius and Sadzius, 2018[23]).

References

Association for Financial Markets in Europe (2022), *Capital Markets Union Key Performance Indicators- Fifth Edition*, https://www.eban.org/capital-markets-union-key-performance-indicators-fifth-edition/. [19]

Central Bank (2024), *Annual Report 2023*, https://bqk-kos.org/repository/docs/2014/CBK%20AR%202013-english.pdf. [14]

Central Bank (2023), *Annual Report 2022*, https://bqk-kos.org/wp-content/uploads/2023/08/CBK_AR_2022.pdf. [1]

Central Bank (2020), *Annual Report 2019*, https://bqk-kos.org/wp-content/uploads/2020/10/CBK_AR_2019.pdf. [2]

Deloitte Legal (2016), *FinanceEstonia: Best Practice for Crowdfunding*, https://financeestonia.eu/wp-content/uploads/2016/02/crowdfunding-best-practice.pdf (accessed on 1 March 2024). [22]

Eesti Pank (2023), *Financing of the Economy*, https://www.eestipank.ee/en/publications/financing-economy/2023/financing-economy-february-2023 (accessed on 1 March 2024). [21]

EU Federation of Factoring & Commercial Finance (2023), *Annual Factoring Data Factoring turnover in Europe*, https://euf.eu.com/data-statistics/annual-factoring-data.html (accessed on 24 November 2023). [13]

European Business Angel Network (2022), *EBAN Statistics Compendium*, https://www.eban.org/eban-annual-statistics-compendium-for-2022/. [12]

European Central Bank (2023), *ECB Data Portal*, https://data.ecb.europa.eu/data-comparison/e595831e-7662-41cf-ab04-f191303138ac (accessed on 24 November 2023). [3]

International Finance Corporation (2023), *Raiffeisen Leasing Kosovo Senior Loan - Climate*, https://disclosures.ifc.org/project-detail/SII/47141/raiffeisen-leasing-kosovo-senior-loan-climate (accessed on 18 January 2024). [15]

International Monetary Fund (2023), *Financial Acess Survey (FAS)*, https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C&sId=1460043522778 (accessed on 24 November 2023). [5]

Khera, P. et al. (2021), "Is digital financial inclusion unlocking growth?", *IMF Working Paper*, Vol. WP/21/167, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwifwdj36KiHAxWSUqQEHZa1CmAQFnoECBUQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2FFiles%2FPublications%2FWP%2F2021%2FEnglish%2Fwpiea2021167-print-pdf.ashx&usg=AOvVaw0e. [17]

Kosovo Credit Guarantee Fund (2023), *Portfolio Development: December 2022*, https://fondikgk.org/wp-content/uploads/2023/02/PORTFOLIO-DEVELOPMENT-DECEMBER-2022.pdf. [7]

Kosovo Credit Guarantee Fund (2022), *Portfolio Development; January 2022*, https://fondikgk.org/wp-content/uploads/2022/03/Zhvillimi-i-portfolios-ENG-January-2022.pdf. [8]

Kosovo Credit Guarantee Fund (2021), *Economic Recovery Package*, https://fondikgk.org/wp-content/uploads/2022/04/ECONOMIC-RECOVERY-PACKAGE-UP-TO-31-12-21.pdf. [10]

Kosovo Credit Guarantee Fund (2020), *Annual Report 2020*, https://fondikgk.org/wp-content/uploads/2021/08/FKGK_Annual-Report_2020.pdf. [9]

OECD (2022), *Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard*, https://doi.org/10.1787/e9073a0f-en. [6]

OECD (2019), *Initial Coin Offerings (ICOs) for SME Financing*, http://www.oecd.org/finance/initial-coin-offerings-for-sme-financing.htm. [18]

P2P Market Data (2023), *Crowdfunding Industry Market Update 2023 [Survey of 70 Platforms]*, https://p2pmarketdata.com/articles/crowdfunding-statistics-worldwide/. [20]

Sadzius, T. and L. Sadzius (2018), "Crowdfunding regulation in the Baltic region", *International Journal of Business and Social Science*, Vol. 9/2, https://ijbssnet.com/journals/Vol_9_No_2_February_2018/11.pdf. [23]

United-States Agency for International Development (2023), *Investment Promotion and Access to Finance*, https://www.usaid.gov/kosovo/fact-sheets/aug-21-2023-investment-promotion-and-access-finance (accessed on 16 February 2024). [11]

World Bank (2024), *Remittances Prices Worldwide*, http://remittanceprices.worldbank.org/ (accessed on 17 January 2024). [16]

World Bank (2022), *The Global Financial Development Database*, https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database (accessed on 24 November 2023). [4]

Notes

[1] The two Kosovar pension funds, Kosovo Pension Saving Trust (KPST) and the Slovenian Kosovo Pension Fund (SKPF), collectively possess 35.8% of financial assets in 2022, reflecting a robust increase from 26.8% in 2019 (Central Bank, 2023[1]).

[2] Within the amended "Regulation on Capital Adequacy of Banks", within Article 51, there is a reduced risk-weighting factor for the retail exposures (exposures to natural persons and small or medium-sized enterprises). These exposures are risk-weighted at 75%.

[3] Authorised intermediaries include lawyers, notaries, banking institutions, leasing companies, microfinance institutions, state institutions, and every physical and legal person or entity registered in the CBK.

[4] Other initiatives have been implemented in Kosovo to expand the KCGF's activity. In October 2022, the Agro-Credit Guarantee Window was extended and improved with a EUR 11.5 million capital base. In December 2022, KCGF launched the Export Window to support export companies featuring a more favourable fee structure, exploring ways to increase credit thresholds. Finally, In 2023, the KCGF introduced the Women in Business Window and the Start-up Window, offering enhanced opportunities with guarantee rates of up to 70% and 80%, respectively.

[5] In 2023, KCGF expanded credit guarantee schemes, introducing non-financial components. These included training sessions for export companies, green investments, and women in business/start-ups. In partnership with USAID, the programme reached 95 export companies and 300 women business owners, enhancing financial management and credit awareness.

[6] Microfinance institutions are mostly non-governmental and non-profit organisations but can also be commercial entities operating as joint-stock companies. The maximum amount for microloans is EUR 25 000.

[7] The working group includes representatives from the Ministry of Finance, Labor and Transfers (MFLT), Kosovo Pension Saving Trust (KPST), the Kosovo Banking Association (KBA), the Ministry of Industry, Entrepreneurship and Trade (MIET) and the CBK.

[8] Data on factoring activities do not exist.

[9] Data on the total value of leasing activity for banks, essential for estimating the total leasing volumes, are unavailable.

[10] EMD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110; PSD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366.

[11] EUAMLD5 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843.

5 Tax policy

A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

Key findings

Kosovo's overall score has decreased since the previous *Competitiveness Outlook*, falling slightly below the regional average (Table 5.1). The economy's tax policy framework has been adversely affected by the low performance in tax expenditure reporting and the personal income tax and social security contributions (PIT & SSC) framework. Overall, there is significant scope for Kosovo to raise more revenues and increase its tax policy analysis capabilities.

Table 5.1. Kosovo's scores for tax policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tax policy	4.1: Tax policy framework			1.9	2.4
	4.2: Tax administration			4.2	3.8
Kosovo's overall score		**2.3**	**3.4**	**3.0**	**3.1**

The **key findings** are:

- Kosovo has the lowest personal income tax and social security contribution rates in the region, both of which are also significantly below OECD averages. Yet, despite this low tax burden on labour and improvements in tax administration through more risk-based audits and e-filing, the economy continues to struggle with combating informal employment.
- Kosovo offers generous tax investment incentives and a presumptive tax regime to support small and medium-sized enterprises. These businesses can benefit from both profit-based incentives (which reduce the tax rate applicable to taxable income) and cost-based incentives (which lower the cost of investments). Moreover, the existing presumptive tax regime allows small businesses to pay a reduced rate of 3% or 9%, depending on the sector of operation.
- Kosovo currently has a young population, but decreasing fertility rates and high levels of emigration will lead to significant population ageing in the medium and long term, which may put pressure on SSC revenues. Despite this, Kosovo has no plans to assess the impact of such changes on its PIT and SSC systems. Specifically, the Tax Administration of Kosovo (TAK) has not begun to evaluate how challenges posed by population ageing or emigration will impact its tax revenue or the overall functionality of the social security system.
- There is scope to improve the use of economic modelling and forecasting for tax policy analysis. Although the Kosovo Macro Projection Model is used to forecast future tax revenue, the Ministry of Finance and TAK have not yet implemented any micro-simulation models. As a result, it cannot utilise microdata to analyse the potential effects of PIT, SSC, or corporate income tax (CIT) reforms.
- Since 2021, Kosovo has demonstrated significant progress in advancing its use of electronic tax filing. In 2022, it became mandatory to electronically file taxes through an official online portal, substantially increasing the prevalence of online tax declarations.
- The Global Anti-Base Erosion (GloBE) Rules may have implications for Kosovo and warrant further assessment. However, the economy has yet to begin evaluating how the implementation of the GloBE Rules would impact its tax system.

State of play and key developments

Sub-dimension 4.1: Tax policy framework

Tax revenue in Kosovo remains relatively low, with its tax mix heavily dependent on taxes on goods and services. In 2021, taxes on goods and services accounted for 73.3% of Kosovo's total tax revenues, which is significantly above both the OECD and WB6 averages. Similarly, social security contributions (SSC) revenues in Kosovo are low compared to its WB6 and OECD counterparts (Table 5.2). In 2021, the level of SSC revenues was 2.7% of GDP, compared to the WB6 and OECD averages of 9.9% and 9.2%, respectively.

Table 5.2. Kosovo's tax revenues as a share of GDP (2022)

Tax revenues are expressed as a percentage of GDP

	Corporate income tax revenues	Personal income tax revenues	Social Security contributions revenues	Taxes on goods and services revenues	Total tax revenues
KOS	1.8	2.4	2.7	20.1	27.5
WB6	2.1	1.9	9.9	14.9	30.4
OECD	2.8	8.3	9.2	10.6	33.6

Note: Information on Kosovo is from 2022 and information from the OECD is from 2020.
Sources: Kosovo Agency of Statistics for the Competitiveness Outlook Assessment; OECD (2022[1]).

Kosovo has a low **corporate income tax (CIT) rate** of 10%, which is reflected in the low revenues collected from the CIT (1.8% of GDP compared to the OECD average of 2.1% of GDP). As with all other WB6 economies but unlike most OECD countries – in particular smaller countries that operate under a territorial tax system – Kosovo has a worldwide CIT system, meaning that the tax base for resident companies includes domestic and foreign source income. Non-resident taxpayers, on the other hand, are just taxed on income generated in Kosovo. Corporate capital gains are included in the CIT base, while dividend income distributed to businesses is not considered taxable income for CIT purposes and no withholding tax is applied, even if the dividends are distributed to non-resident companies.

Investment incentives in Kosovo involve both cost- and profit-based tax incentives. Kosovo's profit-based tax incentives are targeted at small companies, and its cost-based tax incentives target research and development (R&D) investments and the training of employees. Overall, Kosovo's low rates, special turnover regimes and corporate tax incentives provide an attractive corporate tax environment for investment. However, this comes at a cost to tax revenue. Moreover, because these incentives are not regularly reviewed and evaluated, it is uncertain how effective they are as well as whether or not they introduce unintended distortions into the tax system.

Apart from profit-based incentives, small businesses also benefit from Kosovo's **presumptive tax regimes**, also known as simplified tax regimes. These regimes target firms as well as self-employed individuals with an annual turnover under EUR 30 000 for businesses and EUR 50 000 for the self-employed by reducing their tax rate to either 3% or 9% (depending on the sector in which they operate). Presumptive tax regimes can lower the barriers to entry into the formal sector by reducing compliance and administrative costs, which disproportionately impact these targeted groups (Mas-Montserrat et al., 2023[2]). Such an outcome is particularly desirable given that the informal sector in Kosovo is estimated at over one-third of employment (IMF, 2022[3]).

Recent international tax developments may have implications for Kosovo and warrant further assessment. The **Global Anti-Base Erosion Rules** (GloBE) ensure large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. While economies are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether a multinational enterprise (MNE) is subject to an effective tax rate of at least the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022[4]). For Kosovo that means that in-scope Ultimate Parent Entities of MNE Groups – that have their headquarters in a jurisdiction that has implemented the GloBE Rules and that operate a subsidiary (or Constituent Entity) in Kosovo – may be subject to a top-up-tax in the residence jurisdiction, if the profits earned in the subsidiary are taxed at an effective rate below 15%. Given that Kosovo's statutory CIT rate is below the global minimum effective tax rate, the GloBE Rules are likely to have implications for the subsidiaries of MNEs that are in-scope of GloBE and operate within its jurisdiction. To avoid forgoing tax revenues in the short run, Kosovo will need to consider how to align its tax policies with these international standards and, in the short term, may wish to consider introducing a qualified domestic minimum top-up tax (QDMTT).

Kosovo still uses the OECD Model Tax Convention as a basis for its double-tax treaties, which has indirectly led to the implementation of some base erosion and profit shifting (BEPS) minimum standards. Kosovo also has yet to engage in administrative co-operation or **exchange of information** initiatives. Exchanging information through the OECD Automatic Exchange of Information (AEOI) standards and implementing the Country-by-Country (CbC) Reporting Package can incentivise taxpayers to voluntarily disclose their assets and enables the tax authority to better detect evasion activities and concealed offshore assets.

The **personal income tax** (PIT) system in Kosovo is characterised by low rates (Table 5.3), which contribute to a reduced tax burden on labour income in comparison to both WB6 and OECD economies. Despite its progressive nature, these low PIT rates limit the amount of tax revenue and, therefore, its redistributive impact. The annual PIT allowance is EUR 960. Income above EUR 960 and below EUR 3 001 is taxed at a marginal PIT rate of 4%. The share of income above EUR 3 000 and below EUR 5 401 is taxed at 8%, and the remaining income is taxed at a top PIT rate of 10%.

Similarly, the **SSC rates** in Kosovo are significantly lower than those in WB6 and OECD economies. Employers and employees each pay 5% of the gross salary in SSCs, and employees can deduct the 5% from their PIT base. The minimum SSC rate for self-employed is 10%. For self-employed paying income tax on a presumptive basis, the minimum SSC rate is 33% of the presumptive tax amount.

Table 5.3. Personal Income Tax top rate and Social Security Contributions rates in Kosovo, the WB6 economies and the OECD (2022)

In percentage

	Maximal PIT rate	Total SSC rate
KOS	10	10
WB6	13.8	27.2
OECD	43	26.1

Note: WB6 and OECD denote average values.
Sources: National authorities information for the CO 24 assessment; OECD (2024[5]).

Both the PIT and SSC systems will face medium- and long-term challenges posed by demographic changes, namely population ageing due to decreasing fertility rates and high levels of emigration (European Commission, 2021[6]). However, despite these recognised challenges, the economy has not yet

assessed, nor does it plan to assess, the effect of such changes on its tax revenue and the functionality of the SSC system and design and implement reforms accordingly. By using taxpayer microdata and projected demographic changes, Kosovo could estimate the impact of these structural trends on PIT and SSC revenues as recommended in OECD (2018[7]).

The only economic **modelling and forecasting** carried out by the Tax Administration of Kosovo is the Kosovo Macro Projection Model, which is used to make aggregate tax revenue projections for most types of taxes (excluding property tax). This model is regularly updated and adjusted annually or any time that a structural change to the economy occurs. One notable example followed the COVID-19 pandemic, when increased subsidies and cash transfers overestimated PIT and CIT revenue and consequently required readjustment. There are currently no plans to develop micro-simulation models that analyse PIT, CIT, or SSCs, unlike in other WB6 economies where these models exist.

Regarding the **design and structure of the value added tax (VAT) system**, the standard VAT rate in Kosovo is 18%, which is similar to the OECD average of 19.2%. Kosovo has a VAT registration threshold of EUR 30 000 and an 8% reduced rate for, among other goods and services, the supply of electricity, water, basic foods, textbooks, and medicine supplies. And while Kosovo has not implemented the International VAT/GST Guidelines (value added tax/goods and services tax), it does levy VAT on cross-border digital services**.** Additionally, the rules determining the place of taxation reference the usual residence of the private consumer, which is also aligned with the Guidelines. This is important because the rapid growth in online sales of services and digital products (streaming, gaming, accommodation rentals, ride-hailing, etc.) requires regular updating of rules to ensure that VAT is collected. Involving digital platforms in the VAT collection and remittal process can lower administrative costs and increase efficiency.

Kosovo levies a limited number of **environmentally related taxes**, including excise duties on gasoline and diesel and an “ecology” tax on motor vehicles. These taxes are broadly in line with the Climate Change Strategy of Kosovo (2019-28), which covers both climate change mitigation and adaptation actions and objectives. Namely, given that the two sectors most responsible for total greenhouse gas (GHG) emissions in Kosovo are the energy sector (75% of GHG emissions) and the road transport sector (12%), these taxes aim to reduce emissions in these domains. However, there is still significantly more scope to strengthen the role of environmentally related taxes in order to help Kosovo meet its climate goals. For instance, Kosovo does not currently levy a carbon tax, nor has it begun to assess or respond to the EU Carbon Border Adjustment Mechanism (CBAM), which enters into force in January 2026.[1]

Although Kosovo levies excise taxes on tobacco, alcohol and sugar-sweetened beverages (SSBs), it does not use **health taxes** to their full potential. The total tax burden on cigarettes is below 75% of the retail price, which is the minimum level recommended by the World Health Organisation (WHO). Additionally, unlike many OECD countries, Kosovo only levies specific excise taxes on tobacco products. Combining specific and *ad valorem* taxes for tobacco products discourages the consumption of both high- and low-value products (OECD, 2020[8]). For the specific component of the excise tax, it is important to have a system in place that allows for regular adjustment for the tax to keep pace with inflation and real income growth. However, one practice of Kosovo is its engagement in regional co-operation to combat smuggling and illegal cross-border tobacco trade in order to increase health tax compliance.

Kosovo still does not conduct regular **tax expenditure reporting**, although it does report its tax expenditures in its budget. Expanding and regularising public tax expenditure reporting increases transparency and improves efficiency**.** Moreover, having tax expenditure estimates would allow policy makers to evaluate the efficiency and effectiveness of tax expenditures, including tax incentives, through cost-benefit analysis.

Sub-dimension 4.2: Tax administration

The main **taxation functions**, including the typically police-handled tax fraud investigations, fall under the purview of the Tax Administration of Kosovo (TAK). Alongside these responsibilities, the TAK, in collaboration with the Customs Service, also collects VAT on imports. A unified entity managing all taxes and primary tax administration functions enhances efficiency (OECD, 2022[9]). Various national and international bodies, including the Office of the Auditor General in Kosovo, the International Monetary Fund, and the European Commission regularly assess the TAK's operations, which facilitates strategic planning.

In terms of **tax compliance and risk management**, the TAK and regional administrations use a risk-based approach to identify taxpayers with irregularities against a predefined set of risk criteria. This process is supported by the Division of Tax Audit Procedures and the Division of Risk Management. The outcome of these analyses is a Risk Responsibility Plan, sorting taxpayers into different revenue risk categories. OECD studies highlight the effectiveness of risk-based selection in enhancing compliance programmes, and enabling optimal decision making and resource allocation (OECD, 2022[9]).

Regarding **independence and transparency**, the TAK operates with full autonomy in the Ministry of Finance. A legal structure outlines its legal status, tasks, responsibilities, and linked procedures. Although the TAK's budget is not independent, the TAK has full control over its use. The Director General of the TAK presents an annual report to the Ministry of Finance, and the Office of the Auditor General in Kosovo regularly audits the TAK, producing reports with compulsory recommendations for the management board.

Consistent with a broader trend accelerated by the pandemic (OECD, 2022[9]), electronic **tax filing** through an official online portal became mandatory in Kosovo at the beginning of 2022. Between 2019 and 2022, online tax declaration increased by almost 30%. Furthermore, the TAK is developing an online tax calculator for taxpayers in order to increase transparency. The tax filing process is periodically evaluated by external auditors, including the International Monetary Fund (IMF) and the TAK.

The TAK, along with its regional services, provides a broad spectrum of **taxpayer services**. The public has access to information, electronic communication, and face-to-face inquiries. Also, a taxpayer advocate is provided by Kosovo's tax legislation to protect the rights of citizens *vis-à-vis* the tax administration. Finally, the TAK also conducts biennial taxpayer satisfaction surveys to continuously improve its performance.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo’s progress on implementing past CO Recommendations has been limited in most domains, with no progress made toward assessing the effects of different tax policies or making voluntary SSCs mandatory. However, some moderate progress was achieved largely in terms of strengthening Kosovo’s regional and international engagement in tax matters. Table 5.4 shows the economy’s progress on implementing past recommendations for tax policy.

Table 5.4. Kosovo's progress on past recommendations for tax policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Broaden support for economic recovery in light of COVID-19, with targeted tax and subsidy measures	All COVID-related tax measures have been phased out.	Strong
Increase tax revenue and diversify the tax mix by strengthening the role of CIT, PIT and SSCs	There were few to no policy actions towards diversifying the tax mix. However, there were improvements in tax collection through more risk-based audits and e-filing.	Limited
Assess the design of the PIT rate schedule to bring more targeted progressivity into the tax system	No indication that this assessment has taken place or has led to a change in policy.	None
Reinforce efforts to curb the informal economy and encourage businesses to register in the formal economy	Tax enforcement practices through risk-based audits have improved. Kosovo also targets small businesses through a special tax regime to lower the tax burden on those businesses.	Moderate
Consider making voluntary SSCs mandatory to widen the scope of welfare protection	No indication that this assessment has taken place or has resulted in policy actions.	None
Assess the merits of differentiated taxation of labour and capital income	No indication that such an assessment has taken place.	None
Avoid the use of profit-based tax incentives	The profit-based tax incentives are targeted at small companies, while larger companies mostly benefit from cost-based incentives.	Limited
Strengthen capacities and tools to assess the effects of tax policies on the economy	Kosovo has yet to develop a tax expenditure report.	None
Re-evaluate the merits and disadvantages of worldwide taxation for resident companies	No indication that such an assessment has taken place or resulted in policy changes.	None
Follow the discussions of the OECD/G20 Tax Challenges Arising from Digitalisation project, in particular the work on Pillar 2 that aims to introduce a global minimum tax	No indication that this is actively being assessed or resulted in policy actions.	None
Strengthen engagement with the international tax community and implement international best practices	Kosovo uses the OECD Model Tax Convention as a basis for its double-tax treaties.	Moderate
Foster regional co-operation and co-ordination on common tax issues within the WB region	Kosovo is part of the Regional Cooperation Council's SEE Strategy 2020 implementation programme. Its main regional co-operation partners are Albania and North Macedonia, with whom it exchanges best practices.	Moderate

The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which Kosovo could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Analyse the impact of the GloBE Rules on its tax system and tax incentives and, in the short term, consider introducing a QDMTT**. Given Kosovo's low statutory CIT rates and generous tax incentives, the implementation of the GloBE Rules might necessitate a re-evaluation and re-design of these policies.
- **Evaluate the effect of future demographic changes on revenue and the functioning of the SSC system**. Although Kosovo has a relatively young population, trends of population ageing and emigration will impact the economy's population structure and consequently can place significant strain on the SSC system. Evaluating these changes would be an important step towards developing a plan to make Kosovo's public finances more resilient.
- **Assess the impact of the EU Carbon Border Adjustment Mechanism (CBAM) on its export economy and consider increasing its carbon pricing accordingly**. Pricing carbon domestically comes with the added benefit of generating revenues that can be mobilised to further accelerate the green transition and meet other social and political priorities (OECD, 2022[10]). By introducing

carbon pricing and increasing existing excise taxes on fossil fuels, Kosovo could not only make progress on meeting its climate goals, but also generate additional revenue.

- **Assess the feasibility of amending PIT rates to strengthen the tax system's progressivity**. Strengthening the progressive nature of the PIT system might enable the government to boost tax revenues without imposing additional burdens on the lowest-income workers in the economy.
- **Engage in administrative co-operation or exchange of information initiatives**. Strengthening its capacity in this area will help Kosovo more effectively tax capital income from its top earners (OECD, 2017[11]). Although the initial investment in implementing the Common Reporting and AEOI Standards may appear significant, the medium- to long-term return is high. This includes the possibility of using exchanged data for tax enforcement purposes (i.e. from tax assessment to tax collection), as well as a deterrent effect against tax evasion practices associated with the availability of offshore financial account information domestically.
- **Review the tax system's impact on the informal economy**. Currently, the Tax Administration of Kosovo does not systematically analyse the impact of PIT or SSC rates on informal employment. However, given the prevalence of informal work, it is crucial that the economy assess how any potential reforms might affect informality. For example, any discussion on raising SSC rates should consider the impact on low-income workers – and indirectly on informal employment.
- **Consider regularly producing tax expenditure reports.** These reports can improve transparency and allow for evaluation of the efficiency and effectiveness of tax incentives (Box 5.1).

Box 5.1. Best practices in tax expenditure reporting

The main goal of tax expenditure (TE) reporting is to increase transparency and accountability and, in this way, contribute to well-informed choices on allocation of resources. Some best practices include:

- **Publication of TE reports should be integrated into the budgetary process compulsorily by law.** Bringing TEs into the budgetary process should increase transparency by subjecting them to a similar to that of direct expenditures.
- **Reporting should ideally be on an annual basis, which is the practice in most economies.**
- **The benchmark should be clearly defined and documented.** The report should include a clear description of the benchmark tax system. Ideally, the TE report (or an accompanying methodological annex or background document) should include a discussion and justification for the choice of that benchmark.
- **The TE estimation method should be described in detail on an item-by-item basis within the TE report, either as part of the main body of the report or as an annex within the report.** This will provide transparency and clarity to the reader of the underlying calculations and TE estimates.
- **TE reports should classify provisions along different dimensions.** Ideally, TEs should be classified by tax base (PIT, CIT, VAT, excise taxes, etc.), type of TE (credit, allowance, exemption, reduced rate), the function to which they are attributable (education, fuel and energy, health, defence, etc.), their policy objective (employment, R&D and innovation, housing, reducing poverty, etc.) and the targeted beneficiary group (corporations, individuals, SMEs, the self-employed, etc.).
- **Ranking all TEs by their value or otherwise listing the top TEs can improve clarity and guide users to the main provisions in terms of revenue forgone.** While the United States ranks all TEs by total value, France, Germany and Australia provide a non-exhaustive list of the top ten or fifteen TEs. All TEs should be listed. The cost of certain TEs may not be reported

because of lack of data or disproportionate estimation costs among other factors. TE reports should nonetheless list all TEs identified, irrespective of whether or not they are measured.

Sources: IMF (2020[12]); Kassim and Mansour (2018[13]); Mansour and Heady (2019[14]); Redonda and Neubig (2018[15]).

- **Implement a vendor collection regime supported by streamlined registration and collection procedures**. The regime would help collect VAT on business to consumer (B2C) supplies of services and intangibles supplied by non-resident providers (OECD, 2019[16]). This approach to digital taxation can simplify the VAT compliance process for consumers, particularly in the cases of cross-border transactions.
- **Evaluate whether increasing the CIT rate could increase tax revenues without harming investment.** Such an assessment should take into account the dual objective of the economy raising more tax revenues while also remaining an attractive business environment.

References

European Commission (2021), *European Social Policy Network Thematic Report on Long Term Care for Older People - Kosovo*, Publications Office of the European Union, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiA5cyd4dWGAxVKTaQEHWasBY0QFnoECBIQAQ&url=https%3A%2F%2Fec.europa.eu%2Fsocial%2FBlobServlet%3FdocId%3D24031%26langId%3Dga&usg=AOvVaw3YsrBIPPPNGmXB1UoXyz7I&opi=89978449. [6]

IMF (2022), *"Republic of Kosovo: 2021 article IV consultation-press release and staff report"*, https://www.imf.org/en/Publications/CR/Issues/2022/01/11/Republic-of-Kosovo-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-511873 (accessed on 12 February 2024). [3]

IMF (2020), *Chile: Technical Assistance Report - Assessment of Tax Expenditures and Corrective Taxes*, International Monetary Fund, https://www.elibrary.imf.org/view/journals/002/2020/305/article-A001-en.xml#A01fn04 (accessed on 1 February 2024). [12]

Kassim, L. and M. Mansour (2018), "Les rapports sur les dépenses fiscales des payes en développement: Une évaluation", *Revue D'Économie du Développement*, Vol. 2/26, pp. 113-167, https://www.cairn.info/revue-d-economie-du-developpement-2018-2-page-113.html. [13]

Mansour, M. and C. Heady (2019), *Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies*, International Monetary Fund, https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2019/03/27/Tax-Expenditure-Reporting-and-Its-Use-in-Fiscal-Management-A-Guide-for-Developing-Economies-46676. [14]

Mas-Montserrat, M. et al. (2023), "The design of presumptive tax regimes", *OECD Taxation Working Papers*, No. 59, OECD Publishing, Paris, https://doi.org/10.1787/141239bb-en. [2]

OECD (2024), *OECD Tax Database*, https://www.oecd.org/tax/tax-policy/tax-database.htm/ (accessed on 30 May 2024). [5]

OECD (2022), *Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action*, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, https://doi.org/10.1787/e9778969-en. [10]

OECD (2022), *Revenue Statistics 2022: The Impact of COVID-19 on OECD Tax Revenues*, OECD Publishing, Paris, https://doi.org/10.1787/8a691b03-en. [1]

OECD (2022), *Tax Administration 2022: Comparative Information on OECD and Other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/1e797131-en. [9]

OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris, https://doi.org/10.1787/25d30b96-en. [4]

OECD (2020), *Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues*, OECD Publishing, Paris, https://doi.org/10.1787/152def2d-en. [8]

OECD (2019), *The Role of Digital Platforms in the Collection of VAT/GST on Online Sales*, OECD Publishing, Paris, https://doi.org/10.1787/e0e2dd2d-en. [16]

OECD (2018), *Reshaping the Personal Income Tax in Slovenia*, https://www.oecd.org/tax/tax-policy/reshaping-the-personal-income-tax-in-Slovenia.pdf. [7]

OECD (2017), *Standard for Automatic Exchange of Financial Account Information in Tax Matters, Second Edition*, OECD Publishing, Paris, https://doi.org/10.1787/9789264267992-en. [11]

Redonda, A. and T. Neubig (2018), *Assessing Tax Expenditure Reporting in G20 and OECD Economies*, Council on Economic Policies, https://www.cepweb.org/wp-content/uploads/2018/11/Redonda-and-Neubig-2018.-Assessing-Tax-Expenditure-Reporting.pdf. [15]

Note

[1] The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects the EU's commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM's transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.

6 State-owned enterprises

State-owned enterprises are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

Key findings

Kosovo scores above the Western Balkans' regional average on the state-owned enterprise (SOE) policy dimension (Table 6.1), reflecting, among others, the stronger centralisation of SOE ownership and monitoring under a dedicated SOE unit and a clear SOE board nomination framework. Remaining issues include the fact that some SOEs[1] remain outside the scope of the state's good-practice ownership arrangements and that the state ownership policy has not been updated since 2008.

Table 6.1. Kosovo's scores for state-owned enterprises

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
State-owned enterprises	5.1: Efficiency and performance through improved governance			2.9	2.3
	5.2: Transparency and accountability			3.0	2.7
	5.3: Ensuring a level playing field			3.0	2.8
Kosovo's overall score		**3.3**	**3.1**	**3.0**	**2.5**

The **key findings** are:

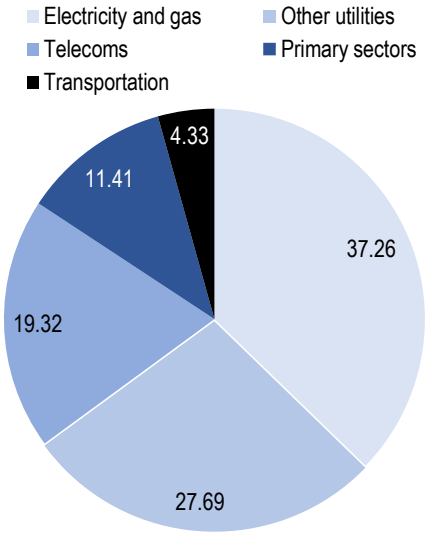
- Kosovo's main ownership portfolio of 17 SOEs is centralised under the Ministry of Economy whose ownership decisions are informed by the work of a dedicated SOE monitoring unit and underpinned by a 2008 state ownership policy. However, at least one exception to these good-practice ownership arrangements exists, notably the electricity transmission system operator KOSTT, which is owned directly by the parliament.
- Kosovo has established a unified board nomination framework for its central portfolio of 17 SOEs, including strong requirements on the independence and professional qualifications of SOE board members and the public announcement of board vacancies. Still, media reports point to a perception that SOE board appointments can be made on the basis of political connections rather than professional qualifications.
- Several elements of SOEs' ownership and governance arrangements constitute strong foundations for mitigating corruption risk, including Kosovo's SOE performance monitoring, the prohibition of politicians on boards, and a dedicated Code of Ethics and Corporate Governance in Public Enterprises. SOEs are still often perceived to be mismanaged, in the worst of cases involving nepotism and corruption, pointing to the need for stronger implementation and oversight of the state's anti-corruption expectations.
- SOEs are generally subject to high standards of financial reporting and the SOE monitoring unit produces annual aggregate reports on its 17-SOE portfolio, promoting transparency. Non-financial reporting requirements for SOEs are less ambitious, mostly limited to publishing annual reports on the implementation of agreed business plans.
- Concerning the level playing field with private companies, all of Kosovo's SOEs are incorporated as joint-stock or limited liability companies, in line with good practice. About half of Kosovo's SOEs were loss-making in 2022. Although in some cases these losses may reflect the cost of public-service obligations, they may also be due to structural inefficiencies that might result in distortions of the level playing field and an inefficient allocation of resources.

State of play and key developments

Kosovo's main SOE portfolio consists of 17 enterprises held and monitored by the Ministry of Economy. The state is also the owner of the electricity transmission system operator KOSTT, in which ownership rights are exercised directly by parliament.[2] Together, these 18 SOEs are highly concentrated in the electricity and gas sector,[3] representing 37% of all SOEs by employment. This is followed by the other utilities sector, including postal services, water supply and irrigation (28% of all SOEs by employment), telecoms (19%), the primary sectors (11%) and transportation (4%) (Figure 6.1). The diversity of sectors in which SOEs operate in Kosovo is much reduced compared to its neighbouring Western Balkan economies, where SOEs are also often present, for example, in real estate, finance, healthcare and social services and manufacturing.

Figure 6.1. Sectoral distribution of centrally-owned SOEs employment in Kosovo, by economic sector (2022)

In percentage of SOE employment



Note: The following sectors are not represented in the figure, owing to the absence of any SOEs operating in them: real estate, finance, healthcare and social services and manufacturing.
Source: OECD calculations based on information obtained as follows: from the authorities of Kosovo for all enterprises in the Ministry of Economy's main portfolio of 17 SOEs and from the company website for the electricity producer KOSTT.

These 18 SOEs employ 11 432 people, accounting for almost 3% of national employment at end-2022. Kosovo's largest SOE by employment is the national electricity producer KEK, employing 3 600 people. This is followed by the telecoms operator Telekomi I Kosoves (2 200 employees) and by Trepča Mines (1 300 employees), which operates approximately 40 mines in Northern Kosovo and is 20%-owned by employees. Table 6.2 provides an overview of the main activities, number of employees and 2022 financial returns of each SOE in the Ministry of Economy's portfolio, plus employment information for KOSTT, which is not subject to monitoring by the Ministry of Economy. The government of Kosovo is responsible for exercising ownership rights in 17 of these SOEs, supported by a Publicly-owned Enterprise (POE) Monitoring Unit within the Ministry of Economy, while the ownership rights in the electricity transmission operator KOSTT are exercised directly by the Parliament of Kosovo.

Table 6.2. Overview of Kosovo's main portfolio of SOEs (2022)

Name of SOE	Main activity	Number of employees	Return on equity (%)	Return on assets (%)
KEK	Electricity production	3 616	19	10
Trepça mines	Mining	1 304	0	0
Telekomi I Kosoves	Telecoms	2 209	-65	-17
Posta e Kosoves	Postal services	938	-3	-3
Trainkos	Transportation	227	-8	-5
Infrakos	Transportation	268	-1	0
KMDK	Waste	92	5	4
RWC Bifurkacioni	Water supply and sewage	201	1	1
RWC Prishtina	Water supply and sewage	556	-1	-1
RWC Hidromorava	Water supply and sewage	155	1	1
RWC Hidroregjioni jugor	Water supply and sewage	332	1	0
RWC Mitrovica	Water supply and sewage	260	-3	-2
RWC Hidrodrini	Water supply and sewage	230	2	1
RWC Gjakova	Water supply and sewage	293	0	0
RIC Drini I Bardhe	Irrigation	42	-8	-4
RIC dukagjini	Irrigation	66	0	0
NH Ibër Lepenci	Multifunction (hydroelectricity production and irrigation)	303	-3	-3
KOSTT	Electricity transmission system operator	340	N/A	N/A
Totals	**18 SOEs**	**11 432**	**-4**	**-1**

Note*:* The total returns on assets and on equity are simple averages of the individual enterprises' figures.
Source*:* All figures are as reported by the authorities of Kosovo in the context of this assessment, which the exception of the employment figure for KOSTT, based on the company website.

Concerning their performance, SOEs in Kosovo are regularly loss-making, with the overall SOE portfolio achieving negative average returns on both equity and assets in 2022 (Table 6.2). The highest performing SOE in 2022 was the electricity producer KEK, posting a 19% return on equity. The lowest performer was the national telecoms operator Telekomi I Kosoves, with a -65% return on equity. In many cases, SOE losses may indicate public service obligations that are insufficiently compensated by the state budget. This could apply, for example, to the state-owned railway or postal service companies. However, at least one external assessment has suggested that overstaffing is a particularly important issue in Kosovar SOEs, and that SOE management is often pressured to employ individuals with personal links to politicians (Gap Institute for Advanced Studies, 2015[1]). The lack of conclusive information regarding the sources of SOEs' underperformance highlights the need for an in-depth examination of SOEs' revenue and cost structure.

Sub-dimension 5.1: Efficiency and performance through improved governance

Concerning the **clarification of ownership policy and rationales**, Kosovo adopted a state ownership policy in 2008, in accordance with provisions of a dedicated Law on Public Enterprises that was also adopted in 2008. In line with good practice, the ownership policy clearly outlines the rationales for state ownership as well as the state's overarching objectives as a shareholder. It establishes that an overarching objective for state ownership is to maximise value for shareholders through sustained positive income and sufficient involvement of the private sector in SOE capital. The ownership policy additionally sets forth that state ownership should only be maintained in SOEs to protect the public interest and not as a result of historical factors. Although the ownership policy's content is sound, it has not been updated since its adoption in 2008 and the authorities have not made any apparent efforts to review its implementation or its effectiveness in improving SOE performance. At the time of writing, the authorities of Kosovo were

planning legislative reforms that could eventually lead to a review and update of the state ownership policy. An amended Law on Public Enterprises is planned for 2024.

Efforts to **professionalise state ownership** practices are advanced in Kosovo compared to other Western Balkan economies. Kosovo has predominantly centralised ownership arrangements for its main portfolio of 17 SOEs, wherein all state ownership decisions are made by a simple majority vote of a permanent interministerial commission and are informed by the work of a Publicly-owned Enterprise (POE) Monitoring Unit housed within the Ministry of Economy. The fact that ownership decisions are not taken solely by line ministries has introduced a greater separation between the state's ownership and regulatory functions, in line with good practice. However, as mentioned above, the electricity transmission system operator KOSTT, which is owned by the parliament, falls outside the scope of these predominantly centralised ownership arrangements. Despite sound basic ownership arrangements for the large majority of SOEs, there remains scope to professionalise state shareholding practices further, for example through the development of clear performance targets for SOEs, given SOEs' previously mentioned performance issues.

Some elements are in place to contribute to a more **robust board nomination framework** for SOEs in Kosovo, but there is scope to make the process more transparent and to strengthen the selection criteria for SOE board members. The Law on Public Enterprises notably sets forth that the government of Kosovo makes the final decision on all SOE board appointments based on the recommendations of a seven-person recommendation committee established for each SOE. The Permanent Secretary of the Prime Minister's Office chooses the members of each recommendation committee, which must include senior civil servants or highly qualified external experts with sufficient industrial, financial or corporate-governance expertise, and cannot include more than one civil servant from the same institution. SOE board vacancies are publicly announced on the website of the Prime Minister's Office. Yet, applicable legislation does not clearly establish what steps should be taken by the recommendation committee to ensure that all SOE board members fulfil tailored qualifications criteria. This is an area where improvements would be warranted, to ensure that SOE boards comprise individuals with the right mix of competencies and experience to effectively fulfil their duties.

The authorities of Kosovo have introduced several measures to promote more **independent and professional boards** in SOEs. The Law on Public Enterprises notably requires that all SOE board members, with the exception of the CEO, be independent. The definition of independence set forth in the law is wide-ranging, barring any individuals from serving on SOE boards if they or a third-degree or closer relative have, during the previous three years, had any material business or financial relationship with the SOE in question or with a competing enterprise, or during the previous five years have been an employee of the SOE. An SOE board member cannot have been an elected public official, political appointee or holder of a decision-making position in a political party in the previous 36 months.[4] The Law also establishes that SOE board members must have at least five years of related professional experience and that SOE boards must include at least two members who are proficient in accounting. Despite these strong legal safeguards, media reports point to a perception that SOE board appointments are sometimes made on the basis of political connections. For example, in 2020, local media reported that several newly appointed SOE board members had links to political parties (Prishtina Insight, 2020[2]).

Concerning **privatisation practices**, the Law on Public Enterprises regulates the privatisation process for Kosovo's main portfolio of 17 centrally-owned SOEs. It notably requires the establishment of a Government Commission for Privatisation to proceed with selling SOE shares, once the government has adopted a written decision to privatise an SOE and that decision has been approved by a simple majority vote of the parliament. The foreseen Government Privatisation Commission must include the Minister of Economy (who chairs the committee), the Minister of Finance, the minister of the relevant sectoral ministry and two other ministers appointed by the government. Legislation establishes that privatisations must be undertaken according to "an open, transparent and competitive procedure". A Government Decision

related to the establishment of such a Commission for the 2010 planned privatisation of the state-owned Post and Telecom of Kosovo references the need to take into consideration the public interest, to maximise the sale price and to ensure open and competitive procedures.

At the time of writing, the authorities reported that there were no privatisations of SOEs under way or planned in Kosovo. However, the Privatisation Agency of Kosovo (PAK) maintains a portfolio of 623 formerly socially-owned enterprises, the majority of which are scheduled for liquidation, and the remaining 41 comprising 25 forestry enterprises scheduled for transfer to the Forestry Agency and 16 for which the authorities' plans are unclear.

Sub-dimension 5.2: Transparency and accountability

Concerning **financial and non financial reporting**, SOEs are required to submit annual audited financial statements to the POE Monitoring Unit and to respect other applicable accounting and disclosure requirements established for all companies in Kosovo. Non financial reporting requirements are less ambitious for SOEs and are mostly limited to the requirement to publish on their websites an annual report on the implementation of their business plans. There is scope for the authorities to develop more ambitious non financial reporting requirements, including regarding SOEs' impact on the environment and measures taken to contribute to sustainability. This would be particularly relevant for the state-owned electricity producer as well as, albeit to a lesser extent, the mining company. Reporting practices by the state shareholder are strong in Kosovo, with the POE monitoring unit producing yearly aggregate reports on the performance of the SOE sector and publishing them on line. The aggregate reports, the latest of which was published for the 2021 financial year, contain detailed information on individual SOEs' profits or losses, taxes paid and dividends distributed.

Concerning **auditing practices**, as mentioned above, SOEs must have their annual financial statements audited by an external auditor. This requirement is set forth in the Law on Public Enterprises, which also establishes requirements concerning the independence of the audit firm selected to do the audit. Although the law allows for the National Audit Office and the parliament to undertake *additional* SOE audits as necessary, in practice state audits are sometimes undertaken *in place of* external (commercial) audits. Although this is not consistent with good practice, the fact that Kosovo's state audit office is conducting audits of SOEs indicates the priority the authorities have accorded to monitoring these companies. In 2022, the state audit office audited the financial statements of Kosovo Telecom and Kosovo Post, concluding that their financial statements presented an accurate and fair view of their financial situation (National Audit Office of Kosovo, 2023[3]; National Audit Office of Kosovo, 2023[4]).This is an improvement over earlier audits of these companies, which concluded with adverse opinions (for the 2020 financial statements of Kosovo Post and the 2019 financial statements of Kosovo Telecom). The state audit office also undertakes performance audits that encompass both centrally- and municipality-owned enterprises. Its 2021 annual report pointed to persistent issues in these enterprises related to the "management of revenues, expenses, assets, human resources and in the fulfilment of objectives in strengthening and modernisation of the enterprises" (National Audit Office of Kosovo, 2021[5]).

Several elements of Kosovo's SOE ownership and corporate governance arrangements appear to create a sound framework for implementing **anti-corruption and integrity measures** in SOEs. However, despite the multitude of sound legal provisions in place, SOEs are still often perceived to be mismanaged, in the worst of cases involving alleged nepotism and corruption (see, for example, Balkan Insight [2020[6]]). There is scope for the state as shareholder to implement and monitor more targeted measures to address risks of corruption in SOEs. The positive elements that are already in place in this respect include the fact that Kosovo's most economically significant SOEs (with exceptions for the electricity transmission operator and the 25 forestry enterprises) are subject to a single state ownership policy and are monitored by a central body, contributing to strengthened oversight and accountability mechanisms. SOE boards of directors cannot include politicians and are granted the legal authority to appoint the CEOs of SOEs, two elements

that can reduce the risk for political interference in SOE management decisions. All SOEs operate according to the company law, which clearly establishes the duty of loyalty and care (fiduciary duty) of board members and CEOs to the company and its shareholders. This duty entails several (non-exhaustive) examples, including a clear prohibition of the use of enterprises' assets for personal gain. The law also establishes board members' liability to compensate the enterprise in case of any damages owing to the non-respect of their fiduciary duties. Moreover, the Law on Public Enterprises stipulates additional, complementary provisions for SOEs, requiring that SOEs seek legal redress against any directors who have breached their fiduciary duties, if available evidence suggests that the recuperated damages would likely exceed the anticipated costs of such legal action. The authorities of Kosovo have additionally developed a Code of Ethics and Corporate Governance in Public Enterprises, according to which all SOE board members should ensure that sufficient procedures are in place to protect the assets, reputation and long-term interests of the enterprise. All SOEs are required by the Law on Public Enterprises to have internal auditors and board audit committees. The mismatch between apparently good-practice legislation and persistent perceptions of SOE mismanagement point to the need to improve implementation of anti-corruption and integrity measures in the SOE sector.

Nearly all of Kosovo's 18 centrally-owned SOEs (including KOSTT) are 100%-owned by the state, making the **protection of minority shareholders** a low-priority issue when it comes to state ownership reform.[5] That being said, ensuring that minority shareholders have adequate legal rights and access to redress in case those rights are violated will be important if the authorities seek to broaden the ownership of any SOEs to include private investors, which was one objective set forth in the state's 2008 ownership policy. According to earlier editions of the World Bank's *Doing Business* index, Kosovo has undertaken several measures to strengthen minority shareholders' legal protections since 2013, for example requiring shareholder approval of related-party transactions and allowing shareholders to sue directors for any related-party transactions concluded to the detriment of the company or its shareholders[6] (World Bank, 2023[6]). The law grants shareholders holding at least 10% of shares some specific additional rights, such as the right to call a general meeting, nominate a board member and place up to two items on the shareholder meeting agenda (EBRD, 2017[7]). Yet, as is the case across the region, weaknesses in Kosovo's judicial system may make it difficult for minority shareholders to exercise these legally established rights.

Sub-dimension 5.3: Ensuring a level playing field

Concerning SOEs' **legal and regulatory treatment**, all SOEs in Kosovo are incorporated as joint-stock companies and are thus required to operate according to the general companies law, in line with good practice. SOEs do not, owing to their legal form, benefit from any explicit exemptions from taxation, competition, or environmental and/or zoning regulations. Despite the absence of formal exemptions from competition regulations, a 2016 case between the state-owned Kosovo Telekom and the private operator Z-mobile highlights competition issues that can occur when a state-owned operator controls network access for its private competitors. Following international arbitration, Kosovo Telekom was ordered to pay over EUR 30 million in damages to Z-mobile, for having refused to allow the company to provide 3G or 4G services on the network that was controlled by Kosovo Telekom. More recently, the London-based International Chamber of Commerce ordered Kosovo Telekom to pay an additional EUR 13 million in damages to the Z-mobile parent company, Dardafon, for having terminated its contract in 2019 (Balkan Insight, 2022[8]). The sums involved in this case are evidence of the significant financial risks – which sometimes also translate into fiscal risks – that SOEs can incur when competition and network-access regulations are not respected.

SOE financing conditions are problematic in Kosovo. As highlighted in Table 6.2, SOEs are very frequently unable to achieve positive commercial returns on the financing made available to them by commercial banks and the state shareholder. More than half of Kosovo's main portfolio of SOEs reported negative returns on equity in 2022. Although some losses may reflect public-service obligations that are

subsidised by SOEs' commercial revenues, they may also point to corporate inefficiencies that effectively result in a negative cost of capital for the concerned SOEs, distorting the level playing field with private companies and signalling an inefficient use of resources. While overstaffing in SOEs is frequently cited in external assessments as a main contributor to their low financial returns, there have also been stronger allegations of mismanagement and corruption in certain SOEs (Balkan Insight, 2020[9]). The state as shareholder does not establish target rates of return on SOEs' equity or assets.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Since the previous assessment cycle, the authorities of Kosovo have not undertaken any notable steps to implement OECD Recommendations related to state ownership (Table 6.3). The authorities have announced plans to amend the Law on Public Enterprises over the course of 2024, but at the time of writing the foreseen scope and timeline of these planned reforms had not taken shape.

Table 6.3. Kosovo's progress on past recommendations for state-owned enterprises

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Update the state ownership policy	Kosovo has not updated its state ownership policy since the policy's adoption in 2008. However, amendments to the Law on Public Enterprises are foreseen in 2024, which could form the basis for a future update of the ownership policy.	Limited
Ensure that SOE board member recruitment is transparent and merit-based	No changes have been undertaken to the SOE board member nomination process.	None
Strengthen monitoring and reporting on SOE performance	Kosovo has not expanded the functions of the Publicly-owned Enterprise (POE) Monitoring Unit to include more in-depth reviews of individual SOEs' performance	None

The way forward for ownership and governance of state-owned enterprises

Given the slow pace of state ownership reform in Kosovo, the policy Recommendations set forth in *CO 2021* remain largely relevant today. The authorities are encouraged to consider the following measures to improve state ownership practices in Kosovo:

- **Update the state ownership policy, drawing on results from an implementation assessment.** The authorities should build on the planned 2024 amendments to the Law on Public Enterprises by also updating the state ownership policy, which was drafted in 2008 and has not been revised since. The policy contains several sound principles to underpin professional state ownership practices, but it is unclear how well public authorities and SOEs have implemented its principles. The state should assess implementation of the ownership policy and use the results of this assessment to inform an update of the policy, in consultation with all relevant government bodies. In line with the OECD SOE Guidelines (2015[10]), the ownership policy should clearly articulate the rationales for state ownership of commercial enterprises, outline the state's role in the governance of SOEs and define the respective responsibilities of all state bodies involved in its implementation. As an example of a state ownership policy elaborated in an OECD member country, Box 6.1 provides some details on the content of Sweden's state ownership policy revised in 2020. Taking into account the growing international consensus on the important potential role of SOEs in supporting the low-carbon transition, the authorities should ensure that any sustainability commitments applicable to the broader economy are adequately integrated into SOE-related policies as relevant.[7] This is particularly pertinent for the state-owned electricity producer, as well as any other SOEs with a high carbon footprint.

Box 6.1. Sweden's state ownership policy

Sweden's current state ownership policy was adopted by the government on 27 February 2020, replacing the previous policy adopted approximately four years earlier. The main body of the ownership policy comprises the following elements:

- *Introduction* – This section outlines the overarching objectives of the policy, referencing the need for SOEs to ensure long-term value creation, and contextualises the policy with reference to evolutions in the market landscape in which SOEs operate. It also states the policy's intended alignment with related internationally agreed standards, including the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises.
- *The state as company owner* – This section outlines the government's ownership mandate, references applicable legislation and codes and clearly identifies the different parts of government that play a role in exercising the state shareholding function.
- *Board recruitment for state-owned enterprises* – This section describes the board nomination process, outlines targets for SOE board composition, including gender-balance targets, and the state's approach to board member fees, including the principle of maintaining fees in line with comparable private sector companies.
- *Targets and assignments for state-owned enterprises* – This section describes how the state determines the objectives for each SOE and how they are communicated (usually in articles of association); in such situations the state owner can give "instructions" to enterprises (e.g. in the context of public policy assignments), establish the process for setting SOEs' financial targets and provide information on how public policy assignments are to be given to SOEs and how they are to be financed.

The main body is followed by several additional sections that form integral parts of the ownership policy, setting forth 1) principles for corporate governance of state-owned enterprises; 2) principles for remuneration and other terms of employment for senior officers of state-owned enterprises; and 3) principles for external reporting in state-owned enterprises.

Source: Government Offices of Sweden (2020[11]).

- **Expand the state's central ownership and monitoring framework to include all SOEs.** The electricity transmission operator KOSTT, in which ownership rights are exercised directly by parliament, remains outside of the scope of the state's centralised monitoring activities undertaken by the SOE monitoring unit in the Ministry of Economy. The authorities should take steps to ensure that the ownership, corporate-governance and disclosure requirements applicable to SOEs also extend to this enterprise.
- **Ensure that SOE board member recruitment is transparent and merit-based.** While the state has established a general framework for SOE board nominations, which involves setting up SOE-specific "recommendation committees" to lead recruitment procedures, the criteria applicable to the recruitment of individual board members are not transparent. Strong qualifications criteria are necessary to ensure that SOE boards are equipped with the right mix of professional competencies to effectively oversee corporate strategy and maximise commercial efficiency. The use of professional staffing agencies could help the authorities to improve the efficiency and professionalism of the process.

- **Strengthen monitoring and reporting on SOE performance.** Kosovo has established a sound mechanism for developing a central overview of the financial performance of SOEs through the POE Monitoring Unit's collection of SOE annual financial statements. The scope of its reporting could be expanded to include SOEs outside its immediate portfolio of 17 companies. Additionally, the functions of the POE Monitoring Unit could be bolstered to include more in-depth performance reviews of individual SOEs, with a view to identifying the structural weaknesses limiting their efficiency. The results of such in-depth assessments could also be made public to strengthen accountability and incentivise improvements. The authorities should continue monitoring SOEs' compliance with applicable disclosure requirements and ensure that SOEs' financial statements undergo independent external audits, with a view to ensuring that SOE financial reports are of sufficient quality and credibility to inform the identification of structural shortcomings that hold back SOE performance. Finally, the authorities should consider strengthening SOEs' non-financial reporting requirements and emphasising sustainability reporting for SOEs whose operations have a significant impact on the environment.

References

Balkan Insight (2022), *Struggling Kosovo Telekom Hit by EUR13 Million Arbitration Ruling*, https://balkaninsight.com/2022/02/23/struggling-kosovo-telecom-hit-by-13-million-arbitration-ruling/. [8]

Balkan Insight (2020), *Kosovo Govt Sacks Board of Failing Telecom*, https://balkaninsight.com/2020/02/20/kosovo-govt-sacks-board-of-failing-telecom/. (accessed on 1 March 2024). [9]

EBRD (2017), *Corporate Governance in Transition Economies: Kosovo Country Report*, European Bank for Reconstruction and Development, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjSoquR5NWGAxX0TKQEHZyoCssQFnoECBAQAQ&url=https%3A%2F%2Fwww.ebrd.com%2Fdocuments%2Flegal-reform%2Fkosovo.pdf&usg=AOvVaw27E9-CxqrPDNwQXvhSfdgu&cshid=1718185656020477&op. [7]

Gap Institute for Advanced Studies (2015), *Management of Publicly Owned Enterprises*, https://www.institutigap.org/documents/8557489987445884547.pdf. [1]

Government Offices of Sweden (2020), *State Ownership Policy and Principles for State-Owned Enterprises 2020*, https://www.government.se/contentassets/aef85fbd7beb4319a70af9a30d6723a1/state-ownership-policy-2020.pdf. [11]

National Audit Office of Kosovo (2023), *Audit Report on Annual Financial Statements of the Post of Kosovo J.S.C. for Year 2022*, https://zka-rks.org/wp-content/uploads/2023/06/RaportiAuditimit_Posta_2022_Eng.pdf (accessed on 1 March 2024). [3]

National Audit Office of Kosovo (2023), *Audit Report on the Annual Financial Statements of Kosovo Telecom J.S.C. for Year 2022*, https://zka-rks.org/wp-content/uploads/2023/06/RaportiAuditimit_TK_2022_Eng.pdf (accessed on 1 March 2024). [4]

National Audit Office of Kosovo (2021), *Annual Report*, https://zka-rks.org/wp-content/uploads/2022/08/RaportiVjetoriAuditimit_2021_Shqip-2.pdf. [5]

OECD (2022), *OECD Tourism Trends and Policies*, https://doi.org/10.1787/a8dd3019-en. [12]

OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition*, http://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2015_9789264244160-en. [10]

Prishtina Insight (2020), *Controversy Over New Public Enterprise Boards*, https://prishtinainsight.com/controversy-over-new-public-enterprise-boards/ (accessed on 1 March 2024). [2]

World Bank (2023), *Subnational Studies: Doing Business Regulations*, https://subnational.doingbusiness.org/en/data/exploretopics/protecting-minority-investors/reforms (accessed on 1 March 2024). [6]

Notes

[1] The OECD uses the acronym SOE to refer to state-owned enterprises. However, in the context of Kosovo, the abbreviation SOE is commonly used for formerly "socially-owned enterprises". According to the Law on Public Enterprises, enterprises governed by Kosovo's government are officially referred to as "publicly-owned enterprises" (POE).

[2] In addition to these 18 SOEs, the Privatisation Agency of Kosovo (PAK) maintains a large portfolio of 623 formerly "socially-owned enterprises", which were collectively owned under former Yugoslavia. Given that the PAK legally holds these enterprises "in trust" until their eventual privatisation, and that sale proceeds are slated for distribution to employees rather than the state, these enterprises are not considered SOEs for the purpose of this assessment. Additionally, the authorities report that of these 623 enterprises, 582 are in the process of liquidation. However, it should be noted that some enterprises in PAK's portfolio might be considered SOEs by OECD definitions, but insufficient information on their foreseen activities and their financial relationship to the state was provided to come to a conclusion in this regard. This notably concerns 25 forestry enterprises in PAK's portfolio for which privatisation is reportedly no longer foreseen and which are scheduled to be transferred to the state Forestry Agency. It is not clear if these enterprises undertake economic activities in the marketplace for which the state benefits financially.

[3] SOEs operating in the electricity and gas sector in Kosovo are only engaged in electricity production and transmission (not gas).

[4] Amendments to the Law on Public Enterprises adopted in 2012 clarify that a political appointee is an individual "appointed or proposed by a political entity as a candidate for an elected post".

[5] There is one SOE in Kosovo with minority non-state shareholders, and that is Trepča Mines, which is 20% owned by the company's employees.

[6] The Kosovo law on companies refers to such transactions as "transactions involving a conflict of interest".

[7] For general information on the role of SOEs in the low-carbon transition and international practices for setting related objectives, see OECD *Tourism Trends and Policies* (2022[12]).

7 Anti-corruption policy

An effective anti-corruption policy is essential for promoting fair competition. This chapter, along four sub-dimensions, explores the effectiveness of the prevention, investigation and prosecution of corruption cases. The first sub-dimension, anti-corruption policy and risk management, assesses the planning, coordination and monitoring of anti-corruption policies, including corruption risk assessments and corruption proofing of legislation. The second sub-dimension, prevention of corruption, focuses on anti-corruption public-awareness as well as the effectiveness of the legal framework regarding corruption prevention bodies, conflicts of interest, and whistleblower protection. The third sub-dimension, business integrity and corporate liability, explores the robustness of the framework for businesses integrity and regulatory mechanisms, as well as the liability of legal persons. The fourth sub-dimension, investigation and prosecution, assesses the capacities of specialised anti-corruption investigative and prosecutorial bodies in investigating and prosecuting high-level corruption cases.

Key findings

Kosovo has the second-lowest score of the WB6 economies in the anti-corruption policy dimension and underperforms the region in all assessed policy areas. Since the last *Competitiveness Outlook*, the economy's strategic, legal and institutional anti-corruption framework has been developing unevenly (Table 7.1). While the economy has significantly improved its laws on the Agency for Prevention of Corruption as well as on asset and interest disclosure, Kosovo still lacks a national anti-corruption strategy. Moreover, progress on a beneficial ownership register and on strengthening corruption-related sanctions for legal persons has been slow.

Table 7.1. Kosovo's scores for anti-corruption policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Anti-corruption	6.1: Anti-corruption policy and risk assessment			1.7	2.4
	6.2: Prevention of corruption			2.7	2.9
	6.3: Business integrity and corporate liability			1.3	1.9
	6.4: Investigation and prosecution			2.0	2.4
Kosovo's overall score		**1.6**	**1.8**	**2.1**	**2.5**

The **key findings** are:

- Kosovo's anti-corruption policy lacks an up-to-date strategic framework since the previous strategy expired in 2017. Nonetheless, the adoption of the new Law on the Agency for Prevention of Corruption (APC) in 2022 has significantly strengthened the legal grounds for corruption risk assessment and corruption proofing of legislation.
- The Agency for Prevention of Corruption, Kosovo's main corruption prevention body, is confronted with an increasing workload. However, a lack of financial and human resources constrains the APC's activities.
- The Law on Protection of Whistleblowers, adopted in 2018, stands out as one of the most comprehensive legislations for whistleblower protection in the WB6 region. While still relatively low, there has been a slight increase in whistleblower reporting to the APC in recent years.
- In November 2023, the government prepared a draft law on the register of beneficial owners. However, as of February 2024, the final adoption of the law by parliament was still pending. Consequently, no register on beneficial owners has been set up yet.
- Kosovo has made efforts in investigating and prosecuting high-level corruption; however, conviction rates for offenders remain low and sentencing lenient. By 2023, 310 individuals have been indicted in specifically monitored "targeted" corruption cases, but only 22 of these individuals have been convicted.

State of play and key developments

The perceived level of corruption for Kosovo has slightly improved over recent years. On a scale from -2.5 (worst) to +2.5 (best), Kosovo's score in the World Bank's *Control of Corruption Indicator* has improved from -0.54 in 2019 to -0.26 in 2022, which is also reflected in a higher global ranking (Table 7.2). Transparency International's *Corruption Perceptions Index* also indicates improvement in citizens' perception of corruption. On a scale from 0 (highly corrupt) to 100 (very clean), Kosovo's score has steadily increased from 36 in 2019 to 41 in both 2022 and 2023. During the period 2019-23, Kosovo's score has been consistently above the WB6 average.

Table 7.2. Kosovo's perceived anti-corruption policy performance in 2018-23

	2018	2019	2020	2021	2022	2023
Control of Corruption Indicator						
KOS (percentile rank)	33.81	33.33	35.71	43.81	47.17	
KOS (score)	-0.53	-0.54	-0.46	-0.34	-0.26	
WB6 (score)	-0.41	-0.45	-0.44	-0.41	-0.38	
Corruption Perceptions Index						
KOS (rank)	93/180	101/180	104/180	87/180	84/180	83/180
KOS (score)	37	36	36	39	41	41
WB6 (score)	38.67	37.67	37.5	38.67	38.67	39.50

Note: Percentile rank (0-100) indicates rank of economy among all economies in the world. (0 corresponds to lowest rank and 100 corresponds to highest rank).
Sources: World Bank (2023[1]); Transparency International (2023[2]).

According to the Balkan Barometer, only around one-fifth of Kosovo's population agree that the government fights corruption successfully. The share believing the fight is successful decreased to 20% in 2021 (RCC, 2021[3]), compared to 22% in 2020 (RCC, 2020[4]). Business sentiment regarding the impact of corruption has remained consistent, scoring 2.4 in 2019 and slightly lower at 2.3 in 2023, based on a scale ranging from 1 (significant obstacle) to 4 (negligible obstacle) (RCC, 2023[5]).

Sub-dimension 6.1: Anti-corruption policy and risk assessment

Kosovo's **anti-corruption policy framework** has been lacking up-to-date strategic policy documents since the last national anti-corruption Strategy and Action Plan 2013-17 expired. According to the Law on the APC, the government is responsible for drafting and approving the national anti-corruption strategy and accompanying action plan. Public institutions are required to report to the APC (formerly known as Anti-Corruption Agency/ACA) twice a year on the implementation status of their planned actions, with the APC monitoring implementation and reporting on the progress in its annual report. In February 2023, the government established a ministerial commission and a working group for developing a new anti-corruption strategy. The draft strategy was shared with civil society representatives for their comments in November 2023. As of March 2024, the draft strategy as well as an accompanying action plan have not been finalised yet (Kosovo Institute for Justice, 2024[6]).

The Law on the APC, adopted in 2022, obliges central administration bodies, municipal authorities and independent agencies to adopt integrity plans based on **corruption risk assessments**. These integrity plans shall contain a self-assessment regarding the entities' exposure to corruption and other forms of integrity violations and risks. Moreover, entities shall outline in their plans existing control measures, prevention measures and deadlines for their implementation. In June 2023, the APC approved a uniform methodology and instructions for the preparation and implementation of integrity plans, which can

contribute to a more consistent and effective practice (APC, 2023[7]). The law requires the adoption of the integrity plans within six months after the entry into force of the relevant sub-legal acts. According to law, the APC shall itself also conduct corruption risk assessment in various fields or sectors. Subsequently, the agency established an organisational structure for this activity, the Anti-Corruption Analysis and Evaluation Division. However, as of February 2024, limited information has been published on implementation progress.

The Law on the APC also establishes the agency's responsibility for the **corruption proofing of legislation**. This involves reviewing the form and substance of drafted or enacted legal acts to detect and minimise the risks of corruption as well as to ensure alignment with international anti-corruption standards such as the United Nations Convention against Corruption. The APC may be requested to assess the risks but can also provide opinions on its own initiative. The APC was granted the competency to carry out corruption proofing of legislation following the adoption of the new Law on the APC in 2022. The agency adopted a relevant methodology, but, as of February 2024, only limited information was published regarding implementation progress in this area.

Sub-dimension 6.2: Prevention of corruption

The APC serves as Kosovo's main **corruption prevention body** with a broad set of responsibilities to combat and prevent corruption but limited human and financial resources. The amendments to the Law on the APC in 2022 expanded the agency's competencies which now include overseeing and preventing conflicts of interest, monitoring declarations on assets and gift receipts, protecting whistleblowers, conducting administrative investigations and imposing fines and other sanctions, as well as designing and implementing corruption prevention activities such as training, research, education and public awareness raising. Struggles with severely limited capacity continue despite the agency being faced with a substantial and increasing workload: it conducted 619 preliminary investigations into corruption-related offences in 2022, compared to 375 in 2021. Among these 619 cases, 267 were forwarded to law enforcement and judicial institutions for criminal proceedings, a notable increase from the 150 in 2021 (APC, 2023[8]). Until 2023, the APC continued to face significant resource constraints with only 43 staff officials and an annual budget of around EUR 550 000 (FOL Movement, 2023[9]). There was some improvement in 2023-24, as the number of prevention specialists increased to 58 in 2024, and the budget reached EUR 656 407 in 2023.

Legal safeguards for the independence of the APC include the selection of candidates for the position of Director of the Agency through an open competition and transparent interview process conducted by the Committee of the Assembly of Kosovo. Additionally, the law specifies clear grounds for the dismissal of the Director of the APC to provide protection against arbitrary removal. The APC is also empowered to prepare and propose its own annual budget, enhancing its financial autonomy. The Committee of the Assembly that oversees the work of the APC shall hold the agency accountable. This includes reviewing the reports of the APC as well as periodically overseeing and assessing the work of the APC's director.

The Law on Prevention of Conflict of Interest in Discharge of a Public Function, adopted in 2018, mandates Kosovo's public officials to avoid any actual, potential or apparent conflicts of interest. The law applies in a comprehensive manner, encompassing all official persons within institutions, enterprises or other entities entrusted with carrying out public functions. Participation in an official matter in which an official person, their family member, or any related legal person holds a financial stake is criminally punishable. However, the definition of the criminal law offence is narrower than the definition of a conflict of interest in the above law, as it for example omits scenarios where a related physical person has an interest in the matter. While the law outlines the obligation for public officials to disclose conflicts of interest and suspend all actions until a decision is reached, it lacks detailed guidance on conflict resolution. In certain cases, the APC intervenes to resolve conflicts of interest, while in others the handling of such cases is left to other

institutions. The APC has been handling an increasing number of conflict-of-interest cases (Table 7.3). Out of 233 cases in 2022, 1 case was sent to court and 4 cases were sent for investigation (APC, 2023[8]).

Table 7.3. Number of conflict-of-interest cases in Kosovo (2020-22)

	2020	2021	2022
Cases handled by the APC	168	105	233
Cases handled by other authorities	46	101	121
Number of sanctions imposed for violations of conflict of interest and related rules	7	3	5
Number of sanctions imposed for violations of conflict of interest and related rules on high-level officials	0	0	0

Sources: Agency for Prevention of Corruption (2023[8]); Data provided by Kosovo's authorities in the context of the CO 2024 assessment.

The legal framework for **asset and interest disclosure** in Kosovo has been strengthened, expanding the scope of persons required to submit declarations and allowing for the management and analysis of declared data through a digital system. The Law on Declaration, Origin and Control of Assets and Gifts, adopted in 2022, regulates the disclosure of assets and interests by public officials in Kosovo. This new law replaced the previous law from 2011 and significantly broadened the scope of persons required to submit declarations, from around 5 000 to 20 000 concerned individuals, including professionals such as doctors and university professors (FOL Movement, 2023[9]; APC, 2024[10]). The declarations cover a wide range of assets but do not include digital assets beyond the category of cryptocurrencies (such as non-fungible tokens). Upon request by the APC, declarants must provide evidence of asset origins and bank transcripts. Declarations must be submitted electronically through a digital platform, which, according to the law, shall enable the analysis of data in relation to individuals, sectors or other aspects of public interest. The APC publishes these declarations on its website, excluding certain personal details.

The degree of compliance with declaration submission has been on the rise, peaking in 2022 with 98.72% of declarants having timely submitted their annual declarations of assets (APC, 2023[8]). Asset audits have been conducted for 973 senior public officials selected through a lottery list. Additionally, the APC has initiated assessments in 41 cases involving senior public officials either *ex officio* by virtue of its mandate or based on information reported by citizens. In 2022, the agency identified 121 cases of non-declaration of assets and raised concerns about the accuracy of declarations in 57 cases (APC, 2023[8]) (Table 7.4).

Table 7.4. Verification and enforcement of asset and interest disclosure in Kosovo (2018-22)

	2018	2019	2020	2021	2022
Number of cases of illicit enrichment or unjustified assets detected based on the verification of declarations	35	62	26	50	57
Number of sanctions for false or incomplete information in declarations	114	102	124	150	267
Of these final/in force	56	84	22	25	37

Source: Data provided by Kosovo's authorities in the context of the CO 2024 assessment.

Kosovo's legal framework for the **protection of whistleblowers** is among the most comprehensive in the Western Balkan region, but the track record of enforcement has proved weak. The Law on Protection of Whistleblowers, adopted in 2018, extends to both the private and public sectors. It defines a whistleblower as any individual who reports or discloses information regarding threats or harm to the public interest in the context of their own employment relationship, which is broadly defined to include associates, volunteers, interns, trainees, candidates, contractors, and others. Whistleblowing can take the form of internal reporting, external reporting to a competent authority, or public disclosure. However, the conditions

for external whistleblowing, such as reasonable suspicions of retaliation against the whistleblower or potential concealment or destruction of evidence if internal whistleblowing is pursued, are more restrictive compared to the approach outlined in EU Directive 2019/1937 on the protection of persons who report breaches of EU law, and can act as a deterrent. Kosovo's law contains multiple provisions for protecting whistleblowers, such as an obligation to keep information related to whistleblowing confidential. However, it does not provide for anonymous whistleblowing, raising questions about the protection of individuals who report anonymously but are subsequently identified and face retaliation. Additionally, the law does not clarify whether a reporting person is entitled to provisional protection before decisions on accepting a whistleblower report or adopting protective measures are finalised, or whether they are entitled to free legal aid. Officers responsible for handling whistleblower cases within executive bodies frequently lack adequate conditions, such as dedicated office spaces to receive potential whistleblowers, and despite evident irregularities within institutions, some officers note that the number of whistleblower reports in Kosovo remains low (Humolli, 2023[11]). Nevertheless, the APC has experienced a consistent rise in the number of whistleblower reports over the past few years (Table 7.5), although a majority of these reports were ultimately rejected for various reasons (for example a lack of evidence, wrong choice of the reporting channel by whistleblower, absence of a threat to the public interest, or a matter outside the competency of the APC) (APC, 2023[8]).

Table 7.5. Whistleblower reports received by the APC (2019-22)

	2019	2020	2021	2022
Number of internal whistleblower reports	2	144	39	100
Number of external whistleblower reports	3	5	9	14

Sources: Based on data of annual reports of the APC (2024[12]); Data provided by Kosovo's authorities in the context of the CO 2024 assessment.

Recent evidence on the government's **anti-corruption public awareness and education** activities is limited. The APC published several recent videos on key topics, such as conflict-of-interest prevention, asset declarations, and whistleblower protection on its YouTube account (APC, 2023[13]). The APC has also conducted extensive training sessions, including training over 180 officials on conflicts of interest, around 170 on asset declarations, 119 on internal whistleblower procedures, and 95 on integrity within institutions (APC, 2023[14]). However, it remains unclear whether the government has allocated specific funding for anti-corruption awareness-raising and education campaigns.

Sub-dimention 6.3: Business integrity and corporate liability

There is limited information available on the promotion of **business integrity** in Kosovo. The Law on Business Organisations does not explicitly outline the responsibility of company directors or boards in overseeing the management of corruption risks. Boards of directors in joint-stock companies only have a general competency to approve risk management procedures. Based on the Law on Business Organisations, the government has adopted a corporate governance code as a legally non-binding guideline. The code stipulates that the board, among other things, oversees risk management and compliance systems. The management shall prepare and periodically update policies related to compliance, integrity and anti-corruption. In February 2024, the assembly approved in the first reading a draft Law on the Register of Beneficial Owners,[1] which, once adopted, will mark an important step in promoting the transparency of beneficial owners. The stipulated definition of a beneficial owner mirrors the definition outlined in the EU anti-money laundering directives. The Kosovo Business Registration Agency shall administer the register, and any person would be allowed to obtain the register data provided they can demonstrate a legitimate interest.

The legal framework for the **liability of legal persons** for corruption offences is established; however, information on its enforcement is scarce. The Law on Liability of Legal Persons for Criminal Offences, adopted in 2011, and the Criminal Code outline the criminal liability of legal persons. In accordance with the Criminal Code, a legal person is liable for a criminal act committed by a responsible individual acting on its behalf and for its benefit or interest or to cause damage through said criminal offence. The liability of legal persons is both general (applicable to any criminal offence) and autonomous (the legal person remains liable for criminal offences even if the responsible individual has committed the criminal offence but was not convicted). In cases where criminal proceedings cannot be initiated or executed against the responsible individual, only the legal person will face prosecution.

The primary sanctions for legal persons include fines and the potential termination of their activity. The upper limit of fines amounts to EUR 100 000, which is considered extremely low relative to the possible scale of large corruption transactions. The law does not allow for a due diligence (compliance) defence to exempt legal persons from liability or mitigate sanctions, nor does it allow courts to defer the application of sanctions on legal persons if they comply with organisational measures deemed necessary by the court to prevent corruption. Similar to the CO 2021 assessment, the effectiveness of the corporate liability framework in combating corruption remains unclear due to the absence of relevant monitoring activities and data.

Sub-dimension 6.4: Investigation and prosecution

Kosovo has continued efforts regarding the **investigation and prosecution of high-level corruption**, but conviction rates remain low. In 2015, the State Prosecutor created a database of “targeted cases” of organised crime and high-level corruption, highlighting them as priorities to be treated urgently. As of 2023, there had been 42 indictments in high-level corruption cases, involving 310 individuals. Of these, 22 individuals were convicted for corruption-related offences (European Commission, 2023[15]). Indictments against high-profile individuals constitute a minor part of the total volume of corruption cases. In 2023, out of 75 individuals accused of corruption, only 13 were high-profile defendants, with 10 of them involved in the same single case handled by the Special Prosecutor’s Office (SPO).[2] According to the authorities, the total number of final convictions for high-level corruption was 9 in 2019, 15 in 2020, 21 in 2021, and 15 in 2022, but the number of final sanctions that entail imprisonment without conditional or other type of release was zero throughout the period, which, provided the data are correct, indicates a very lenient sentencing policy. In a high-profile case in January 2024, the Basic Court of Pristina convicted a former Minister of Infrastructure and three other ministry officials for abuse of office concerning an overpayment of EUR 38 million to a company that constructed a highway linking Kosovo and North Macedonia. The judgement is subject to appeal (Berisha and Bami, 2024[16]).

There are few data available on confiscation related to high-level corruption cases. Although Kosovo’s legal framework for criminal confiscation is considered to be advanced, its actual implementation remains low, resulting in a low volume of confiscated assets (European Commission, 2023[15]). As analysed by the justice-monitoring platform Kosovo Law Institute, prosecutors requested seizure or confiscation in only 4 out of 20 corruption indictments filed in 2023 (Makshana, 2023[17]). Moreover, accessory penalties that prohibit individuals convicted of corruption-related offences from exercising public functions or other professions are not applied adequately (European Commission, 2023[15]).

Specialised anti-corruption investigative bodies within the Kosovo Police have limited independence. The Special Investigation Unit, which assists the SPO, as well as the Directorate for Investigation of Economic Crimes and Corruption within the Crime Investigation Division, does not have adequate safeguards of independence beyond the rules that generally apply to police units. The dismissal of the head of the Special Investigation Unit in 2023 has raised concerns among the public (Prishtina Insight, 2023[18]). The European Commission also highlights the importance of allocating additional resources to law enforcement authorities to enhance their capacity for conducting complex investigations as well as to

enhance co-operation between police and prosecution, systematically launch financial investigations concurrently with criminal investigations, and strengthen the use of special investigative measures (European Commission, 2023[15]).

Kosovo has functional **specialised anti-corruption prosecutorial and judicial bodies** in place. The SPO, established in 2007, has extensive competencies as outlined in the new Law on the SPO adopted in 2023. The SPO's authority includes prosecuting high-level corruption offences, defined as acts of official corruption and violations of official duty committed by high-ranking officials. Additionally, the SPO is also empowered to prosecute, under certain conditions, other serious corruption offences as well as other categories of crime, including war crimes, organised crime and large-scale money laundering. According to the European Commission, the SPO's capacity has increased since 2020 through the recruitment of prosecutors, professional associates and translators. In 2020, the SPO had 15 prosecutors, but reached its target staff number of 18 prosecutors by September 2023 (European Commission, 2020[19]; State Prosecutor, 2023[20]). However, specific data regarding the number of prosecutors assigned to corruption cases are unavailable, hindering an assessment of whether this increase in human resources has indeed strengthened the SPO's capacity to handle corruption cases and conduct investigations effectively. Specialised departments within the Basic Court of Pristina and the Court of Appeals are responsible for handling cases brought by the SPO. According to the European Commission, the capacity of these judiciary and prosecution bodies to handle high-level corruption cases in a timely manner remains limited given a frequent recourse to long adjournments and ineffective mechanisms to manage cases (European Commission, 2023[15]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress on implementing past CO Recommendations has been largely limited, with modest efforts directed at strengthening the auditing of asset declarations of public officials. In the areas of increasing the maximum fines applicable to legal persons for criminal offences and considering how to strengthen the independence of specialised anti-corruption units within the Kosovo Police, there has been no evidence of progress, underscoring areas requiring significant improvements. Table 7.6 below illustrates the economy's overall progress in implementing past recommendations for anti-corruption policy.

Table 7.6. Kosovo's progress on past recommendations for anti-corruption policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Adopt a new anti-corruption strategy and action plan	A draft anti-corruption strategy and action plan are being developed.	Limited
Adopt and implement legal obligations to carry out corruption risk assessments	The Law on APC, adopted in 2022, obliges public bodies to adopt integrity plans based on corruption risk assessment and establishes the APC's responsibility regarding risk assessments and the corruption proofing of legislation. However, limited information is available on practical progress in this area.	Limited
Strengthen the auditing of asset declarations of public officials	According to the new Law on the APC, declarants must provide evidence of asset origins and bank transcripts upon request of the APC.	Moderate
Introduce a public register of beneficial owners of legal entities	In November 2023, the government approved the draft law on beneficial ownership registers.	Limited
Increase the maximum fines applicable to legal persons for criminal offences to ensure that sanctions are effective, proportionate and dissuasive in large-scale corruption cases	No evidence of progress.	None
Further strengthen the capacity of the SPO to investigate high-level corruption cases and hand down indictments	While the number of prosecutors has increased, available data on the SPO's financial and human resources remain limited.	Limited

Consider how to strengthen the independence of specialised anti-corruption units within the Kosovo Police	No evidence of progress.	None

The way forward for anti-corruption policy

Considering the overall slow pace of implementing CO 2021 recommendations, Kosovo should continue efforts to follow the policy advice set forth in the previous CO and consider additional recommendations:

- **Accelerate finalisation of the national anti-corruption strategy and action plan** with due consideration of civil society proposals, and ensure regular public reporting on the policy's implementation. The United Nations Convention against Corruption requires that states develop and implement or maintain effective, co-ordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency, and accountability (United Nations, 2004[21]). Despite the fact that Kosovo is not a party to this convention, the substance of its provision is nonetheless relevant. The authorities should accelerate the adoption of a comprehensive anti-corruption strategy and action plan that clearly define objectives, allocate responsibilities, set realistic deadlines, determine necessary funds, and establish regular reporting mechanisms to track implementation levels.
- **Increase resource allocation to the APC to facilitate the full implementation of its expanded mandate.** The United Nations Convention against Corruption requires that states provide the necessary material resources and specialised staff to corruption prevention bodies. To effectively manage its growing workload, Kosovo should provide additional funds for staffing and budgetary resources to the APC to ensure that the agency can fulfil its tasks at the expected quantity and quality.
- **Further encourage whistleblowing** by ensuring full implementation of the Law on Protection of Whistleblowers as well as its alignment with the relevant EU Directive. Kosovo should consider publishing the information of officials handling whistleblowing reports on official websites, provide appropriate physical and technical conditions for whistleblowing within institutions, such as separate offices for officials handling reports, and promote an overall culture of reporting abuse in the public interest[3]. Moreover, whistleblowers should be granted access to support measures, including provisional protection, legal aid, and psychological support. Additionally, relevant legal gaps should be filled to ensure that individuals who report breaches anonymously, but are subsequently identified and face retaliation, qualify for protection as outlined in the relevant EU Directive. The experience of two OECD countries, Austria and Latvia, in using digital tools to facilitate whistleblowing and reporting of corruption could offer inspiration to Kosovo's authorities (Box 7.1).
- **Increase the maximum fines applicable to legal persons for criminal offences** to ensure that sanctions are effective, proportionate and dissuasive in large-scale corruption cases. Monetary sanctions should be sufficiently severe to affect large corporations that may engage in corrupt acts, which, if accomplished undetected, would bring millions of euros in profits. In certain economies the OECD Working Group on Bribery in International Business Transactions found statutory sanction ceilings of even a few million euros to be potentially insufficient. As a result, the Working Group has encouraged setting maximum fines as a share of a company's turnover (OECD, 2022[21]). While such high levels of fines may not appear relevant for an average company, Kosovo's legislative framework should include provisions for imposing adequate sanctions in cases where major business players are involved in corruption.

- **Consider strengthening the independence of specialised anti-corruption units within the Kosovo Police**. The United Nations Convention against Corruption emphasises the importance of granting specialised bodies or individuals tasked with combating corruption the necessary independence through law enforcement to be able to carry out their functions effectively and without any undue influence. In line with international standards, Kosovo should consider introducing additional means to safeguard the independence of its specialised investigative and prosecutorial units, including the adoption of a more transparent and competitive process for selecting management positions, strengthened guarantees against discretionary dismissal, and transparency of dedicated budget funding.

Box 7.1. Digital solutions for reporting in Austria and Latvia

OECD countries have increasingly used digital solutions to facilitate whistleblowing and reporting of corruption, such as the following examples.

In 2023, the **Austrian Federal Bureau of Anti-Corruption** (BAK) established an online corruption reporting platform that guides users through the report, prompting them to select the area of the matter and providing guiding questions (e.g. "Are managers directly or indirectly involved in the incident?") to help them describe the incident. The platform allows users to freely decide whether to provide their name or remain anonymous. The reporting person may also set up a secure mailbox for receiving feedback and updates on the progress of their report.

In the same year, the **Latvian Corruption Prevention and Combating Bureau** (KNAB) introduced a reporting platform with an online and a mobile app version. The platform allows both individuals and legal entities to report instances of corruption. Similar to the Austrian platform, users have the option to either reveal their identity or report anonymously. After submitting the report, individuals receive a unique identification number enabling them to track the progress of their submission. Additionally, the recipient body can provide feedback and further communicate with the reporter even if they have chosen to remain anonymous. In Latvia, the launch of the platform was accompanied by a broad awareness-raising campaign to promote corruption reporting among the general public.

Sources: BAK (2023[22]); KNAB (2023[23]).

References

APC (2024), *Declaration of Assets for Doctors and University Professors has Commenced*, https://apk-rks.net/index.php/2024/02/12/deklarim-i-pasurise-per-mjeket-dhe-profesoret-universitar-ka-filluar/. (accessed on 1 March 2024). [10]

APC (2024), *Website of the APC*, https://apk-rks.net/. (accessed on 21 March 2024). [12]

APC (2023), *Agency for Prevention of Corruption - Homepage*, https://www.youtube.com/@apk-kosovo. (accessed on 1 March 2024). [13]

APC (2023), *Annual Report: January - December 2022*, https://www.akk-ks.org/assets/cms/uploads/files/2023/RAPORTI%20VJETOR-2022-SHQIP.pdf. [8]

APC (2023), *The Agency for the Prevention of Corruption Marks its Successes and Expresses Gratitude to its Partners at the Year-End Conference*, https://apk-rks.net/index.php/2023/12/27/agjencia-per-parandalimin-e-korrupsionit-shenon-sukseset-dhe-shpreh-mirenjohje-per-partneret-e-saj-ne-konferencen-e-fundvitit/. [14]

APC (2023), *The Director of the Anti-Corruption Agency, Yll Buleshkaj, Today Signed the Decision for the Approval of the Uniform Methodology and Guidelines for the Preparation and Implementation of Integrity Plans.*, https://apk-rks.net/index.php/2023/06/27/drejtori-i-agjencise-per-parandalimin-e-korrupsionit-yll-buleshkaj-sot-ka-nenshkruar-vendimin-per-aprovimin-e-metodologjise-uniforme-dhe-udhezimet-per-perpilimin-dhe-zbatimin-e-planeve-te-integritet/. [7]

BAK (2023), "Reporting office for whistleblowers of the Federal Office for the Prevention and Combatting of Corruption (BAK)", https://www.bkms-system.net/bkwebanon/report/clientInfo?cin=8HObc4&c=-1&language=ger. [22]

Berisha, L. and X. Bami (2024), *Kosovo Jails ex-Minister Over Extra 53-Million-Euro Payment for Motorway*, https://balkaninsight.com/2024/01/31/kosovo-jails-ex-minister-over-extra-53-million-euro-payment-for-motorway/. [16]

European Commission (2023), *Kosovo 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [15]

European Commission (2020), *Kosovo 2020 Report*, https://neighbourhood-enlargement.ec.europa.eu/document/download/70ed56d2-f760-4aae-b68c-9fd8680e2466_en?filename=kosovo_report_2020.pdf. [19]

FOL Movement (2023), *The Capacities of the Agency for the Prevention of Corruption in the Fulfillment of Legal Obligations*, https://levizjafol.org/wp-content/uploads/2023/08/Agency-for-the-Prevention-of-Corruption-ENG-1.pdf. [9]

Humolli, A. (2023), *(Non) Implementation of the Law on Whistleblowers Protection*, Kosova Democratic Institute (KDI), https://kdi-kosova.org/wp-content/uploads/2023/12/26-Raport-MOS-Zbatimi-i-ligjit-per-mbrojtjen-e-sinjalizuesve-ne-nivelin-ekzekutiv-ENG-01.pdf. [11]

KNAB (2023), "Informational campaign "Corruption suffocates! report by using the KNAB app"", https://www.knab.gov.lv/en/korupcija-smace. [23]

Kosovo Institute for Justice (2024), *IKD: Kosovo Without Anti-Corruption Strategy*, https://kli-ks.org/ikd-kosova-pa-strategji-kunder-korrupsion/. [6]

Makshana, L. (2023), *Prosecution and Trial of Corruption 2023*, Kosovo Law Institute, https://kli-ks.org/wp-content/uploads/2023/12/Ndjekja-dhe-Gjykimi-i-Korrupsionit-2023-Anglisht-pdf.pdf. [17]

OECD (2022), *Implementing the OECD Anti-Bribery Convention. Phase 4 Report: Portugal*, OECD Publishing, Paris, https://www.oecd.org/daf/anti-bribery/portugal-phase-4-report.pdf. [21]

Prishtina Insight (2023), *Dismissal of Police Special Investigations Director Raises Political Concern*, https://prishtinainsight.com/dismissal-of-director-of-special-investigation-unit-raises-political-controversy/. [18]

RCC (2023), *Balkan Barometer 2023 Business Opinion*, https://www.rcc.int/balkanbarometer/publications. [5]

RCC (2021), *Balkan Barometer*, Regional Cooperation Council, https://www.rcc.int/balkanbarometer/publications. [3]

RCC (2020), *Balkan Barometer*, Regional Cooperation Council, https://www.rcc.int/balkanbarometer/publications. [4]

State Prosecutor (2023), *The Nine-Month Report of the Work of the State Prosecutor January-September 2023*, https://prokuroria-rks.org/assets/cms/uploads/files/Raporti%20i%20Pun%C3%ABs%20s%C3%AB%20Prokurorit%20t%C3%AB%20Shtetit%20p%C3%ABr%20periudh%C3%ABn%20janar-shtator%202023.pdf. (accessed on 13 June 2024). [20]

Transparency International (2023), *Corruption Perceptions Index*, https://www.transparency.org/en/cpi/2023. (accessed on 13 June 2024). [2]

United Nations (2004), *United Nations Convention Against Corruption*, https://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf. [24]

World Bank (2023), *Worldwide Governance Indicators - Control of Corruption*, https://www.worldbank.org/en/publication/worldwide-governance-indicators. (accessed on 13 June 2024). [1]

Notes

[1] The draft Law on the Register of Beneficial Owners can be accessed here: https://kryeministri.rks-gov.net/wp-content/uploads/2023/11/Projektligji-per-Regjistrin-e-Pronareve-Perfitues.pdf.

[2] For more information see (in Albanian): https://telegrafi.com/emrat-e-10-zyrtareve-ndaj-te-cileve-prokuroria-speciale-ngriti-aktakuze-per-korrupsion.

[3] Read more by Albesa Humoli, (2023[11]), *(Non) Implementation of the Law on Whistleblowers Protection*.

8 Education policy

A robust education policy framework is essential for developing human capital and meeting the labour market's need for a skilled and productive labour force. This chapter, composed of four sub-dimensions, assesses the presence and efficacy of education strategies, legislation, programmes and institutions. The first sub-dimension, equitable education for an inclusive society, examines system governance and the quality of pre-university education starting from preschool. The second, teachers, looks at the selection, initial training and ongoing professional development and management of the teaching workforce. The third sub-dimension, school-to-work transition, focuses on VET governance and the labour market relevance and outcomes of higher education. The fourth sub-dimension, skills for green-digital transition, explores the frameworks and initiatives for fostering green and digital skills in education curricula.

Key findings

Kosovo's overall score in education policy remains higher than the WB6 average (Table 8.1) but there was stagnation in the score since the previous *Competitiveness Outlook*. Although there has been marked progress in improving the inclusiveness and quality of education, the relatively weak performance in the area of skills for the green-digital transition, which was assessed for the first time, has kept the score of Kosovo unchanged.

Table 8.1. Kosovo's scores for education policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Education	7.1: Equitable education for an inclusive society			3.7	3.3
	7.2: Teachers			3.3	3.1
	7.3: School-to-work transition			3.5	3.4
	7.4: Skills for the green-digital transition			2.3	2.0
Kosovo's overall score		**2.5**	**3.2**	**3.2**	**3.0**

The **key findings** are:

- Kosovo's performance in PISA (Program for International Student Assessment) 2022 has deteriorated compared to PISA 2018 in all three assessed subjects. Furthermore, Kosovo has a notably high proportion of low-performing students, standing at 85% – more than 2.5 times that of the OECD average (31%).
- Since the last assessment cycle, the new Education Strategy 2022-26 has been adopted. It serves as a robust framework that covers all levels of education as well as most areas of education policy, ranging from early childhood education and care (ECEC) to teachers' selection and development to digital skills.
- Although the government of Kosovo has made efforts to enhance its Education Management Information System (EMIS) and establish a centralised digital platform for pre-university education, there remains substantial room to improve the economy's data collection and management. Strengthened collection and analysis of this data could bolster evidence-based policymaking and facilitate better benchmarking with regional and EU counterparts.
- The career development paths for teachers is well-defined by the new "Administrative Instruction on the licensing system and teaching career," passed in 2023. By emphasising strong linkages between teacher performance and promotions, this licensing structure serves to incentivise teachers to continually improve their methods, skills and effectiveness in the classroom.
- The ongoing efforts to restructure the Employment Agency to ensure the proper execution of the Youth Guarantee Implementation Plan represent a significant advance in Kosovo's endeavours to activate youth not in education, employment or training (NEET), although the NEET rate continues to remain at three times EU levels (32.9% versus 9.9%, respectively).
- There has been some recent progress made in strengthening skills for the digital transition, namely through efforts to adopt the European Digital Competency Framework in its curriculum framework. However, digital skills acquisition among students still remains limited by the inadequate ICT infrastructure in schools.

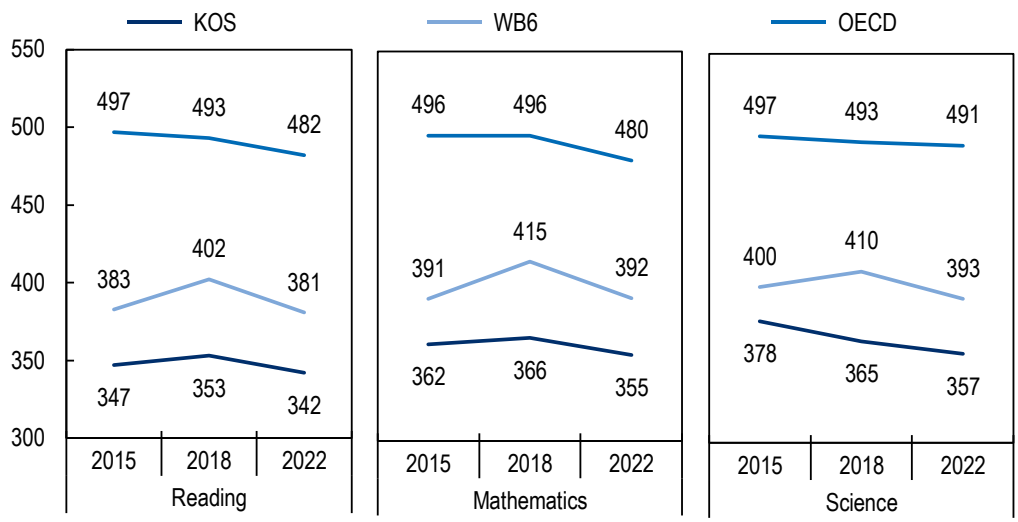
State of play and key developments

While official statistics on education enrolment rates in Kosovo from international sources are limited, the economy has reported some improvements in enrolment rates in primary education in recent years. For the 2022/23 school year, the gross enrolment rate in primary education reached 100.1%, trailing just one percentage point behind EU levels (Government of Kosovo, 2023[1]; UIS, 2024[2]). Conversely, as education levels advance, this enrolment rate notably declines. For example, gross enrolment rates in lower secondary education – despite increasing by 1.4 percentage points from 2021/22 – were 92.8%. Moreover, enrolment in higher secondary education stood at only 77.9% in the 2022/23 school year, or 30 percentage points lower than the EU average of 109.9%. It is worth noting that the comparability of this data may be limited due to the absence of official data on net enrolment rates.

Kosovo's performance in PISA 2022 was the lowest in the region, and it deteriorated since the last PISA cycle (Figure 8.1). Compared to PISA 2018, Kosovo's score decreased in mathematics, reading and science by 11, 11, and 8 points, respectively. Furthermore, Kosovo's share of students that do not attain the basic level of proficiency in PISA (below Level 2) in mathematics is the highest in the region, at 85% (compared to 66% in the Western Balkans and 31% for the OECD area) (OECD, 2023[3]). In addition, 91% of students at the bottom of the PISA index of economic, social, and cultural status (ESCS) – a tool that enables comparisons between students and schools with different socio-economic profiles[1] – were part of the low performers in PISA 2022 (OECD, 2023[4]).

Figure 8.1. Performance in reading, mathematics and science in Kosovo, the WB6 economies and the OECD (2015-22)

Scoring in mathematics, reading and science is expressed in points



Notes: WB average excludes Bosnia and Herzegovina for PISA 2015 and PISA 2022 and excludes Serbia for PISA 2015. EU average excludes Luxembourg.
Source: OECD (2023[3]).

StatLink https://stat.link/6b598x

Sub-dimension 7.1: Equitable education for an inclusive society

Kosovo's **education system governance** is largely defined by its comprehensive Education Strategy 2022-26, which encompasses all levels of education from early childhood education (ECE) to higher education (Government of Kosovo, 2022[5]). The strategy is accompanied by an Action Plan 2022-26, which outlines the responsibilities and tasks of relevant government institutions to achieve the objectives of the strategy. The Ministry of Education, Science, Technology and Innovation (MESTI) oversees the development and implementation of these strategic documents. Additionally, the Minister of Education also chairs a Working Group for Monitoring the Education Strategy. Established in March 2023, this group seeks to bring together stakeholders across the government to discuss education policies and reforms.

A crucial aspect of the education system's governance is the use of independent evaluations and research to assess the Education Strategy's effectiveness. MESTI conducts annual evaluations of the strategy's implementation. Currently, an evaluation covering the period from 2022-23 is under way with the support of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and is expected to be finalised by mid-2024. Moreover, at the end of each Strategy's validity period (i.e. every four years), MESTI publishes a comprehensive report, detailing progress achieved since the start of the strategy. Apart from these analyses on the central education strategies, there are evaluations completed on specific topics or thematic issues conducted by institutions such as the Kosovo Education Centre or the World Bank.

These evaluations are complemented by systematic data collection efforts. Every year, MESTI publishes a statistical report with information on key indicators on pre-university education. The data included in these reports come from Kosovo's Education Indicators Framework. Developed with the support of the United Nations Children's Fund (UNICEF) and the International Institute for Educational Planning (IIEP), the framework contains nearly 40 indicators on access and participation of students, learning conditions and financial resources (Government of Kosovo, 2018[6]). These indicators are internationally comparable. MESTI uses this information to support evidence-based policy making and consequently enhance the design of future education policies.

Additionally, Kosovo has established a National Qualifications Framework (NQF) in alignment with the European Qualifications Framework (EQF). Aligning the NQF with the EQF facilitates co-operation and mutual recognition of qualifications between Kosovo and the EU, thereby enhancing the mobility and employability of Kosovo's citizens through improved recognition and comparability of their qualifications. The NQF facilitates the collection of data on the types of qualifications, the number of certified students or candidates, and the number of accredited institutions.

There is a strong legislative and strategic framework that sets out clear objectives, an implementation timeline and a budget for **early childhood education and care (ECEC)** as part of the overarching goal to increase inclusion and participation in early childhood educational development services (ISCED 01) and pre-primary education (ISCED 02).[2] The new Law on Early Childhood Education,[3] approved in 2023, mandates the last year of pre-primary education for children aged 5-6 years. This final year will now be part of compulsory education starting from the 2024/25 school year. On a strategic level, the Law aims to promote the comprehensive development of young children by providing the necessary regulatory framework to improve the quality and coverage of education and care services. To realise this objective, the Law outlines measures for strengthening co-ordination between institutions, introducing a new curriculum, improving training of service providers and enhancing systems for inspection and licensing. The Advisory Committee for Early Childhood Education (ACECE) is an advisory body of the Ministry of MESTI, composed of relevant actors in the ECEC field.

Curricular frameworks have been developed covering both early childhood educational development services and pre-primary levels. The new curriculum for ECEC is based around five developmental components for children; its open design allows for the implementation of various pedagogical approaches and methodologies. In February 2023, the curriculum's pilot phase began in 10 municipalities, covering

17 pre-elementary classes across 12 institutions. A total of 184 educational professionals have been trained to support this pilot effort, which is expected to last until the end of the school year.

The qualification of ECEC staff is determined by the "Administrative Instruction on the professional framework of general education," which was revised in 2022. ECEC staff receive continuous training through programmes accredited by MESTI. About 700 pre-primary educators in service in Kosovo have been trained in enriching their classes with practical activities and contemporary methodologies.

To ensure **quality instruction for all**, Kosovo has in place school evaluation processes, comparable information about student learning outcomes, an aligned curriculum and learning standards and measures to support vulnerable students. Funding to support implementation of the Education Strategy 2022-26 is available through the central budget (rather than exclusive reliance on donor support). Data on enrolment, completion and retention rates are collected to monitor quality and equity in the education system, but these data are rarely disaggregated by student background or demographics.

Learning standards for students are defined by the Curriculum Framework and Core Curriculum. These documents outline key competencies by subject and by level of education (from pre-primary through upper secondary school). Additionally, the former sets out a list of indicators for measuring teaching and learning in schools. These are monitored by the school director, municipality and regional inspectors, which are part of the central ministry office. The Strategy and Curriculum Framework cover teaching and learning quality, but there are no set school quality standards. The relevant Municipal Education Directorate (MED) and the school director carry out the internal evaluation of the school, while the Education Inspectorate performs an external evaluation. Both assessments then offer recommendations to the schools for improvement or change based on the findings.

To assess student learning outcomes, Kosovo carries out two central examinations: one at the end of Grade 9 (known as an "achievement test" that impacts students' progression to upper secondary school) and one at the end of Grade 12 (which is the State Matura, which is necessary to pass to continue to tertiary education). Moreover, students from Kosovo participate in numerous international assessments, including PISA, Trends in International Mathematics and Science Study (TIMSS), Progress in International Reading Literacy Study (PIRLS), the International Computer and Information Literacy Study (ICILS) and the Teaching and Learning International Survey (TALIS) study.

Different measures have been undertaken to support the prevention of early school leaving. From a policy perspective, the Education Strategy 2022-26 aims to increase the inclusion and participation of students from diverse groups by creating an encouraging, supportive climate. Additionally, there is support at the school municipality level to empower prevention and response teams in the fight against dropping out and early school leaving. Awareness activities that aim to prevent school dropping out are carried out by the MESTI through its annual "Week against School Drop-out." Furthermore, the MESTI has designed manuals on child protection policy and activities for education inspectors from MEDs. Finally, scholarships and other types of financial support are available to students for whom cost is a barrier to participating in education. For instance, enrolment fees in public ECEC institutions are determined by municipalities based on average income, and children from socio-economically disadvantaged groups are exempt from fees. Similarly, in higher education institutions disadvantaged students or students with special education needs (SEN) are exempted from university payments, including tuition fees, accommodation in dormitories and food.

Sub-dimension 7.2: Teachers

Initial teacher education (ITE) and selection in Kosovo is moderately well developed compared to the rest of the region. ITE programmes are exclusively provided by public universities. Like other higher education programmes, they must receive accreditation from the Kosovo Accreditation Agency (KAA). This accreditation process marks a relative strength of the economy's education system, as the KAA's

implementation of the Standards and Guidelines for Quality Assurance in the European Higher Education Area helps to ensure a systematic and rigorous approach to quality assurance.

To enter ITE programmes, candidates must submit their secondary school grades alongside the results from both the Matura exam (end of Grade 12) and an entrace exam (for tertiary education). Prospective teachers are required to complete practical teaching experiences as part of their initial teacher education. In their second year of ITE, they must complete two weeks of practice, followed by one month of practice during their third year of ITE and one semester (i.e. three months) during their fourth year. They must also pass a final exam that evaluates their professional practice. Once ITE is completed, candidate teachers must complete a one-year probationary period in a school and pass an evaluation conducted by the school principal in order to be officially contracted by MEDs.

Recruitment of teachers is done by a commission that includes two members of the relevant MED and the school principal. In general, union representatives should observe the work of hiring commissions, although not all municipalities have applied this requirement. Individuals from outside education who wish to enter the profession can participate in pre-qualifying programmes and trainings to fulfil a pedagogical aspect of preparation. Candidate teachers are required to pass an exam after their studies.

Regardless of their pathway into the profession, new teachers can benefit from special professional development programmes provided by MESTI during their first five years. This support is particularly focused on implementation of the curriculum as well as the adoption of new teaching methodologies. Moreover, these teachers can apply for further training or assistance through their MED. However, funding for ITE remains relatively unstable, which can restrict the availability of such programmes to new teachers.

Kosovo's has a fairly comprehensive strategic framework in place guiding **teachers' professional development and management**. The Education Strategy 2022-26 has an overarching objective focused on quality teaching, with a specific goal to enhance opportunities for teachers' professional growth and career progression. Complementing this strategy's high-level objective setting is the "Strategic Framework of Professional Development of Teachers," which defines professional standards for educational staff and outlines pathways for career advancement. Additionally, in 2023, three new administrative instructions were introduced that cover teachers' performance evaluations, professional development and licensing process.[4]

One of these new instructions, "Administrative Instruction on the licensing system and teaching career", specifically outlines the career development paths for teachers in Kosovo and establishes criteria and conditions for licensing. In Kosovo's education system, there are several potential licences: career teacher, advanced teacher, mentor teacher and merit teacher (Box 8.1). Promotions are accompanied by a 10% salary increase. The State Council on Teachers Licensing is responsible for the licensing and advancing teacher careers. Given the strong linkages between teacher performance and licensing, the use of advancement via licences (which also corresponds to increasing responsibilities and competencies) serves as an effective way to incentivise continuous improvements to the quality of teaching.

As stipulated in the administrative instruction guiding the evaluation of teachers' performance, teachers are subject to both internal (self-appraisals) and external assessments (appraisals carried out by school leadership teams[5]). These evaluations, in addition to questionnaires and interviews carried out by school quality co-ordinators, all serve as regular appraisal mechanisms for informing the offering of professional development programmes to teachers.

Box 8.1. Kosovo's licensing progression for teachers

For teachers in Kosovo, there are several types of licences available, depending on their years of experience, number of hours of training, and performance. New teachers receive a temporary licence, with which they must complete 30 hours of basic training and receive a positive evaluation within one year. Afterwards, they are eligible to obtain a regular career licence, which must be renewed every 5 years so long as they complete 100 training hours and a satisfactory performance.

Once a teacher has held a career licence for at least 5 years – and has finished 300 training hours – they can apply for an advanced teacher licence. After an additional 5 years, they then become eligible for the mentor teacher licence, which must be accompanied by 450 training hours and a recommendation from the school's principal. The most advanced licence is the merit teacher licence; teachers who receive this qualification must have held a mentor licence for 10 years and completed 650 hours of training. Moreover, promotions between licence levels at all stages requires a positive performance evaluation. As such, this licence structure in Kosovo provides a very clear pathway for career progression and the professional development for teachers.

Source: Likaj (2016[7]).

Funded by the MESTI, professional development activities range from in-person and online courses or seminars to peer coaching and professional learning networks. The effectiveness of professional development programmes is evaluated by trainers, school committees, school directors and inspectors and by the State Council for Teacher Licensing, which accredits programmes. There are sometimes supplementary professional development programmes related to the implementation of new reforms. Notably, participation in professional development is not mandatory, but remains popular – with between 4 000 and 5 000 teachers participating annually – due to the linkages with promotions (and salary increases).

Sub-dimension 7.3: School-to-work transition

Facilitating the school-to-work transition has proved to be a notable challenge for Kosovo. The economy has the highest rate of youths not in education, employment or training (NEET) of the WB6 economies. In 2022, Kosovo reported a youth NEET rate of 32.9% – more than 12 percentage points above the regional average (20.8%) and 23 points above the EU average (9.9%) (World Bank, 2024[8]).

In Kosovo, the quality assurance of **vocational education and training (VET)** governance is overseen by three central agencies: MESTI, the Agency for Vocational Education and Training and Adult Education (AVETAE), and the National Qualification Authority (NQA). Additionally, the Council of Vocational Education and Training and for Adults (CVETA) serves as an advisory body to MESTI. While municipalities at the local level are responsible for various VET governance functions, their mandates do not extend to decision making.

The National Development Strategy (2022-30) and the Kosovo Education Strategic Plan 2022-26 are the two main policy documents that provide essential links and references to VET. Moreover, during 2022, key mechanisms were established to enhance the VET system, including an executive commission at the government level, a task force for the functional governance of the annual action plan, and a second task force for initiating and implementing dual education.

These two task forces notably involve relevant social partners, allowing for increased engagement in decision-making processes. Social partners also actively participate on the boards of the AVETAE and NQA as well as contribute to the development of standards for professions, curricula, and teaching

materials. Three employer representatives (along with employee and government representatives) are members of the CVETA. Such extensive involvement of social partners reflects the government of Kosovo's willingness to strengthen vertical co-operation.

Efforts to address skills demand include surveys and studies conducted by development partners as well as the Ministry of Labour and Social Welfare. These surveys focus primarily on sectors of high economic interest. MESTI also collects data on the completion and employment rates of VET programmes from both public and private VET schools, publishing a Labour Market Information Report in collaboration with the Kosovo Statistical Office. This report is used to inform policy measures. However, no information is collected on hiring rates after participation in work-based learning or on the average earnings of VET graduates.

VET programmes themselves are defined by clear quality standards and regulations. They must undergo an accreditation process, and VET providers are subject to regular evaluations and inspections. Furthermore, there are mandatory assessments to ensure that VET qualifications are rigorous, transferable and understood by the public. However, the overarching structure of VET governance in Kosovo could be improved. Firstly, there are no incentives for employers to encourage apprenticeships or other forms of work-based learning. Another challenge is the lack of analysis of the effectiveness of the career guidance information provided to students. There is no mechanism for monitoring how these programmes impact students' decisions regarding their education and training pathways.

Kosovo's current education strategy addresses the importance of the **labour market relevance of higher education** (HE). Scholarships are available for Ph.D. students who study abroad at selected top international universities. The Ministry of Education partners with higher education institutions (HEIs) in the majority of their international projects through supporting capacity building and implementing related reforms. Through the ministry, Kosovo's HEIs can participate in programmes such as the Central European Exchange Programme for University Studies (CEEPUS), Erasmus+, Horizon 2020, European Co-Operation in Science and Technology (COST), and the U.S. Fulbright Faculty Development Programme. For most of these initiatives, the ministry co-finances the participation of HEIs. The Law on Higher Education calls for the ministry to promote mobility within the European and International Zone of HE and to encourage the use of the English language for learning alongside the official languages.

Kosovo has an Agency for Accreditation of Higher Education Institutions, and a National Authority for Qualification. The Ministry of Education publishes decisions on granting licences to institutions. The accreditation agency also publishes decisions on accredited institutions and programmes. Many universities and faculties have set up advisory committees or industrial boards to facilitate collaboration between higher education and businesses (e.g. to update the curriculum or support student internships).

A range of data sources is collected to monitor labour market information, such as employer surveys, surveys of workers or graduates, quantitative forecasting models and sector studies. However, there are no data on employment rates by field of study. The Agency for Statistics, Ministry of Labour and Social Welfare (through its Labour Market Information System) and the Employment Agency publish data and annual reports on labour market information. Additionally, Kosovo has in place the Higher Education Management Information System (HEMIS), which enables the monitoring of trends in enrolment in HEIs. However, ongoing barriers to data collection and entry in the HEMIS limit the platform's ability to effectively promote evidence-based policymaking by the Ministry of Education (Government of Kosovo, 2022[5]). Indeed, the HEMIS still is not fully integrated or linked with other relevant institutions' platforms or databases, thereby limiting the government's ability to effectively use this information for evidence-based policymaking.

There are a number of mechanisms that help align programmes with labour market demand. For example, most HEIs offer scholarships for students enrolled in in-demand programmes, such as science, technology, engineering or mathematics (STEM). Additionally, there are communication and awareness campaigns

carried out to provide prospective students with information about available programmes. However, while these tools are used to align higher education programmes with the demands of employers, labour market information is not used to inform curriculum design.

Sub-dimension 7.4: Skills for the green-digital transition

Digital skills development for students is covered in the Education Strategy 2022-26. The strategy includes a separate objective on the digitalisation of education with five specific objectives. These are creating a centralised digital platform for pre-university education, producing high-quality digital teaching materials for different levels, improving IT infrastructure in the education sector, developing digital competencies; and establishing institutional mechanisms for the implementation of digitalisation and technology in education. The strategy includes a detailed Action Plan, with an estimated cost of EUR 51.6 million for the digital strategic objective over the course of five years.

Additionally, MESTI, with the technical assistance of GIZ, is working to adapt the European Digital Competency Framework (DigComp) to reflect the specific context of Kosovo. This involves matching the competencies from DigComp with key competences from the Kosovo Curriculum Framework and developing practical guidelines for their inclusion in the national curriculum. While Kosovo possesses a common curriculum framework covering primary and secondary education, the incorporation of the Digital Competency Framework into ICT curricula is still pending.

Currently, primary and secondary schools are not specifically required to use computers with Internet access, but they must incorporate them to facilitate the ICT curriculum. Moreover, schools are highly encouraged to incorporate ICT into all other subjects and cross-curricular topics, whereas tertiary institutions maintain full autonomy in developing their digital skills curricula. Regulations and guidelines regarding the use of ICT in schools are still under development. Teachers receive some support through the government digital platform[6] and training organised at the municipal level. Beginning in 2023, the government has planned to allocate funding for the employment of 100 ICT specialists to assist schools with the maintenance of ICT equipment. However, there is a prevailing shortage of ICT equipment in schools, which in turn can limit students' ability to cultivate their digital skills. For example, in Kosovo, the average computer-to-student ratio is 1:27.4 – more than 20 times the OECD average (1 computer for every 1.2 students).[7]

Regarding the development of **green skills**, Kosovo is currently developing new guidelines on the integration of EntreComp (the European Entrepreneurship Competency Framework) and GreenComp (the European Sustainability Competency Framework) into VET. Additionally, green competencies that will be incorporated into secondary school curricula will include green knowledge, green skills, green abilities, green attitudes, green behaviour and green awareness. These guidelines also are expected to be revised based on regular evaluation activities. However, because this policy is not officially adopted, there is an ongoing need for a concrete framework guiding students' acquisition of green skills.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo has made notable progress toward implementing past CO Recommendations for education policy (Table 8.2). Namely, the economy achieved moderate progress in strengthening data collection and evaluation and reporting within the education sector. Similarly, the new Education Strategy (2022-26) emphasises the continued development of teacher policies. However, there is still room for Kosovo to further strengthen its performance by translating these strategic objectives and commitments into new programmes or mechanisms.

Table 8.2. Kosovo's progress on past recommendations for education policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen data collection and management across the system	The Education Strategy (2022-26) foresees the creation of a centralised digital platform for pre-university education. This aims at the digitalisation and integration of data and processes in order to improve the quality of services and increase well-informed decision making, transparency and accountability in the field of education. The evaluation of the previous education strategy reports that the framework of indicators, according to the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Statistical Office of the European Union (EUROSTAT) and the OECD, has been completed as foreseen by KESP, and a Guide for calculating public expenditure indicators for pre-university education in Kosovo has been drafted. On the other hand, no measures have been taken to develop procedures for data management and their use.	Moderate
Improve evaluation and reporting on the education system	Following the expiration of the Education Strategy (2017-21), the Evaluation of the Implementation of the Kosovo Education Strategic Plan 2017-21 was published. Additionally, an interim evaluation on the current Education Strategy (2022-26) covering the period from 2022-23 is expected to be published in mid-2024.	Moderate
Continue to develop and refine teacher policies	In its new Education Strategy (2022-26), Kosovo continues to prioritise teacher policies with the objective of the full implementation of the teacher licensing system and increased opportunities for teachers' professional development (TPD) and advancement based on teaching standards. Through new instructions, Kosovo is trying to adapt TPD based on the priorities and national education policies, the needs of teachers, the results of the evaluation of the performance of teachers, and the teachers' professional development offer.	Moderate

The way forward for education policy

Despite the notable advances made in several areas of education policy, Kosovo still has significant scope to further strengthen its education system. As such, policy makers may wish to:

- **Enhance the quality and equity of education performance in line with findings of international assessments, such as PISA.** Kosovo's weak performance in PISA underscores the importance of improving student learning outcomes and ensuring that they can meet baseline proficiency levels. Improvements to the accessibility and quality of schools' materials and infrastructure as well as to the quality of teaching would likely contribute to enriched student learning. Moreover, Kosovo should continue to participate in these international assessments to monitor its progress.
- **Foster a smoother school-to-work transition by better aligning VET and higher education programmes with labour market needs.** Given the economy's high rate of youth NEET, the government of Kosovo should prioritise ensuring that students in both VET programmes and HEIs benefit from up-to-date curricula that confers relevant skillsets and competencies. With respect to VET, Kosovo should expand its work-based learning opportunities by strengthening co-operation with the private sector and encouraging businesses' participation (such as through financial incentives). To improve the labour market relevance of higher education, the MESTI and universities should start using labour market information to adjust curricula.
- **Continue to strengthen data collection and management.** Kosovo is already strengthening the interoperability of EMIS, but there is a clear need for rigorous, timely and comparable data on the education system. To this end, it is important that Kosovo continues participating in large-scale international surveys that generate valuable comparable data, and establishes protocols for mapping and defining indicators and co-ordinating data collection among public agencies (to avoid

overlap across the government). The education information system in Korea could be a useful example for Kosovo, given the strong linkages across the government (Box 8.2).

Box 8.2. Improving data management: Korea's National Education Information System

The National Education Information System (NEIS) in Korea seeks to centralise and streamline information sharing across a range of stakeholders, including offices for education, schools, teachers and families of students. Currently, the system contains administrative data from an estimated 12 000 schools in addition to 17 metropolitan and regional offices of education. Data on students include their admission and enrolment rates, results from school assessments as well as standardised examinations, and transfer student qualifications. The NEIS also houses information on teachers, including their salaries and participation in professional development training.

To accommodate these different users, there are several distinct interfaces. For example, the interface for parents ("NEIS for parents") differs from that for school leadership and teachers. The NEIS is also linked with the other 15 government agencies in Korea, which not only improves the efficiency of sharing this data but also expands the information available for use by educational institutions or policy makers.

Source: OECD (2023[9]).

- **Continue efforts to adopt a policy framework guiding the development of green skills**. While the ongoing integration of EntreComp and GreenComp into the VET curriculum marks a significant development, Kosovo should also establish policies or guidelines to incorporate skills for the green transition across all education levels (starting in primary school). This initiative should ensure a seamless progression of these skills and competencies as students advance from one educational level to the next.

References

Government of Kosovo (2023), *Annual Statistical Report with Educational Indicators 2022-23*, Ministry of Education, Science, Technology and Innovation, https://masht.rks-gov.net/raport-vjetor-statistikorme-tregues-arsimore/ (accessed on 20 March 2024). [1]

Government of Kosovo (2022), *Education Strategy 2022-2026*, Ministry of Education, Science, Technology and Innovation, https://masht.rks-gov.net/wp-content/uploads/2022/11/03-Strategja-e-Arsimit-2022-2026-Eng-Web.pdf (accessed on 26 April 2024). [5]

Government of Kosovo (2018), *MEST Presents the Education Indicators Framework in Kosova*, https://masht.rks-gov.net/en/mest-presents-the-education-indicators-framework-in-kosova/ (accessed on 25 April 2024). [6]

Likaj, R. (2016), *Continuing Professional Development for Vocational Teachers and Trainers in Kosovo*, European Training Foundation, https://www.etf.europa.eu/sites/default/files/m/484071EDB588DA0CC1257FCD005FB852_CPD%20Kosovo.pdf. [7]

OECD (2023), *OECD Digital Education Outlook 2023: Towards an Effective Digital Education Ecosystem*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/education/oecd-digital-education-outlook-2023_c74f03de-en (accessed on 26 April 2024). [9]

OECD (2023), *PISA 2022 Results (Volume I): The State of Learning and Equity in Education*, PISA, OECD Publishing, Paris, https://doi.org/10.1787/53f23881-en. [3]

OECD (2023), *PISA 2022 Results (Volume II): Learning During – and From – Disruption*, OECD Publishing, Paris, https://doi.org/10.1787/a97db61c-en. [4]

UIS (2024), *Gross Enrolment Ratio by Level of Education*, http://data.uis.unesco.org/# (accessed on 22 April 2024). [2]

World Bank (2024), *Share of Youth not in Education, Employment or Training, Total (% of Youth Population) - Kosovo*, https://data.worldbank.org/indicator/SL.UEM.NEET.ZS?locations=XK (accessed on 26 April 2024). [8]

Notes

[1] In PISA, students are considered socio-economically advantaged if they are amongst the 25% of students with the highest values in the ESCS index in their country or economy; students are classified as socio-economically disadvantaged if their values in the index are amongst the bottom 25% within their country or economy.

[2] ISCED is the International Standard Classification of Education. For more information see: https://uis.unesco.org/sites/default/files/documents/international-standard-classification-of-education-isced-2011-en.pdf. For more on ISCED level 0 programmes, please see: https://uis.unesco.org/en/glossary-term/isced-0-early-childhood-education-includes-isced-01-and-isced-02.

[3] The strategy can be accessed here: https://gzk.rks-gov.net/ActDetail.aspx?ActID=79000.

[4] There are three new administrative instructions (2023): Administrative Instruction MESTI No. 14/2023 on the Licensing system and teaching career; Administrative Instruction MESTI No. 15/2023 on evaluation of teachers' performance; and Administrative Instruction MESTI No. 16/2023 on teachers' professional development.

[5] In Kosovo, these teams are established by the school principal and generally consist of either the principal or vice principal, the quality co-ordinator, the head of the professional activity, another teacher, and a psychologist.

[6] See: https://www.shkollat.org.

[7] Data on the computer-to-student ratio in Kosovo were provided by MESTI from its most recent internal reports. The OECD average can be found here: https://gpseducation.oecd.org/IndicatorExplorer?plotter=h5&query=34&indicators=N051.

9 Employment policy

Effective employment policies are crucial for forging a strong economy and fostering economic development and social inclusion. This chapter aims to assess the regulatory framework and policies governing employment, as well as the institutional capacity for implementation. The first sub-dimension focuses on inclusive labour market governance, specifically looking at the employment regulatory and policy framework, labour inspectorates, social dialogue and inclusive employment policies. The second sub-dimension, social protection and activation policies, analyses the public employment services, mutual obligations framework and active labour market programmes. The third sub-dimension, skills for adaptable labour markets, assesses the skills mismatches in the labour market and initiatives for developing digital and green skills. The fourth sub-dimension, expanding the skills pool, focuses on attracting highly skilled migrants and diaspora.

Key findings

Kosovo's overall score has significantly increased since the previous *Competitiveness Outlook*, although it still remains significantly below the regional average (Table 9.1). Most notably, the economy made advances in strengthening its legal framework for employment and bolstering the capacities of its Labour Inspectorate. Moreover, it outperforms the regional average in terms of its policies for expanding the skills pool. However, this progress was largely offset by Kosovo's weak performance in promoting the development of skills for the digital and green transitions.

Table 9.1. Kosovo's scores for employment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Employment	8.1: Inclusive labour market governance			2.4	3.2
	8.2: Social protection and activation policies			2.0	3.1
	8.3: Skills for adaptable labour markets			1.2	2.6
	8.4: Expanding the skills pool			2.8	2.4
Kosovo's overall score		**1.5**	**1.6**	**2.0**	**2.9**

The **key findings** are:

- Recent initiatives, such as joining the European Network Education and Training in Occupational Safety and Health, increasing staff training opportunities, and doubling the number of inspectors, have significantly strengthened the capacity and efficacy of the Labour Inspectorate.
- Despite the government's focus on increasing women's workforce participation through specific measures in the new Employment and Labour Market Strategy 2023-28 and tailored active labour market programmes, women's employment rates remain low – they stand at only one-quarter of the levels seen in the EU (16.5% versus 63.3%, respectively).
- Significant strides have been made in reducing youth unemployment, which fell from 49.4% in 2019 to 21.6% in 2022. New measures, such as the Youth Guarantee Implementation Plan as well as the recent establishment of the government platform "Superpuna", share the explicit aim of helping youth not in education, employment or training (NEET) to integrate into the labour market.
- Kosovo's underdeveloped framework on mutual obligations represents a substantial challenge, particularly given that informality accounts for over one-third of both GDP and total employment in the economy. Namely, nonexistent unemployment benefits, compounded by limited social assistance, can potentially discourage employees from formalising their activities and instead choose informal work to supplement their income while retaining eligibility for social assistance.
- There is a pressing need for the government of Kosovo to establish a comprehensive policy framework to foster the development of skills for the green transition. With plans to phase out coal use by 2050, it is imperative that the government initiates and supports programmes, training initiatives, and employer incentives to alleviate the adverse employment impacts of this transition.
- While several initiatives aimed at bolstering diaspora engagement have been undertaken by both government and non-government stakeholders, such as the "Citizen Diplomacy" and "Engaging Diaspora Professionals" programmes, Kosovo still lacks an up-to-date, active policy framework guiding diaspora engagement.

State of play and key developments

The labour market in Kosovo is largely characterised by low activity and high unemployment rates, although there have been improvements in recent years. Similar to many economies globally, the COVID-19 pandemic adversely affected employment outcomes in Kosovo: between 2019 and 2021, the activity rate of the population fell by 1.1 percentage points, while the employment rate decreased by 1.6 percentage points (Vienna Institute for International Economic Studies, 2023[1]). Although the economy has shown some slight improvements since then, with employment rates rising from 31.1% in 2021 to 33.8% in 2022, activity and employment rates in Kosovo remain the lowest among the Western Balkan economies and far below the EU averages (of 74.5% and 69.8%, respectively) (Eurostat, 2024[2]). Of note, a significant proportion of households in Kosovo receive remittances (28% in 2021), which have been found to negatively impact activity rates, particularly among women (OECD, 2022[3]). As such, this low participation rate observed in the economy might be partially attributed to these high levels of remittances.

Sub-dimension 8.1: Inclusive labour market governance

Kosovo has made some progress in improving its **legal framework for employment** since the previous assessment cycle. This framework is primarily defined by the Labour Law, which establishes minimum standards concerning working time, paid holidays, breaks and absences from work, and occupational safety and health (OSH). However, non-standard forms of employment – which include self-employed individuals, those on temporary contracts, and platform or gig workers – are only offered limited coverage under employment protection legislation,[1] while they are entirely excluded from the social protection framework.

In addition to the Labour Law, the Draft Programme of Health and Safety at Work, which is currently under review by the Cabinet of Ministers, will serve as an Action Plan for implementing health and safety regulations in the workplace. Moreover, the government has recently implemented a new regulation[2] that defines the conditions, criteria and procedures for the training of individuals responsible for safety and health at work. It also establishes certification processes for OSH experts and licences for entities providing OSH services. Beyond this new and upcoming legislation, additional progress in bolstering OSH was made through the completion of two new studies on working conditions in Kosovo and compensation for accidents at work and occupational diseases. Yet, one notable gap in this regulatory framework is the absence of a national compensation system. Implementing a comprehensive, transparent system that considers factors such as job responsibilities, qualifications, and market standards could enhance fairness and ensure employees receive appropriate remuneration.

The **policy framework for employment** is largely defined by the National Strategy for Development 2030. The strategy's section on employment delineates several key objectives for addressing labour market challenges and improving outcomes. For example, one goal is to strengthen workplace safety through evidence-based policy making supported by enhanced, continuous data collection on injuries, illnesses, and deaths. At the time of writing, the Ministry of Finance, Labour and Transfers had also started the process of drafting the new Employment and Labour Market Strategy 2023-28, which seeks to address various employment-rated issues. In designing these policies, the ministry consults a myriad of actors, including other ministries and state agencies, social partners, NGOs, and civil society.[3]

A key ongoing initiative is the government's efforts to finalise its Strategy on Combating the Informal Economy, which is presently under discussion within a dedicated working group. Additionally, in March 2023, the Ministry of Finance published its annual report (for the period 2021-22) on the implementation of its National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes (2019-23). While this development represents a significant stride forward, it is crucial that the strategy is implemented promptly, given the significant scale of Kosovo's informal

economy. Although official statistics are not available from the government, estimates suggest that the informal sector accounts for more than one-third of total employment (IMF, 2022[4]).

Significant advances were achieved in enhancing the efficiency and capacities of the **Labour Inspectorate** in Kosovo since the last assessment cycle. The Labour Inspectorate operates within a clear framework with fixed, measurable objectives. It also recently approved a new Strategy of the Labour Inspectorate 2023-27, to be complemented by an annual work plan. The new strategy includes several objectives, including the reforming of the structure of the Labour Inspectorate, digitalising processes through the creation of the Labour Inspectorate Information System, bolstering capacity building and evidence-based planning, raising awareness, and improving the entity's physical infrastructure. The work of the Labour Inspectorate was most recently assessed in an audit completed in May 2023, although the organisation would benefit from more regular monitoring of its inputs and outputs.

Progress in strengthening the capabilities of Labour Inspectorate is evident across various fronts. In terms of co-operation and co-ordination, the Labour Inspectorate has strengthened its efforts to participate in more intense co-ordination with other local stakeholders, such as state institutions, trade unions, NGOs, and the media. Moreover, in November 2022, the Labour Inspectorate became part of the European Network Education and Training in Occupational Safety and Health (ENETOSH), signaling its commitment to exchanging knowledge and experience in the field of OSH. In terms of building capacity, the Labour Inspectorate has benefited from the increased organisation of training for workers, averaging 264 training sessions per month in 2022 (Government of Kosovo, 2023[5]). Part of this focus on training stemmed from a new collaboration with the ILO to offer continuous training to 100 young labour inspectors. Furthermore, strides have been made in expanding the workforce, with an additional 100 new inspectors budgeted in 2023, supplementing the existing staff of 64 in 2022. This concerted effort led to a notable improvement in the Labour Inspectorate's ability to conduct inspections, meeting the targets set by the European Reform Agenda during the second half of 2022.

The system guiding **collective bargaining** and social dialogue is still largely under development; while well-defined legislation exists,[4] awareness and use of these systems remain limited. Unions are actively involved in policy-making processes and participate in working groups. Collective bargaining between these unions and employers is intended to promote better working conditions and standards for employees, covering issues such as salaries, working hours, access to training, and employment in non-standard forms. Moreover, several measures have been implemented recently to strengthen collective bargaining and social dialogue, most notably the drafting of new guidelines to govern collective negotiations.

However, there remains significant room for enhancing collective bargaining and social dialogue in Kosovo. While collective bargaining is in principle intended to take place at both the company and sectoral levels, in practice only two sectoral agreements (in the fields of education and health) have been established, and they have lapsed. Additionally, there is currently only one active collective agreement at the company level (Radio Television of Kosovo). Compounding this issue, the mandate of the Social and Economic Council – which consisted of trade unions, employer associations, and independent experts – expired in April 2023. The Council played an important role in facilitating social dialogue among various stakeholders, and the absence of clear plans for reinstating this body presents a serious obstacle to further strengthening collective bargaining, particularly as private sector representation in these processes is perceived as inadequate by government stakeholders.[5] Awareness of these bargaining and social dialogue systems is relatively limited. However, to counter this, the Ministry of Finance, Labour and Transfers launched a comprehensive awareness campaign in December 2022 to raise awareness of workers' rights, including the right to decent working conditions.

Although there have been some efforts to enhance **inclusive labour policies**, these policies have yet to yield significantly improved outcomes. One of key aims of the new Employment and Labour Market Strategy 2023-28 is to better target women, young people not in education, employment or training, and

vulnerable groups, including Roma and other ethnic minorities, persons with disabilities, and people living in extreme poverty. While the prioritisation allocated by this new strategy represents an important stride toward improving inclusivity – particularly through improved gender equality – it has not been matched with sufficient additional measures. Awareness campaigns with the aim of reducing gender discrimination are not conducted. Besides the absence of policies, financial and institutional support is constrained, as the governent has neither allocated gender budgeting nor established a co-oordination body for addressing gender inequalities. There is no policy framework to promote entrepreneurship among women.

Implementing a new strategy with renewed focus on augmenting the inclusivity of the labour market in Kosovo is vital – particularly for women, who have extremely low participation and employment rates. While the female labour participation rate has been slowly increasing, it only reached 22% in 2021 – roughly one-third of the rate of the EU Member States (68.5%) (Vienna Institute for International Economic Studies, 2023[1]) (Eurostat, 2024[2]). A similar trend is observed for employment rates: in 2021, the employment rate of women in Kosovo was a mere 16.5% in 2021 – a staggering 46.8 percentage points lower than the EU average (63.3%). Some of the primary barriers to employment for women in Kosovo include low salaries, insufficient job flexibility, the prevalence of short-term contracts, and inadequate benefits (Democratic Institute of Kosovo, 2017[6]). With respect to the last reason, there are plans to revise maternity and paternity leave, with the government embracing a larger burden in compensating women on maternity leave. Currently, the law stipulates that the first six months of maternity leave (of twelve months total) are paid by the employer for a total of 70% of the base salary; this burden on the employer has resulted in some companies, particularly those in the private sector, avoiding hiring young women who are of childbearing age (KOHA, 2023[7]).

Sub-dimension 8.2: Social protection and activation policies

The unemployment rate in Kosovo has dramatically fallen in recent years, decreasing from 25.1% in 2019 to 12.1% in 2022 (World Bank, 2024[8]). Given the stagnant employment and activity rates in the population, this reduction is likely a result of increased exits from the labour market due to higher levels of emigration – a phenomenon expected to continue given the introduction of the visa-free regime with the EU in January 2024. In fact, a recent study revealed that more than one-quarter of Kosovar adults were contemplating emigrating during the first half of 2024, spurred by this recent visa liberalisation (GAP Institute, 2024[9]). Moreover, as stated above, high remittance flows can discourage people from actively seeking employment, leading them to not being counted as unemployed. Despite the overall decline, the unemployment rate remains essentially double that of the EU (6.0%) (Eurostat, 2024[10]). Within the unemployed population of Kosovo, a significant share (70.7% in 2021) is considered to be long-term unemployed, meaning that they have been actively seeking employment for more than one year (Vienna Institute for International Economic Studies, 2023[1]). This high rate of long-term unemployment is likely indicative of a structural challenge, suggesting that the skills possessed by these individuals are not in demand by the labour market.

The **public employment service** (PES) in Kosovo, called the Employment Agency, offers a standard range of services to jobseekers and employers. These responsibilities range from the basic registration of job vacancies and unemployed persons to more advanced obligations, such as offering counselling and referrals to active labour market programmes for jobseekers or supporting job fairs and employers' recruitment services. These services are widely used by the population: indeed, despite a fall in the number of unemployed persons from 125 000 in 2019 to 100 000 in 2021, the number of jobseekers registered with the PES increased by 15.9%, rising from 70 790 to 82 042 (ILOSTAT, 2024[11]). This increased workload has not been met with corresponding increases to staff numbers or institutional capacity, which has resulted in a caseload of 755 cases per counsellor. Not only is this ratio the highest in the region, but it is also far above the ILO recommendation of 100 unemployed individuals per staff member (Kuddo, 2012[12]).

Efforts to digitalise selected services and processes are ongoing, with the introduction of online registration within the PES. For example, the development of the Open Data module for Labour Market Information was recently inaugurated, and the Information System for Employment Management was being tested at the time of writing. Moreover, two new platforms have been created – "Superpuna"[6] (launched in February 2023) and "Kosovo Generation Unlimited"[7] (launched in December 2020) – that seek to match employers with young individuals searching for job, internship, or training opportunities. Ongoing efforts have further strengthened these platforms: for example, in February 2024, the government of Kosovo expanded the age group of the Superpuna platform's beneficiaries from 18-25 years old to 18-29 years old, with the aim of reducing youth unemployment. Youth who find opportunities on this platform are employed for six months and are paid by the government a monthly salary of EUR 264 (Isufi, 2023[13]). However, the efficacy of these initiatives is constrained by the limited use of digital services among certain groups of jobseekers that do not have access to the Internet, or lack sufficient digital skills.

Unlike the other Western Balkan economies, Kosovo has not yet developed an **unemployment benefit scheme,** nor are there any planned reforms to introduce such a system. However, while there is no framework for receiving unemployment benefits, there is one governing the eligibility and job search conditions for beneficiaries of social assistance. Social assistance benefits, defined under the Social Assistance Scheme (SAS), are low, with these benefits placing both single and family recipients under their respective poverty-at-risk thresholds. To qualify for social assistance, potential beneficiaries must prove that they meet one of two conditions. The first, known as Category I, requires that all household members are incapable of working or not of working age. The second criterion, Category II, stipulated that only one family member is able to work and registered as unemployed; the other members are dependent; and the family has at least one child under 5 years of age or an orphan under the age of 15 under permanent care (Gashi, 2021[14]). The programme is not well targeted, as its stringent criteria exclude many poor families. Therefore, while a majority of beneficiaries of the SAS are from the poorest quintile of society, this is primarily due to widespread poverty and a limited pool of beneficiaries, rather than the precise targeting of those in need.

Social assistance recipients face sanctions if they cannot prove that they are actively looking for work or if they do not accept any suitable job offer. Moreover, if an unemployed recipient refuses a job more than twice, they are removed from the Employment Agency's unemployment register. Recipients must also agree to participate in public works programmes. Ultimately, most jobseekers do not benefit from any type of welfare benefits. No provisions currently exist to offer exemptions on social security contributions for low-income earners, nor are there any tax credits tailored to benefit these individuals.

This underdeveloped framework on mutual obligations can be particularly problematic in terms of the economy's high level of informality. The absence of unemployment benefits, compounded by limited social assistance, can potentially discourage employees from formalising their activities. Additionally, because social assistance is only available for those without an income-generating job, many individuals might elect to engage in informal work rather than enter the formal market in order to bolster their income but still maintain this social assistance.

Even though **active labour market programmes** (ALMPs) serve as the main form of support to jobseekers in Kosovo, no progress has been observed in strengthening these programmes through increased funding or refining targeted measures. Target groups include youth not in education, employment or training (NEET), women, people with disabilities, ethnic minorities, and the long-term unemployed, representing a wide coverage of the most vulnerable groups in terms of access to the labour market.

Of these groups, the most significant advances have been made to support unemployed youth. While those unemployment rates have dramatically declined, falling steeply from 49.4% in 2019 to 21.6% in 2022, this proportion is still above the EU average (16.3%) (ILOSTAT, 2023[15]; World Bank, 2024[16]). Moreover, while youth unemployment rates have plummeted, the NEET rate remains extremely high, amounting to 32.9% in 2022 – more than three times EU levels (9.6%) (World Bank, 2024[17]; Eurostat,

2023[18]). As such, one recent development targeting NEET youth has been the ongoing efforts to restructure the Employment Agency to ensure the government can properly carry out the Youth Guarantee implementation plan (European Commission, 2023[19]). As of 2023, authorities are working to ensure the necessary conditions are in place to then pilot the Youth Guarantee in two municipalities. Accompanying this programme have been additional efforts, including new research initiatives to gather data on the youth NEET to then ensure the Youth Guarantee addresses this population's specific needs. Another development was the establishment of the National Working Group for Youth Guarantee Deployment (Connecting Youth, 2023[20]).

Strategies guiding ALMPs are supported by a separate budget. Spending on ALMPs is far below that of the EU, constituting only 0.03% of GDP compared to 0.39% of EU levels (European Commission, 2024[21]). The government's spending on ALMPs more than doubled in 2020 and 2021 as a response to the COVID-19 pandemic. Key monitoring data on participants in ALMPs by socio-demographic characteristics (including age, gender, and skill level) are collected and published regularly. However, there are no data on the results of ALMPs after the end of their implementation, and even the results of impact evaluations have not yet been used to revise these programmes.

Sub-dimension 8.3: Skills for adaptable labour markets

In Kosovo, there is a stark difference in the employment rates among workers with different skill levels. Namely, in 2021, the employment rate of low-skilled workers was 10.8% – one-third the rate of medium-skilled workers (35.5%) and nearly one-sixth the rate of highly skilled workers (62.7%) (Vienna Institute for International Economic Studies, 2023[1]).[8] Similar to the pattern observed in the EU, skills mismatch in Kosovo is mainly characterised by overqualification, with 26% of adult employees reporting that they had a higher education than what their position requires (compared to 10% of employees who have a lower education level) (ETF, 2023[22]). Moreover, the participation levels of adult employees in an education or training activity to learn new job-related skills are below the EU average (53% versus 62%, respectively).

Efforts to address **skills mismatch** within the economy are supported by a robust policy framework, but programmes supporting these policies are relatively limited in scope, particularly those aligning skills production with short- and long-term labour demand. The National Development Strategy 2030 seeks to narrow the skills gap in the labour market by enhancing collaboration between the private sector and the education sector, while also establishing mechanisms for long-term planning to guide the direction of the labour market. Under the framework provided by this strategy, the government plans to conduct a labour market analysis as well as skills forecasting to support improvement of the skills development of its workforce. Similarly, the new Employment Strategy 2023-28[9] aims to reduce this gap by promoting the cultivation of skills and competencies among the labour force through a wide variety of mechanisms, ranging from offering incentives to businesses to provide training, to offering adult training courses and strengthened career and entrepreneurship education and guidance.

Several policies and programmes are currently in place to support specific aspects of skills mismatch, namely through modernising vocational and educational training courses and promoting workplace-based learning through a dual vocational training system. However, this leaves substantial scope to broaden the available offerings, particularly by introducing policies that expand education and vocational training or better foster adult learning, which is currently limited. Moreover, even in the areas where there are policies, they could be further enhanced. For instance, while career guidance is offered in both vocational schools and higher education institutions, it is not fully utilised to address the mismatch between a large supply of social science graduates and a significant demand for STEM graduates. As such, improved guidance could play a crucial role in directing students who are passionate and/or talented in STEM fields toward pursuing related careers.

Skills for the digital transition are not sufficiently developed or supported, despite their importance to the current and future labour market. Indeed, according to the 2023 European Survey on Jobs and Skills, more than half of Kosovar respondents indicated that they will need to moderately or greatly develop their digital skills to do their jobs (ETF, 2023[22]). Yet, despite this recognised need, there is no policy framework with a specific focus placed on digital skills. Moreover, there is little evidence of any activities developed by the government to encourage employers to upskill their workers' digital capacities. One small-scale programme titled "Digital Skills for All" was launched in 2023; it aimed to cultivate digital skills among young jobseekers (Box 9.1). Other efforts have been less organised, but there has been progress toward expanding the training of digital skills available to small and medium-sized enterprises (SMEs), such as online training that is partially financially covered by the Ministry of Innovation and Entrepreneurship (Andjelkovic et al., 2021[23]). Yet, these programmes suffer from a lack of co-ordination and limited funding.

Box 9.1. Promoting digital skills in Kosovo through the "Digital Skills for All" programme

The "Digital Skills for All" programme in Kosovo, launched in April 2023, aimed to equip young jobseekers aged 18-29 with essential digital skills in order to bolster their employability within the private sector. It was developed by the United Nations Development Programme (UNDP), Kosovo's Ministry of Government and Local Administration and the university RIT Kosovo, and benefited from financial support from Italy's Ministry of Foreign Affairs and International Cooperation.

Following the initial call for applications, interested candidates completed an entrance exam, after which 180 individuals were selected for participation. Priority was given to youth from ethnic minority groups, women, individuals from rural areas, persons with disabilities, and recent university graduates. Selected candidates then participated in intensive training through six "boot camps," which covered various topics ranging from data engineering and web development to digital marketing and design. The cost of the programme was fully financed for each participant. As the programme concluded in December 2023, it is still premature to attempt to assess its impact on employment outcomes; however, it is expected that participants will have an easier time entering the job market.

Ultimately, the "Digital Skills for All" programme represents a significant stride toward addressing the evolving demands of the labour market, particularly that of a digital economy. By equipping candidates with in-demand knowledge and skills, the programme not only sought to improve these individuals' competitiveness but also to bridge skill gaps by aligning the capabilities of the target population with market needs.

Source: Embassy of Italy in Pristina (2023[24]).

Kosovo lags behind the rest of the region in terms of promoting **skills for the green transition**, as it has not undertaken any significant efforts to assess or support the development of skills and jobs related to greening. Of the Western Balkan economies, Kosovo is the most dependent on coal for power generation (95% of its total power generation) (Ruiz Castello et al., 2021[25]). Yet, as the economy endeavours to phase out coal by 2050 (as outlined in its Energy Strategy 2022-31[10]), the Employment Agency has not developed a specific approach regarding how to mitigate the negative effects of this reduction in coal mining on employment – despite the fact that the coal sector employs thousands of citizens. Moreover, neither the Climate Change Strategy 2019-28[11] nor the Circular Economy Roadmap of Kosovo of 2023[12] addresses employability and skills development issues for the green transition. There is no evidence of co-ordination or consultation with key stakeholders on skills for the green transition, nor has the government of Kosovo launched or supported any studies to identify relevant jobs and skillsets.

Sub-dimension 8.4: Expanding the skills pool

In terms of **making the most of foreign talents**, Kosovo has undertaken some initiatives to promote the inclusion and integration of immigrants, but this framework is not well supported by substantive co-ordination or co-operation mechanisms. The national Strategy on Migration (2021-25)[13] identifies migration management as a key factor in the economy's socio-economic development and therefore aims to ensure a safe and advanced migration system that will attract and employ skilled immigrants. This strategy was previously supported by an Action Plan that lapsed in 2023, and there is no information available regarding progress toward developing a new plan. Additionally, the Law on Foreigners[14] serves as the framework regulating the entry, movement, residence and employment of foreigners, although there is a crucial need to align this legislation with both the EU acquis and international standards.

Regarding the free movement of workers, EU nationals and their family members require work permits to work in Kosovo. In 2022, 202 short-term work permits were issued, of which 114 were for EU nationals (European Commission, 2023[19]). The Law on Regulated Professions outlines requirements, but the list of regulated professions is not very comprehensive. Moreover, Kosovo has yet to join the European Network of Employment Services (EURES), which could support the economy's own efforts in assisting this movement of workers through the provision of information and employment support services. In October 2023, Kosovo signed a memorandum of understanding (MoU) with the other Western Balkan economies for the mutual recognition of professional qualifications; the agreement aims to improve professional mobility and align skills with labour market needs.

Migration management responsibilities are distributed among various ministries and are co-ordinated by a National Coordinator for Migration. In addition, the Government Authority on Migration acts as an inter-institutional body and is composed of all migration-related institutions and agencies. The Kosovo Agency of Statistics has published data on the number of immigrants and emigrants by region since 2017. The Agency has additionally undertaken efforts to facilitate comparative and regional analyses of migration trends. To support regional assessments, Kosovo is a participant in the Migration, Asylum, Refugees Regional Initiative (MARRI), which has established a permanent working group on migration statistics that collects, processes, and disseminates migration data through a regional platform for enhanced data exchange in the Western Balkans.

Several policies and programmes have been implemented in Kosovo with the aim of **attracting diaspora skills**. The most significant development was the institutional restructuring that merged the Ministry of Diaspora and Strategic Investments with the Ministry of Foreign Affairs, creating the Ministry of Foreign Affairs and Diaspora. This shift underscored the increased strategic importance conferred to diaspora matters, allowing for a more active role in protecting diaspora rights, enhancing consular services, and supporting diaspora organisations. However, continuous political changes have limited the government's ability to prioritise diaspora engagement, despite the fact that national estimates indicate that over 845 000 persons of Kosovar origin, including those born abroad, live outside the territory (Government of Kosovo, 2021[26]). Of note, this figure will likely be updated after the conclusion of the upcoming census (scheduled to last from April to May 2024), which includes a separate registration of Kosovar diaspora, marking the economy's first attempt to formally register this population (Xharra and Zeqiri, 2024[27]).

Efforts were made to draft a new National Strategy for Diaspora (2019-23), but political changes hindered government approval through parliamentary procedures (Qaisrani et al., 2023[28]). Thus, even though the Ministry of Foreign Affairs and Diaspora is currently preparing to release a new strategy and law for public consultation, Kosovo has been without a well-defined, up-to-date policy framework guiding diaspora engagement for several years.

Both government and non-government stakeholders have actively supported several initiatives to attract diaspora skills. For example, the Citizen Diplomacy programme,[15] introduced by the Ministry of Foreign Affairs and Diaspora, engages young professionals worldwide, bringing Kosovo citizens at the master's

level to contribute their expertise to Kosovo's institutions. In its second year, the programme offers a platform for knowledge exchange. The online platform "KosovoDiaspora.org", established by the non-governmental diaspora association Germin, connects Kosovo with its diaspora, using social and online media to showcase achievements. Another initiative of Germin is the "Engaging Diaspora Professionals" programme, which identifies and facilitates diaspora experts' engagement with public institutions in Kosovo and Albania, providing voluntary expertise for periods ranging from three weeks to six months, with living costs covered but no compensation for their work (OECD, 2022[3]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress on implementing past CO Recommendations has been mixed: in some areas, such as strengthening the Labour Inspectorate's capacities or drafting a strategy for combating the informal economy, significant advances were achieved. Conversely, progress has remained limited in most other domains, namely introducing unemployment benefits or reducing the caseload of PES counsellors. Below, Table 9.2 shows the economy's progress on implementing past recommendations for employment policy.

Table 9.2. Kosovo's progress on past recommendations for employment policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Implement as a minimum the Strategic Development Plan for Labour Inspectorates 2017-21 and the National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes 2019-23	There is a new Action Plan and Strategy governing Labour Inspectorates for the period 2023-27. Several other advances were made, including the completion of an audit of Labour Inspectorates' activities in 2023 as well as the creation of an electronic inspection system. Labour Inspectorates organise campaigns and awareness-raising events and have improved co-operation with other stakeholders.	Strong
Use the whole education and training infrastructure in the economy, including VET institutions, to provide remedial education and vocational upskilling to adults	Workplace-based learning for adults is offered through active labour market programmes, and there is a system in place for the validation of prior learning. However, policies on remedial education and vocational upskilling for adults in the VET system have not improved.	Moderate
Scale up childcare facilities and support for elderly care	There is no evidence that the offer of or access to affordable quality care for children and the elderly have been significantly increased, although there are planned reviews of maternity and paternity leave.	Limited
Continue to enhance the number of job counsellors and significantly reduce their caseload	The caseload only slightly fell between 2021 and 2022, linked to a reduction in the number of registered unemployed persons. Moreover, there is no evidence that co-operation between employment and social services at the local level has improved. Local actors are still not consulted regarding changes in ALMPs.	Limited
Continue implementing the scheme to regularise informal employment and implement awareness-raising campaigns	Awareness-raising activities have been implemented, but no information is available about the implementation or evaluation of this specific scheme.	Limited
Introduce the planned comprehensive social protection system that includes an unemployment benefit scheme and a general healthcare scheme, and reform the social assistance scheme to better target the poor	Maternity leave benefits for unemployed women were introduced, and there is the possibility for social assistance recipients to top up incomes. However, an unemployment benefit scheme has still not been introduced, and no progress has been made to better target social assistance.	Limited
Use time-limited (e.g. six months) exemptions to social security contributions to transform temporary contracts into permanent ones, as in Portugal	There is no evidence that progress in transforming temporary contracts into permanent ones has been made. However, the Labour Law foresees the possibility of concluding a contract for special work that cannot be longer than 120 days within a year. In practice, this type of contract is used for non-standard forms of employment, such as seasonal workers.	Limited

The way forward for employment policy

Considering the level of the previous recommendations' implementation, there are still areas in which Kosovo could strengthen its employment policy framework and further address key challenges in this area. As such, policy makers may wish to:

- **Finalise the development of several key employment strategies**, including the Employment and Labour Market Strategy 2023-28 and the new strategy for combating the informal economy. Namely, the government of Kosovo should prioritise their finalisation and adoption as well as the ongoing monitoring of their implementation's progress. Specific attention should also be given to how these policies impact vulnerable groups within Kosovo's labour market.
- **Strengthen collective bargaining in the private and public sector**. Given the low level of development of the collective bargaining system in Kosovo, it is crucial that the government of Kosovo implement measures, such as renewing the mandate of the Economic and Social Council and negotiating new collective agreements. Moreover, the government could start assessing how to best augment private sector participation and representation to ensure that the economy's collective bargaining system is as representative as possible.
- **Implement and monitor the progress of policy measures aimed at increasing female employment**. Although the new Employment and Labour Market Strategy 2023-28 includes a very explicit focus on better targeting women in employment policies, there is significant scope to expand the measures designed to encourage women to enter the labour market. From an educational standpoint, such programmes might include awareness campaigns and expanded vocational guidance to encourage young women to study STEM. The government of Kosovo should also look at ensuring benefits and working conditions are sufficient enough to encourage mothers returning to the workplace (Box 9.2). A final area of focus should be ensuring the availability of affordable public childcare and after-school care through the introduction of means-tested fees to improve accessibility for poor families, or offering a childcare subsidy for all families making under a certain monthly income.

Box 9.2. Supporting working mothers: A good practice from Estonia

Estonia has demonstrated substantial progress in recent years toward promoting sufficient work-life balance and job flexibility among working mothers, leading to an increase in the employment rate of women with children under the age of 2. Examples of initiatives or policy measures include:

- *Generous maternity benefits* – Pregnant women in the workplace are entitled to start receiving their maternity benefits and leave starting 70 days before their baby's expected date of birth.
- *Generous parental leave* – In Estonia, maternity and paternity leave together total 605 days. There is also an option for shared parental benefits, meaning that parents can decide which one will receive and use the benefit. Moreover, fathers can start receiving this benefit once the child is one month old in order to encourage their greater involvement as childcare providers.
- *Supportive work conditions for breastfeeding mothers* – Mothers who return to work before their child is 1.5 years old are able to take additional breaks – lasting 30 minutes each and to be taken every three hours – for breastfeeding. These breaks are considered to be part of working hours. Many workplaces have also adopted provisions to facilitate the pumping and storage of breast milk.

Source: WHO (2023[29]).

- **Reduce the caseload of PES counsellors**. There was only limited progress made on implementing this recommendation since the last assessment cycle, despite the high incidence of jobseekers facing long-term unemployment or multiple employment barriers. To better serve vulnerable groups and hard-to-place jobseekers, the Employment Agency would need to increase its number of counsellors eightfold. This would bring its caseload ratio more in line with countries like Germany or France, which have well-established PES. It also might be useful for job counsellors in the Employment Agency to co-operate with social and health services at the local level, a practice increasingly implemented across the EU[16].
- **Introduce reforms to the mutual obligations framework,** namely through the establishment of an unemployment benefits scheme. Additionally, the government should prioritise adjustments to the existing social assistance scheme to enhance the targeting of poor individuals and families. This system should offer means-tested welfare benefits to supplement low incomes, which in turn could encourage workforce participation – a good practice implemented by many EU Member States.
- **Establish mechanisms promoting the development and adaptation of skills for the green transition**. As Kosovo prepares to phase out its use of coal for energy production, the economy must prepare for the impact of the energy transition's changes on employment by creating programmes aimed at mitigating these negative employment effects. Moreover, the government should seek to promote training– potentially provided through the Employment Agency – to help employees develop new skills (or adapt their existing ones) to thrive in this green transition.
- **Develop and implement a comprehensive national programme to encourage and facilitate diaspora engagement in Kosovo**. Such a system for engaging diaspora is crucial to enhance their contributions to the economy's development and foster increased trust between the state and the diaspora community.

References

Andjelkovic, J. et al. (2021), *Digital Skills Needs and Gaps in the Western Balkans - Scope and Objectives for a Fully-Fledged Assessment*, RCC, Sarajevo, https://www.rcc.int/pubs/129/digital-skills-needs-and-gaps-in-the-western-balkans--scope-and-objectives-for-a-fully-fledged-assessment. [23]

Connecting Youth (2023), *Youth Guarantee Deployment in the WB6: Second Edition*, https://connecting-youth.org/documents/CY%20Policy%20Paper%20Youth%20Guarantee%20Second%20Edition.pdf (accessed on 18 March 2024). [20]

Democratic Institute of Kosovo (2017), *Women's Work, Society Development*, https://kdi-kosova.org/wp-content/uploads/2018/01/126-01-grate-dhe-tregu-i-punes-ne-prizren-2017-final.pdf (accessed on 17 March 2024). [6]

Embassy of Italy in Pristina (2023), *Digital Skills for All program: Online Applications until April 24, 2023*, https://ambpristina.esteri.it/sq/news/dall_ambasciata/2023/04/digital-skills-for-all-on-line-2/. [24]

ETF (2023), *European Skills and Jobs Survey: Statistical Profile for Kosovo*, https://www.etf.europa.eu/sites/default/files/2023-11/Statistical%20profile_XK_EN_edited.pdf (accessed on 18 March 2024). [22]

European Commission (2024), *Labour Market Policy*, https://webgate.ec.europa.eu/empl/redisstat/databrowser/explore/all/all_themes (accessed on 13 March 2024). [21]

European Commission (2023), *Kosovo Report 2023*, https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2023_en (accessed on 9 January 2024). [19]

Eurostat (2024), *Employment and Activity by Sex and Age - Annual Data*, https://ec.europa.eu/eurostat/databrowser/view/lfsi_emp_a__custom_10440557/default/table?lang=en (accessed on 18 March 2024). [2]

Eurostat (2024), *Total Unemployment Rate*, https://ec.europa.eu/eurostat/databrowser/view/tps00203/default/table?lang=en&category=t_labour.t_employ.t_lfsi.t_une (accessed on 18 March 2024). [10]

Eurostat (2023), *Statistics on Young People Neither in Employment nor in Education or Training*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_training#:~:text=In%202022%2C%2013.1%20%25%20of%20young,points%20lower%2C%20at%2010.5%20%25. (accessed on 16 April 2024). [18]

GAP Institute (2024), *Tendency to Emigrate from Kosovo after Visa Liberalization: The Impact on the Workforce*, https://www.institutigap.org/documents/17275_Emigrimi%20pas%20liberalizimit.pdf (accessed on 20 March 2024). [9]

Gashi, A. (2021), *Performance of Western Balkan Economies Regarding the European Pillar of Social Rights: 2021 Review on Kosovo*, RCC, Sarajevo, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjm-8LPmNiGAxUhbKQEHbs3Ct8QFnoECBQQAQ&url=https%3A%2F%2Fwww.rcc.int%2Fdownload%2Fdocs%2FESAP-Social-Rights-Pillar-Report-regional-overview.pdf%2F4c23f2c78e7c02a4bdfd7253ddb05a82.pdf&. [14]

Government of Kosovo (2023), *Labour Inspectorate Annual Report for 2022*, Ministry of Finance, Labour and Transfers, https://ip.rks-gov.net/wp-content/uploads/AnnualReportLaborInspectorate_23.pdf (accessed on 18 March 2024). [5]

Government of Kosovo (2021), *Easy Migration Profile*, Ministry of Internal Affairs, Pristina, https://mpb.rks-gov.net/Uploads/Documents/Pdf/AL/2449/Profili%20i%20Lehte%20i%20Migrimit%202021-%20SHQIP.PDF (accessed on 18 March 2024). [26]

ILOSTAT (2024), *Labour Force Survey 2021*, https://www.ilo.org/surveyLib/index.php/catalog/8313 (accessed on 18 March 2024). [11]

ILOSTAT (2023), *Country Profiles: Kosovo*, https://ilostat.ilo.org/data/country-profiles/ (accessed on 18 March 2024). [15]

IMF (2022), *"Republic of Kosovo: 2021 article IV consultation-press release and staff report"*, https://www.imf.org/en/Publications/CR/Issues/2022/01/11/Republic-of-Kosovo-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-511873 (accessed on 12 February 2024). [4]

Isufi, A. (2023), *Government Launches Youth Employment Platform*, https://prishtinainsight.com/government-launches-youth-employment-platform/ (accessed on 18 March 2024). [13]

KOHA (2023), *The State is Required to Take Over the Payment of Maternity Leave*, https://www.koha.net/en/arboretum/386812/it-is-requested-that-the-state-take-over-the-payment-of-maternity-leave/ (accessed on 18 March 2024). [7]

Konle-Seidl, R. (2020), *Activation of the Inactive: PES Initiative to Support the Activation of Inactive Groups*, European Commission, Brussels, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiU2KGtmdiGAxUBVqQEHXWjAV4QFnoECBcQAQ&url=https%3A%2F%2Fec.europa.eu%2Fsocial%2FBlobServlet%3FdocId%3D22474%26langId%3Den&usg=AOvVaw1i9Qu6jMP11g9RSlVv101z&opi=89978449. [30]

Kuddo, A. (2012), *Public Employment Services, and Activation Policies*, World Bank, Washington, D.C., https://documents1.worldbank.org/curated/en/261871468184139230/pdf/689380NWP00PUB0ction0and0labor01215.pdf (accessed on 18 March 2024). [12]

OECD (2022), *Labour Migration in the Western Balkans: Mapping Patterns, Addressindoig Challenges*, https://www.oecd.org/south-east-europe/programme/labour-migration-report.pdf (accessed on 8 March 2023). [3]

Qaisrani, A. et al. (2023), *Study of the Diasporas' Contributions to the Socio-Economic Development in the Western Balkans*, International Centre for Migration Policy Development, Vienna, https://www.icmpd.org/file/download/59589/file/ECONDIAS_Comparative-report_FINAL.pdf (accessed on 15 March 2024). [28]

Ruiz Castello, P. et al. (2021), "Recent trends in coal and peat regions in the Western Balkans and Ukraine", https://publications.jrc.ec.europa.eu/repository/handle/JRC126154 (accessed on 19 March 2024). [25]

Vienna Institute for International Economic Studies (2023), *The Jobs Gateway in South Eastern Europe*, https://data.wiiw.ac.at/seejobsgateway.html (accessed on 13 March 2024). [1]

WHO (2023), *Encouraging Breastfeeding and Work-Life Balance for Parents in Estonia: Flexibility is Key*, https://www.who.int/europe/news/item/01-08-2023-encouraging-breastfeeding-and-work-life-balance-for-parents-in-estonia--flexibility-is-key. [29]

World Bank (2024), *Share of Youth not in Education, Employment or Training, Total (% of Youth Population) - Kosovo*, https://data.worldbank.org/indicator/SL.UEM.NEET.ZS?locations=XK (accessed on 26 April 2024). [17]

World Bank (2024), *Unemployment, Total (% of Total Labor Force) (National Estimate) - Kosovo*, https://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS?locations=XK (accessed on 26 April 2024). [8]

World Bank (2024), *Unemployment, Youth Total (% of Total Labor Force Ages 15-24) (Modeled ILO Estimate)*, https://data.worldbank.org/indicator/SL.UEM.1524.ZS (accessed on 2 May 2024). [16]

Xharra, J. and A. Zeqiri (2024), "The collection of data for Kosovo's population census nears, with penalties for non-participants", *Prishtina Insight*, https://prishtinainsight.com/the-collection-of-data-for-kosovos-population-census-nears-with-penalties-for-non-participants/ (accessed on 20 March 2024). [27]

Notes

[1] This coverage is almost exclusively used for seasonal workers.

[2] This Regulation can be accessed here: https://gzk.rks-gov.net/ActDetail.aspx?ActID=37745.

[3] The International Labour Organization (ILO) has provided technical expertise during the drafting of this policy. After its finalisation, the strategy will be released for public consultation. In general, other government ministries and state agencies, civil society organisations and social partners participate in this consultation process, while local government entities and NGOs are less active.

[4] The legal framework is defined by the Law on Trade Union Organisations and Administrative Instruction no. 04/2020.

[5] Opinion of stakeholders in the Ministry of Finance, Labour and Transfers, as iterated in the CO 2024 questionnaire.

[6] The "Superpuna" platform can be accessed here: https://superpuna.rks-gov.net.

[7] The "K-GenU" platform can be accessed here: https://kosovogenu.com.

[8] To determine skill level, the International Standard Classification of Education (ISCED) is used. Low-skilled workers fall between ISCED 0 and 2, obtaining a maximum of lower secondary education. Medium-skilled workers constitute those with a level of either ISCED 3 (upper secondary education) or ISCED 4 (post-secondary non-tertiary education). Finally, highly skilled workers must have completed either a short-cycle tertiary education (ISCED 5) or a bachelor's degree or above. See: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_(ISCED)#Implementation_of_ISCED_2011_.28levels_of_education.29.

[9] This strategy can be accessed here: https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=42252.

[10] Kosovo's Energy Strategy 2022-31 can be accessed here: https://me.rks-gov.net/wp-content/uploads/2023/04/Energy-Strategy-of-the-Republic-of-Kosovo-2022-2031-1-1.pdf.

[11] The Climate Change Strategy can be accessed here: https://konsultimet.rks-gov.net/Storage/Consultations/14-13-59-04102018/Climate%20Change%20Strategy%20and%20Action%20Plan_sep_2018.pdf.

[12] https://mmphi.rks-gov.net/MMPHIFolder/DocumentsFiles/2023_8171e270-643b-4de3-9387-91794084eb8b.pdf.

[13] The Strategy on Migration can be found here: https://mpb.rks-gov.net/Uploads/Documents/Pdf/EN/378/Strategy-on-Migration-2021-2025-anglisht.pdf.

[14] The Law on Foreigners can be found here: https://gzk.rks-gov.net/ActDetail.aspx?ActID=8876.

[15] More about this programme can be found here: https://mfa-ks.net/wp-content/uploads/2023/10/Lista-perfundimtare-Programi-CDF-2023_231023.pdf.

[16] For more information, see Regina Konle-Seidl, *Activation of the Inactive: PES Initiative to Support the Activation of Inactive Groups,* (2020[30])

10 Science, technology and innovation

An effective institutional and policy context for science, technology and innovation (STI) is essential to boost the knowledge economy. This chapter, along three sub-dimensions, analyses the overall STI trends and performance in the region, the development of sustainable and impactful STI policies and processes. The first sub-dimension, STI system, assesses the STI regulatory framework and strategies, including smart specialisation strategies and the institutional framework for STI policy. The second sub-dimension, public research systems, analyses the governance of the public scientific research sector, funding approaches and human resource capacity to foster academic research excellence. The third sub-dimension, knowledge exchange and co-creation, assesses policies that support integration between scientific research and the private sector, which is critical for technology transfer, as well as policies and initiatives to promote European and regional collaboration in STI.

Key findings

Kosovo has improved its performance in the science, technology and innovation (STI) policy dimension, albeit from a low level (Table 10.1). Some progress has been made, notably in strengthening the public research system, but Kosovo continues to perform below the regional average. With an overall score of 1.7, Kosovo remains the second-lowest ranked economy in the Western Balkans, performing only slightly better than Bosnia and Herzegovina. Kosovo's performance in this dimension has been constrained by a limited policy framework, which to date has prevented the economy from developing impactful STI policy measures.

Table 10.1. Kosovo's scores for science, technology and innovation

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Science, technology and innovation	9.1: STI system			1.7	2.9
	9.2: Public research system			2.0	2.5
	9.3: Knowledge exchange and co-creation			1.3	2.0
Kosovo's overall score		**1.1**	**1.3**	**1.7**	**2.5**

The **key findings** are:

- Kosovo's policy framework for STI remains in its early stages, limiting the development of a coherent and holistic policy approach. However, efforts are being made to complete the Smart Specialisation Strategy (S3) in 2024. Additionally, the launch of a National Science Programme in 2022 provides strategic guidance for scientific research activities, but falls short of a providing a comprehensive and holistic framework for STI policy.
- Some progress has been made in streamlining STI policy design and co-ordination. A new ministry bundles education, science, innovation and technology under a single structure, while a new National Science Council was established in 2022. However, implementation capacity remains low amid the lack of a dedicated agency to translate policy into concrete actions.
- The limited availability of STI-related statistics, including data on investments into research and innovation, continues to be a challenge for evidence-based policy making. Due to its underdeveloped data collection on STI policy indicators, Kosovo is the only WB6 economy that does not participate in the European Innovation Scoreboard (EIS). The ongoing establishment of a digital platform (KRIS) collecting STI-relevant data, however, is an important step to improve available statistics.
- Kosovo's public research system is underdeveloped and lacks adequate budgetary, administrative and strategic support. As a result, human resources for scientific research remain limited, and few incentives exist to stimulate scientific research and collaboration with the private sector. While some small-scale support to strengthen research capacity is available, it remains heavily reliant on donor funding.
- Since 2021, Kosovo has become fully associated with Horizon Europe, the EU's research and innovation funding programme. Participation in the programme has accelerated, with 11 projects having benefited since 2021 by receiving EUR 1.24 million, compared to EUR 2.5 million under the entire Horizon 2020 budget for 2014-20. Despite this positive trend, additional efforts are needed to enhance performance in accessing grants.
- In 2022, Kosovo developed a new Research Infrastructure Roadmap but has yet to adopt an accompanying action plan. Since the last assessment, the Innovation and Training Park (ITP)

in Prizren has become operational, providing not only incubation and business development support, but also opportunities for businesses to engage with the research sector.

State of play and key developments

Sub-dimension 9.1: STI system

Kosovo has made only limited progress in establishing an **STI policy framework** since the last *Competitiveness Outlook* (CO) report. The economy's strategic framework for science, technology and innovation remains nascent, lacking a defined STI strategy, which prevents policy makers from identifying, prioritising and formulating clear policy objectives. The strategy for Innovation and Entrepreneurship, which covered some aspects of innovation, expired in 2023. However, for the first time since 2010, a new National Science Programme (2023-28) was launched which outlines a number of STI-related objectives and serves as the guiding document governing scientific research activities. Among others, the programme focuses on developing an effective scientific research and innovation system, strengthening human resources, and promoting the internationalisation of research activity and research excellence. While the establishment of this programme is an important step, it falls short of a comprehensive approach that addresses innovation and scientific research in a holistic way, with clear accountabilities and a roadmap.

The development of Kosovo's **Smart Specialisation** Strategy (S3) has been ongoing since 2018 and is expected to be finalised in 2024. With the support of the European Commission's Joint Research Centre (JRC), Kosovo has completed the quantitative and qualitative mapping of S3 priority domains, as well as the Entrepreneurial Discovery Process (EDP), and is currently in the process of drafting its S3 strategy. Through the mapping and EDP process, priority sectors such as information communication and technology (ICT), green energy, wood and food processing, and the creative industry have been identified. If supported by effective policy measures and long-term adequate budget allocations, these sectors can significantly advance Kosovo's transition to a greener and digital economy. As part of developing the S3, the government also launched the digital platform "KRIS" to systematically collect STI-related data, connect the domestic research community with Kosovo's diaspora, and raise awareness about the S3 process among relevant stakeholders. Once fully operational, this platform can serve as an important tool for monitoring the implementation of the S3 and National Science Programme, enabling evidence-based analysis and informing decisions about STI policy design.

Kosovo has taken steps to streamline its **institutional framework** for STI policy since the last assessment cycle. In 2021, science and innovation competencies were consolidated under a new ministry, the Ministry of Education, Science, Technology and Innovation (MESTI), whereas previously these two areas fell under different ministries. This reorganisation is expected to increase efficiency, co-ordination and implementation capacity, which will be particularly crucial once the S3 is adopted. In addition, a Scientific Research Council was established in 2022 with the mandate to lead, co-ordinate and oversee the development of an STI framework, and to advance the quality and capacity of scientific research in the economy, including the implementation of the aforementioned National Science Programme. Despite these advancements, Kosovo faces challenges given a lack of implementation capacity for STI activities. Although plans to establish a fund for research and innovation are outlined in Kosovo's Government Programme 2021-25 and new National Science Programme, progress on this initiative remains stalled.

Moreover, Kosovo is the only economy in the WB6 region that is not yet participating in the European Innovation Scoreboard (EIS). This contributes to the lack of reliable statistics on STI-related indicators, such as gross domestic expenditure on research and development (GERD) or the number of active researchers. The systematic collection of data through the KRIS platform could improve available statistics going forward and pave the way for Kosovo's inclusion in the EIS in the future.

Sub-dimension 9.2: Public research system

While initiatives to promote **research excellence** in Kosovo remain limited, given the lack of adequate budgetary, administrative and strategic support for the economy's public research system, the new National Science Programme constitutes a positive development. In 2023, public funding for research and development (R&D) activities remained at 0.1% of gross domestic product (GDP), falling short of the legal requirement to allocate at least 0.7% of GDP and leaving the economy far behind EU average levels of above 2% of GDP (European Commission, 2023[1]). In an effort to encourage research excellence, the National Science Programme developed in 2022 lays out an ambitious plan to advance research activity in Kosovo, including through a ten-fold increase in public spending on research and innovation activities over the next six years. To achieve this, the National Science Council proposed a budget of EUR 10 million for 2023; yet, only EUR 1.25 million has been allocated so far. This discrepancy raises concerns about the government's commitment to improving public research outputs and casts doubt on the feasibility of achieving the objectives set forth in the National Science Programme.

Since the last CO, efforts have also been made to improve academic integrity. In 2022, the Kosovo Accreditation Agency became a member of the European Association for Quality Assurance in Higher Education and the European Quality Assurance Register. In addition, the government took a decision regarding the alignment of scientific works and publications with research ethics, and efforts were made to complete and harmonise relevant legislation that specify the responsibilities of academic staff at universities and scientific employees in scientific research institutes. Public higher education institutions (HEIs), with the exception of the University of Pristina, rely entirely on national budget allocations that do not specifically prioritise funding for research over teaching, and often operate with outdated equipment. The National Science Programme envisages the development of a new performance-based funding model which could, if designed well, increase the strategic focus on scientific research with high-impact potential. Kosovo also receives donor support to strengthen its research capacity (Box 10.1); however, overall academic quality remains low reflected in brain drain and low levels of graduates entering this sector.

Human resources for research and innovation in Kosovo continue to be limited, with HEIs prioritising teaching over scientific research. The situation is further aggravated by unclear criteria for promoting scientific research, including via non-targeted funding. While doctoral programmes are available for post-graduates aiming to pursue a scientific research career, their quality is low, requiring a consolidated and co-ordinated approach by all stakeholders to enhance their development. Moreover, Kosovo's engagement in Marie Skłodowska-Curie Actions (MSCA), the EU's research and innovation fellowship programme, remains marginal. In an effort to promote the economy's human research capacity, the National Science Programme provides assistance to doctoral students in under-represented fields of research, both in Kosovo and abroad, and offers co-financing for participation in international conferences and publication in open-access journals. The Programme also aims to create financial support structures for post-doctoral researchers, with some competitive short-term mobility grants for participation in international research activities already existing. However, the uptake and scale of available support remains unclear amid a lack of monitoring and evaluation activities.

Notable progress has been made with regard to Kosovo's **international and regional co-operation.** Since the previous CO assessment in 2021, the economy has become fully associated with the Horizon Europe framework. As a result, a new National Contact Point (NCP) and Horizon Europe platform have been established and the economy now has access to all the benefits of the European research programme (Horizon Europe, 2023[2]). MESTI actively supports projects for Horizon applications, and the economy has seen increased participation levels in recent years, albeit from very low levels. Under Horizon Europe, 11 projects have already benefitted since 2021 by receiving EUR 1.24 million, compared to EUR 2.5 million under the entire Horizon 2020 budget between 2014 and 2020 (Horizon Dashboard, 2023[3]). While this is a welcoming trend, efforts are needed to maintain momentum and continue supporting Kosovo's participation levels through strategic and targeted policy actions and investments. Kosovo also participates

in the European Cooperation for Science and Technology (COST) platform; however, its status as a Near Neighbourhood has not changed with full COST membership still not granted. The National Science Programme also envisages a set of measures to actively draw from Kosovo's diaspora for research activities, while under the auspice of the KRIS digital platform, efforts are underway to map and engage Kosovo's research diaspora.

Box 10.1. International donors work to strenghten Kosovo's research capacity

There have been two internationally-funded projects in recent years aimed at assisting Kosovo in boosting its research capacity and infrastructure:

- **HERAS+ project:** The Higher Education Research and Applied Science Plus (HERAS+) project, implemented between 2020 and 2023, is aimed at supporting a more competitive and diversified public higher education and research sector in Kosovo. The project was funded by the Austrian Development Agency (ADA) and co-financed by the Ministry of Education, Science, Technology and Innovation (MESTI – formerly the Ministry of Education, Science and Technology). It focuses on three levels:
  - Policy level - The project sought to enable MESTI to effectively develop and implement policies for higher education and research institutions in line with European standards.
  - University level - The project aimed to review and develop the strategic plans of public universities and to base decision-making processes on these strategies in order to better contribute to a competitive higher education sector as well as to the economic, social and cultural development of Kosovo.
  - Research level - The project aimed at improving the quality of Kosovo's research capacities and promoting the internationalisation of its higher education and research institutions.
- **KODE project:** The World Bank-supported Kosovo Digital Economy Project (KODE), under implementation since 2019 and with a total budget of EUR 20.7 million, aims to expand access to high-speed and better-quality broadband infrastructure and promote growth of Kosovo's digital economy. As a result, over 4,000 households in 147 different villages now have access to high-speed broadband Internet. In addition, public institutions including schools, healthcare institutions and civil registry offices located in these areas are now connected to this infrastructure and can use its services free of charge for five years. By investing in improved broadband services for students and researchers, the KODE project aims to generate online job opportunities and enhance access to knowledge sharing through the provision of better public-private collaboration opportunities.

Sources: HERAS+ Project (2020[4]); World Bank (2024[5]).

Sub-dimension 9.3: Knowledge exchange and co-creation

Public-private knowledge exchange and co-creation in Kosovo are currently below their potential, but feature prominently in the economy's new National Science Programme. There are limited financial **incentives for business-academia collaboration**, with existing initiatives dependent on international donor support. In 2022, with support of the EU and Germany, the Innovation and Training Park (ITP) in Prizren (see further below) launched a EUR 200,000 grant programme under its #Digital4Business project to promote research partnerships between R&D institutes and small and medium-sized enterprises (SMEs). In addition, a project supported by the U.S. Agency for International Development (USAID) was launched in 2023 with the aim of establishing closer linkages between HEIs and the private sector, in

particular in the areas of agriculture and ICT. The authorities also reported plans to introduce a scheme for innovation vouchers to facilitate small-scale engagement in areas such as laboratory testing or prototyping. The timeline and scope of such a measure remain unclear, but could be re-addressed if and when an Innovation Fund is established.

Non-financial measures to stimulate business-academia collaboration are also limited and there is no incentive structure in place to prioritise research in strategically important areas such as digitalisation, sustainability and emerging technologies. Researchers continue to be evaluated based on conventional performance criteria, including citations and number of publications, rather than impact. Moreover, Kosovo's legal framework for intellectual property (IP) does not encourage collaboration and the economy's weak track record in enforcing IP rights further hinders engagement in research with high commercialisation potential. While an Intellectual Property Strategy has been developed, its adoption has been pending since 2022.

In 2022, Kosovo adopted a Research Infrastructure Roadmap with support of the Regional Coordination Council (RCC), which identified the limited research system and **R&I infrastructure for business-academia collaboration** as barriers to the economy's integration into the European Research Area (ERA). While the creation of the roadmap was an important milestone, the absence of an accompanying action plan has impeded its implementation. Some progress has been made in expanding institutional support structures for R&D; however, an overall lack of research infrastructure, including physical spaces, research tools, instruments, equipment and labs remains evident. Since the previous CO, Kosovo has established with the support of the German Government the Innovation and Training Park (ITP) in Prizren which is located at the premises of a former military camp. In total, both Kosovo and the German Government committed EUR 12.5 million for the ITP's establishment. Designed as a collaborative space to create linkages between businesses, the public sector, academia and civil society, the ITP offers a large number of services including a digital transformation centre and co-working space as well as incubation, start-up and business development services. By the end of 2023, it hosted 40 businesses, focusing on priority areas such as ICT and green energy in line with the forthcoming S3. Beyond the ITP, an institutional infrastructure in support of business-academia collaboration is largely absent. However, the new Science Programme envisages the establishment of an interdisciplinary institute for science and technology along with a number of centres of scientific excellence which could contribute to strengthening the existing R&I infrastructure.

While open access to science remains at a nascent stage, the economy has made some efforts to promote **open science**. The key principles of open science are embedded in the new National Science Programme and there are plans to establish a number of open access e-journal platforms. In addition, once fully operational, the KRIS digital platform is expected to facilitate open access to research publications. In 2020, one HEI from Kosovo participated in the RCC's regional Open Access Research Infrastructure under the Western Balkans Support Programme, which provided training and capacity building for university staff on open science. However, overall awareness and demand for open access research remains low, suggesting further efforts are required to promote and implement open science principles.

Overview of implementation of Competitiveness Outlook 2021 recommendations

The recommendations of the previous CO have only been moderately addressed (Table 10.2). While the new National Science Programme provides some strategic guidance to strengthen the scientific research system, the lack of a comprehensive and overarching strategic STI framework, coupled with limited investments into R&D, significantly impede the development of a knowledge economy in Kosovo.

Table 10.2. Kosovo's progress on past recommendations for science, technology and innovation

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Establish an overarching strategic view and develop mechanisms to co-ordinate policies across the whole of government	Limited progress has been made to enhance the STI policy framework, but a new National Science Programme provides some strategic guidance for research activities. The development of the Smart Specialisation Strategy is still ongoing. STI design, oversight and co-ordination has been consolidated under the Ministry of Education, Science, Technology and Innovation and a National Science Council was established.	Moderate
Identify and map the research and development infrastructure to gather economy-wide data on labs and researchers	In 2022, a new Research Infrastructure Roadmap was launched, but an action plan to support its implementation is pending.	Moderate
Increase investment in public sector research and encourage research excellence	Public sector research remains chronically underfunded and data collection on R&D expenditure (GERD) remains limited. Recommendations made under the National Science Programme to increase budget allocation in 2023 have not been met.	None
Maintain momentum and continue to improve participation in international STI collaboration	In 2022, Kosovo became a fully associated member in Horizon Europe and a new National Contact Point (NCP) platform has been launched. Horizon Europe participation has increased, but overall participation in international research programmes remains below capacity.	Moderate

The way forward for science, technology and innovation

Kosovo's performance in STI policy remains below capacity and only a few improvements have been achieved since the last CO. The economy needs to start formulating and designing concrete, realistic and holistic STI policy objectives and measures, and strengthen implementation capacity. Going forward, Kosovo should focus on the following:

- **Accelerate the adoption of the Smart Specialisation Strategy** to create a guiding strategic framework for science, technology and innovation. Swift completion and adoption of the Smart Specialisation Strategy, supported by an action plan and sufficient budgetary support, will enable Kosovo to develop tailored and targeted STI policy measures. Efforts should be made to strengthen implementation capacities, for instance through the creation of a professional team or agency, and synergies must be sought with the National Science Programme to ensure policy instruments are co-ordinated and designed in a holistic way to maximise impact.
- **Strengthen the performance and image of public scientific research.** Kosovo must make significant efforts to improve the quality and quantity of scientific research outputs. The economy should accelerate performance-based funding and investments into public research systems to support strategically relevant research fields and upgrade outdated equipment. Implementing stringent quality assurance measures will also enhance the quality and credibility of research outputs. In addition, targeted incentives for academic staff can help shift the focus from teaching towards research in HEIs. In the medium to long term, these actions can help boost the image of the public scientific research system, attract skilled professionals to the field, and ultimately position the research sector as a valuable partner for the private sector, notably in areas supporting Kosovo's green and digital transition.
- **Improve the quality and availability of statistical data related to STI.** The lack of reliable data on STI poses a challenge to the baseline assessment, monitoring and evaluation of policy measures which could hinder the effective implementation of the S3 (once adopted) as well as the National Science Programme. As an imminent priority, Kosovo's authorities should increase efforts and enhance capacity building to collect data on GERD and fully operationalise the KRIS platform

to collect more comprehensive information on scientific research activities. Participation in the OECD's STI Compass database can provide further assistance, and Kosovo should work towards participating in the EIS.

- **Increase investments into R&I activities through an effective funding methodology.** To align with the recommendations outlined in the National Science Programme, it is crucial to enhance funding for science and innovation activities. This will not only showcase Kosovo's credibility regarding its commitment to research excellence, but also provide the foundation for improving research outputs and outcomes. Key measures in this regard include a review of Kosovo's existing approach to funding public scientific research. Implementing a stronger focus on merit-based funding can provide incentives for R&D institutes to increase their attention to research and prioritise strategically important research fields.
- **Upgrade the economy's research infrastructure.** Kosovo's research infrastructure requires improvements in all areas. Following the launch of an R&I Infrastructure Roadmap, the adoption of an action plan would help identify priority areas and set concrete timelines for implementation. As a first step, investments should be directed towards modernising the research equipment of HEIs and R&D institutes, along with establishing a technology transfer facility. Additionally, developing an e-infrastructure will be a crucial cross-cutting objective to facilitate open access to scientific research and promote open science. Sweden's experience can serve as a useful example of good practice in the key factors for developing a robust STI ecosystem (Box 10.2).

Box 10.2. The Science, Technology and Innovation Ecosystem in Sweden

Sweden has a long-standing reputation for excellence in science, technology and innovation. With a strong emphasis on R&D, collaborative partnerships and a supportive STI policy framework, Sweden has established itself as a global leader in fostering scientific advancements and technological innovations. The following key good practices and initiatives have contributed to Sweden's success in the field of science and technology:

1. **Strategic investment in R&D**

Sweden consistently ranks among the top countries in the world regarding R&D investment as a percentage of GDP. The Swedish Government's strategic investment in R&D supports basic and applied research across various sectors, including ICT, the life sciences, clean energy and advanced manufacturing.

2. **Strong research ecosystem**

Sweden is home to several renowned universities, research institutes, and innovation hubs that foster collaboration, interdisciplinary research, and knowledge exchange. Institutions such as KTH Royal Institute of Technology, Lund University, and Chalmers University of Technology are globally recognized for their contributions to science and technology.

3. **Collaborative partnerships**

Public-private partnerships, industry-academia collaborations, and international research collaborations are integral to Sweden's science and technology landscape. Collaborative initiatives such as the Swedish Research Institutes (RISE) and innovation clusters bring together researchers, industry stakeholders, and policy makers to address complex challenges, drive innovation, and commercialise research outcomes.

4. Innovation-friendly policies

Sweden's innovation-friendly policies - including tax incentives for R&D, grants for startups and SMEs, and a supportive regulatory environment - encourage entrepreneurship, technology transfer, and commercialisation of research findings. The Swedish Innovation Agency (Vinnova) promotes innovation by providing funding, support, and networking opportunities to innovative projects and initiatives.

5. Focus on sustainability and green technology

Lastly, Sweden strongly emphasises sustainability, clean technologies, and green innovations. Initiatives such as the Swedish Energy Agency's research and development programmes, investments in renewable energy technologies, and sustainable urban development projects demonstrate Sweden's commitment to addressing climate change and promoting sustainable development through science and technology.

Sources: RI.SE (2024[6]); Swedish Energy Agency (2024[7]); Vinnova (2024[8]).

References

European Commission (2023), *EU Progress Report for Kosovo*, European Commission, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [1]

HERAS+ Project (2020), *HERAS Plus - About Project*, https://www.heraskosovo.org/ (accessed on 13 June 2024). [4]

Horizon Dashboard (2023), *Horizon 2020 - Country Profile*, European Union, https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/1213b8cd-3ebe-4730-b0f5-fa4e326df2e2/sheet/d1435e56-cdee-4f5f-8b0d-f49d41ffbd6c/state/analysis. [3]

Horizon Europe (2023), *Horizon 2020 - Country Profile: Kosovo*, https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/extensions/RTD_BI_public_Country_Profile/RTD_BI_public_Country_Profile.html?Country=XK (accessed on 13 June 2024). [2]

RI.SE (2024), "The research institute of Sweden: about page", https://www.ri.se/en/about-rise (accessed on 30 May 2024). [6]

Swedish Energy Agency (2024), *Innovations, Research and Development: Swedish Energy Agency*, https://www.energimyndigheten.se/en/innovations-r--d/ (accessed on 30 May 2024). [7]

Vinnova (2024), "We are Sweden's Innovation Agency", https://www.vinnova.se/en/ (accessed on 30 May 2024). [8]

World Bank (2024), *Remittances Prices Worldwide*, http://remittanceprices.worldbank.org/ (accessed on 17 January 2024). [5]

11 Digital society

Digital transformation, driving efficiency and productivity through the adoption of digital technologies and data utilisation, holds promise for fostering economic activity and competitiveness. This chapter, across four sub-dimensions, assesses the scope and quality of the policy framework and strategies and the implementation and adoption by Kosovo. The first sub-dimension, access, explores government policies and initiatives to enable network infrastructure investment and broadband services take-up and increase data accessibility. The second, use, delves into the government's plan to implement programmes to develop a user-centric digital government and help businesses achieve a digital transformation. The third, society, assesses whether governments have planned and implemented programmes to reduce the digital divide and create an inclusive society through green digital technologies. The fourth, trust, examines the economies' frameworks and how they are being implemented to protect data and privacy, build trust in e-commerce and ensure cybersecurity through effective digital risk management systems.

Key findings

Kosovo has enhanced its performance in the digital society policy dimension since the last assessment (Table 11.1).[1] Kosovo has made advancements in government and business digitalisation, digital inclusion, privacy and personal data protection, consumer protection in e-commerce and cybersecurity. However, it slowed down in data accessibility. Kosovo's overall performance remains in line with the average Western Balkan regional performance for digital society policy.

Table 11.1. Kosovo's scores for digital society

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Digital society	1: Access			2.7	2.9
	2: Use			2.0	2.3
	3: Society			2.3	1.7
	4: Trust			3.2	2.7
Kosovo's overall score		**2.2**	**2.3**	**2.5**	**2.5**

The **key findings** are:

- In March 2023, Kosovo achieved a milestone by connecting all rural settlements to a broadband Internet infrastructure. Despite this progress, challenges persist in meeting the revised gigabit connectivity targets. Notably, at 22%, Kosovo's fixed Internet access penetration per 100 inhabitants remains among the lowest in the Western Balkan region.
- While Kosovo is in the process of updating its electronic communications framework to align with the European Electronic Communications Code, the alignment process is projected to continue until 2025. The existing framework lacks sufficient incentives for competition and private sector investments in high-capacity fibre infrastructure and mobile network quality enhancements.
- Kosovo's data accessibility lacks efficient regulation for data sharing and re-use, hindering data-driven innovation. Public institutions' obligations regarding data transparency, openness and proactive disclosure are poorly understood and enforced. Moreover, there is a lack of capacity building for public sector officials and private sector data practitioners to develop trustworthy data partnerships aimed at creating new services.
- Kosovo adopted a strategy for digital government development in 2023, prioritising e-services development, alongside public administration digitalisation and reducing administrative burdens through process simplification. However, the government's interoperability platform remains underutilised and inadequate capacities among public sector officials reduce the speed and quality of e-government initiatives. Currently, only 10% of public services are available on the national e-government portal.
- Although cross-sectoral policies aimed at addressing different aspects of digital inclusion have been adopted, their implementation lacks adequate horizontal co-ordination. The establishment of the Digital Transformation Commission under the Prime Minister's office aims to enhance inter-ministerial co-operation and systematic policy monitoring.
- Kosovo adopted both a strategy and a new law on cybersecurity in 2023, committing to comprehensive reforms aimed at strengthening the economy's cybersecurity capacity. While the new law enhances alignment with the EU *acquis*, its implementation is still in the early stages, necessitating a significant increase in human and financial resources.

State of play and key developments

The Information and Communications Technology (ICT) sector stands out as one of the few industries in Kosovo with a positive trade balance. In the process of developing Kosovo's Smart Specialisation Strategy, ICT has been identified as one of the five priority sectors with significant potential in fostering growth and innovation within the economy. ICT companies in Kosovo mainly specialise in software development and IT services, particularly focusing on web and mobile applications. These companies have a strong global outlook, with 38% of them solely targeting international markets (STIKK, 2023[1]). The salaries offered by ICT companies in Kosovo consistently surpass average monthly salaries in the economy, reflecting the sector's growth.

The government of Kosovo has shown strong commitment to using digital technologies to enhance transparency and accountability in governance, improve services for citizens and businesses, and increase the productivity and competitiveness of the economy. However, despite the growing trend towards digitalisation, the availability of electronic services remains limited with the number of e-services not exceeding 130, constituting a relatively small fraction of all public services. Both the private and public sectors struggle with a shortage of qualified ICT professionals, who represent a mere 0.5% of the total workforce in 2023 (MIA, 2023[2]). While Internet access has reached an impressive 98.6% of households in 2023 (KAS, 2023[3]), only 28% (2022) of individuals aged 16 to 74 use the Internet to interact with public administration services, indicating further room for improvement in digital engagement and literacy among the population (KAS, 2022[4]).

Sub-dimension 10.1: Access

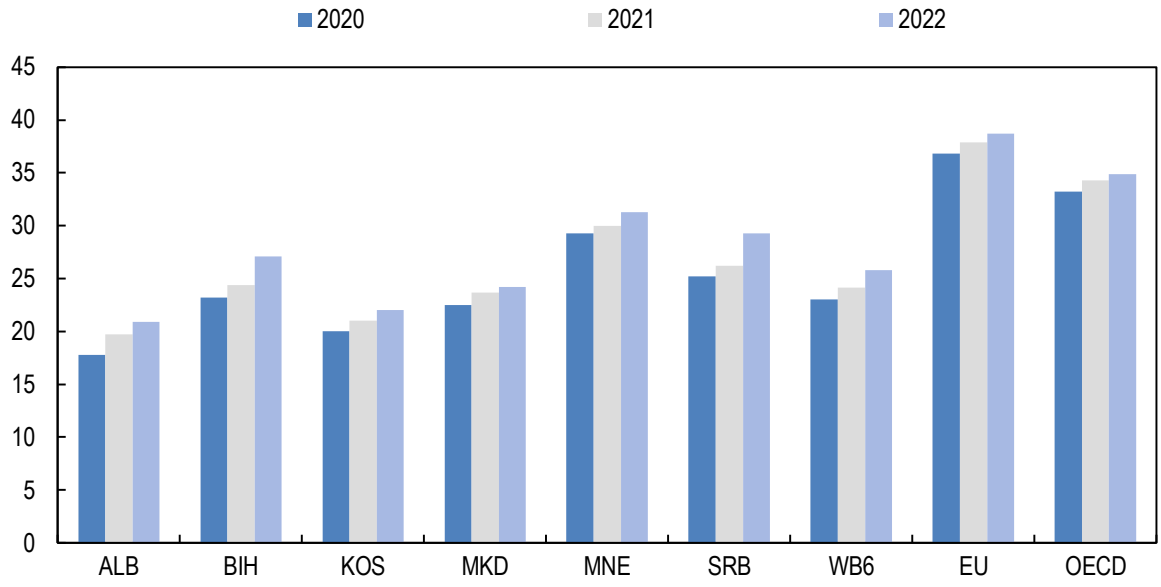
Kosovo has made significant advancements in **broadband infrastructure** development over the past three years. The overarching Digital Agenda Strategy 2030, adopted in June 2023, outlines gigabit connectivity objectives for key socio-economic drivers, encompassing public buildings, academic institutions and schools across the entire territory by 2026. Additionally, strategic documents, such as the Government Programme 2021-25 and the National Development Strategy of Kosovo 2030, underscore the pivotal role of fixed broadband and 5G mobile infrastructure in fostering the digital economy. Broadband connectivity in rural and underserved areas has increased through the implementation of the Kosovo Digital Economy (KODE) project, financially supported by the World Bank. The KODE project connected over 60 mobile network towers (5G or 5G ready) through fibre by 2021 and all rural settlements to broadband Internet infrastructure by March 2023, helping Kosovo achieve 100% broadband KODE Project (2023[5]). The KODE project connected Kosovo's Research and Education Network (KREN) with the European academic network (GEANT), and access to Eduroam, a secure worldwide service that enables students, researchers and staff from educational institutions to have Internet connections across their campuses, but also during their visits to other institutions abroad. Moreover, it provides subsidised fixed or mobile high-speed Internet access to schools across Kosovo, with the installation of digital infrastructure in 100 schools completed at the beginning of 2024 and an additional 110 schools already in the pipeline.

Mobile broadband penetration per 100 inhabitants through 3G and 4G technologies has increased significantly, reaching 95.4% in the third quarter of 2023 (ARKEP, 2023[6]). However, despite advancements in mobile broadband, achieving the revised gigabit connectivity targets faces significant challenges. Kosovo's fixed broadband Internet penetration per 100 inhabitants has remained stagnant, between 21% and 22% over the past three years (ARKEP, 2023[6]) (Figure 11.1); this ranks it among the lowest in the Western Balkan region, trailing the EU (38.70%) and the OECD average (34.9%) in 2022 (OECD, 2022[7]). Hindrances to the development of very-high-speed broadband infrastructure include limited private sector investment capacities, an outdated cable network unsuitable for gigabit speeds[2], and delays in 5G development. Kosovo has not yet completed legal and regulatory reforms to align with the EU policy framework for gigabit broadband development, including alignment with the EU Connectivity

Toolbox and the 2023 revised EC Guidelines on state aid for developing broadband networks. Addressing these challenges will be vital to realising Kosovo's aspirations for ultra-high-speed connectivity.

Figure 11.1. Fixed broadband penetration in the WB6 economies, the EU and the OECD (2022)

Subscriptions per 100 inhabitants



Sources: ARKEP (2023[6]) for KOS; Eurostat (2022[8]).

StatLink https://stat.link/mxdlr1

The existing **communications regulatory framework** is outdated and does not effectively encourage competition, investment or consumer choice diversity. The government is in the process of formulating a new Electronic Communications Law, along with complementary secondary legislation to align with the European Electronic Communications Code.[3] However, the timeline for this undertaking anticipates the adoption of the new law only by mid-year 2024, with accompanying regulations extending until mid-year 2025. Until then, the financial independence of the Authority of Electronic and Postal Communications (ARKEP) will not be ensured (European Commission, 2023[9]). Meanwhile, broadband Infrastructure mapping is progressing, fostering enhanced transparency and reducing operators' uncertainty. Existing regulations align with the EU Broadband Cost Reduction Directive,[4] leading to cost reductions for the development of high-capacity network infrastructure. However, administrative burdens related to construction works are still present due to incomplete harmonisation of legacy legislation, discouraging private sector investments. Although 5G licences were granted to two telecom operators (IPKO and Telecom Kosovo) in the 800MHz and 3.5 GHz frequency bands in early 2023, regulations for simplifying 5G network installations, such as a permit-exempt deployment regime, are still pending. Furthermore, there are no specifications for the physical and technical characteristics of small-area wireless access points (small antennas) in alignment with the relevant EC regulation.[5]

Kosovo has yet to advance its **data accessibility** policy framework to promote the sharing and reuse of data in the digital economy, aligning with the principles of the EU data strategy. The foundation for open data development in Kosovo is the Public Administration Reform Strategy 2022–27. The strategy aims to enhance accountability and transparency by urging the state administration to provide more information on its activities and performance through public institution websites and the Open Data Portal.[6] While it

incorporates the concepts of sharing and re-use of open datasets from public sector institutions, there is insufficient regulation of published data. The current legal and regulatory framework lacks provisions that clearly delineate the process of data sharing and re-using, data governance and technical specifications for published datasets. As of early 2024, the national open data portal hosted only 205 datasets from 14 institutions, which are not always available in machine-readable formats. Without data certification systems on the open data portal, datasets are not subject to review for compliance with open government data principles, drastically limiting their re-use potential.

The legislation on access to public sector information is not aligned with key EU legislation, such as the Open Data Directive[7] and the EU Data Governance Act.[8] Thus, Kosovo is not compliant with the common set of rules for establishing government-held data marketplaces, adopted by EU Member States and some of the Western Balkan economies. This limits Kosovo's opportunities to collaborate with WB economies and EU Member States in new data-driven services. The existing legal framework does not incorporate the concepts of high-value datasets and data-intermediary services provided by trustworthy organisers of data sharing or pooling. Despite policy objectives to foster transparency in governance, public institutions' obligations to publish data are practically unenforced, and open data indicators are not regularly monitored. In December 2022, no public institutions at the central level had published information catalogues on their official websites. The most significant challenges for data accessibility and openness in Kosovo involve public officials' lack of skills in data management and distribution, inefficient co-ordination of standards and processes for data re-use, and a lack of opportunities for public awareness regarding data innovation and data partnerships with public institutions.

Sub-dimension 10.2: Use

Kosovo has made some strides in **digital government** development since 2021, but the pace of digitalisation remains slow. Recognising the pivotal role of digitalisation in transforming Kosovo's society and economy, key strategic documents like the Government Programme 2021-25 and the National Development Strategy 2030 underscore its importance. Moreover, Kosovo has renewed commitment to digital government by adopting the overarching Digital Agenda Strategy 2030 and the sectoral e-Government Strategy 2023-27 in 2023. Concurrently, efforts are underway to simplify administrative processes through the Strategy for Public Administration Reform 2022-27 and the Program for the Prevention and Reduction of Administrative Burden 2022-27. These initiatives have streamlined 152 services at central and local levels, with another 64 services eliminated in three municipalities, while over 30 services are in the digitalisation pipeline (PM Office, 2024[10]). However positive, the activities outlined in these documents require careful co-ordination to avoid leading to redundant efforts in digitalisation and simplification processes. Kosovo faces challenges in adopting a coherent approach regarding governance of public administration IT services and co-ordination of parallel activities. Limited progress has been made in re-designing e-government services and implementing the "once only" principle.[9] Additionally, a shortage of IT specialists - constituting only 0.5% of total public employment – hampers digital transformation efforts (MIA, 2023[2]). To address these challenges, the government has established the Digital Transformation Commission under the prime minister's office and the Digital Transformation Unit to oversee strategic digital transformation projects and to co-ordinate the implementation of the e-Government Strategy, respectively. Both structures aim to enhance e-service redesign initiatives and strengthen public sector capacity building in various topics from digital service design to cybersecurity. In 2023, 65 officials received training on preventing and reducing administrative burden and service design, while another 400 will be trained in 2024 (PM Office, 2024[10]).

In the meantime, the utilisation of e-government services in Kosovo remains below expectations. Despite high Internet usage (98.3%) in 2023 (KAS, 2024[11]), surpassing the EU average (92.42%) (Eurostat, 2024[12]), and 100% coverage in basic broadband access, an alarming 72% of individuals had never accessed the Internet for public administration information or services in 2022 (KAS, 2022[4]). While efforts to develop the government interoperability platform have advanced, it remains underutilised. Inefficiencies

in the legal framework governing administrative procedures and digital service provision and poor data quality in digitalised public registers result in a mere 10% of public services being available online. Furthermore, while the legal framework aligns with the EU eIDAS[10] Regulation, the deployment of the government's eID system is not expected before 2025, which impedes the development of fully transactional domestic and cross-border e-services.

Kosovo is in the early stages of **digital business** development, although it has shown some advancement in the past three years. The Digital Agenda 2030 strategy emphasises the importance of business digitalisation. However, the integration of relevant activities into specific budgeted programmes and projects is still pending. Currently, business digitalisation is primarily driven by private sector investments and donor-funded programmes, such as the 4-year "Access" Programme completed in 2022 with financial support from the Austrian Development Agency. Although the Programme supported 62 businesses in their digital transformation, its impact on SME digitalisation on a broader scale remains limited. Despite high rates of computer (99.2%) and Internet (97.1%) usage among enterprises in 2022, only 40% had company websites, significantly trailing the EU average of 78.1% (Eurostat, 2024[13]). Similarly, only 4.8% of enterprises in Kosovo conducted online sales in 2022, compared to the EU average of 22.9% (Eurostat, 2024[13]). On the other hand, 76.1% of companies in Kosovo engaged with social media in 2022 (KAS, 2022[14]), exceeding the EU average of 57.1% in 2023 (Eurostat, 2024[13]).

However, Kosovo has yet to update its IT Strategy, which dates back to 2016, to foster ICT sector growth. The Economic Reform (ER) Programme 2023-25 acknowledges the vital role of the ICT industry in the digital economy and Kosovo's overall economic growth. It outlines plans to review the outdated IT Strategy, though this activity is still pending. Additionally, the ER Programme aims to advance the Digital Excellence Centre and the Prizren Innovation and Training Park (ITP Prizren), currently under development. Furthermore, the inauguration of the Digital Technology Park in Bërnicë, Pristina, in October 2023, managed by the ICT Association of Kosovo (STIKK), marks a significant milestone in supporting start-ups and innovative businesses, including ICT companies.

Despite these advancements, the digital innovation capacity of Kosovo's ICT industry faces constraints due to the gap between industry demand for highly skilled ICT professionals and available ICT graduate capacities. According to the IT Barometer 2021-22, 44% of IT companies encountered challenges due to an inadequately educated workforce, prompting a substantial increase (43%) in investments for employee training from 2021 to 2022 (STIKK, 2023[1]). To bridge this gap, the government has initiated programmes for workforce digital upskilling and ICT professionals' training, with international donor and EU financing. The KODE project aims to train a total of 3 000 young people in ICTs by the end of 2024 through the Youth Online and Upward (YOU) programme. Thus far, 1 300 unemployed or underemployed young men and women with university education have already undergone training in technical and soft skills. Additionally, around 1 500 ICT professionals have received training and certification in advanced ICT topics through 67 relevant courses financed by the EU-funded Instrument for Pre-accession Assistance (IPA programmes).

Kosovo has yet to establish a dedicated policy for the development and utilisation of **emerging digital technologies** such as artificial intelligence (AI), the Internet of Things (IoT) and blockchain. Although the Digital Agenda Strategy 2030 envisions the formulation of an AI strategy, the development of an enabling legal framework for innovation through emerging technologies, and the integration of emerging technologies into tertiary education curricula, this vision requires further elaboration into specific budgeted initiatives with well-defined roles, monitoring and accountability processes. Additionally, the Economic Reform Programme 2023-25 outlines plans to establish a Laboratory for 5G, IoT, Cybersecurity and Smart Village at the Innovation and Training Park in Prizren. The government also plans to use support from the World Bank to establish an innovation cell within the Information Society Agency (ASHI).[11] This innovation cell will primarily focus on exploring the practical application of emerging technologies, including AI, cryptography and big data, within the realm of public administration. Notably, the IT industry in Kosovo is

already using various emerging technologies. According to the IT Barometer 2021-22, the most widely adopted technologies, among surveyed companies, included web-based development (81%), AI (36%), big data (33%), and data science (29%) (STIKK, 2023[1]). However, other emerging technologies, such as blockchain (17%) and virtual reality/augmented reality (8%) are less commonly used, suggesting potential areas for growth and exploration within the industry (STIKK, 2023[1]).

Sub-dimension 10.3: Society

Kosovo has made notable progress in **digital inclusion** over the past three years, propelled by the overarching Digital Agenda 2030 strategy, which aims to cultivate a digitally skilled population. This advancement is underpinned by two key factors: Kosovo's youthful demographic and widespread Internet connectivity spanning the economy's entire territory (Box 11.1). By the end of 2023, the KODE project delivered at least basic broadband connectivity to households in every rural settlement in Kosovo. According to the 2023 survey on ICT usage in households, 98.6% of households now have Internet access, with a slight majority of users being women (51.7%) compared to men (48.3%). The predominant means of access is through mobile/smartphones (94.8%) (KAS, 2023[3]). However, while Internet usage mainly revolves around basic activities such as browsing, social media and emails, more advanced applications like e-education and e-health remain underutilised, partly due to the limited availability of corresponding e-services. Additionally, Kosovo lacks policy initiatives or programmes aimed at promoting digital technology usage among marginalised groups to ensure digital inclusion regardless of age, geographic location, education level, ethnicity or ability. Moreover, the legal framework on accessibility of public websites has not been updated since 2021 to align with EU legislation and international standards. Current legislation lacks provisions for ICT products and services' certification for accessibility and integration of relevant requirements in public procurement processes. While the Office of Good Governance in the prime minister's office is responsible for human rights, equal opportunities and non-discrimination issues, it does not assess progress or propose policy adjustments to mitigate digital exclusion among marginalised groups, such as the Roma and Egyptian populations. Furthermore, Kosovo has yet to prioritise horizontal co-ordination of cross-sectoral policies addressing different aspects of digital society development, resulting in weak operational-level interministerial co-operation. Consequently, data collection and impact assessment of policy initiatives related to digital inclusion are inadequately monitored.

Kosovo is in the very early stages of formulating policy measures to foster the development of **green digital technologies**. The Digital Agenda 2030 strategy represents the first policy initiative outlining a vision for the development of sustainable and secure fixed and mobile green network infrastructure. While this marks a significant step towards integrating environmentally sustainable practices into digital technologies, its implementation is currently pending, as specific initiatives in this domain are yet to be elaborated. Similarly, the Economic Reform Programme 2023-25 outlines activities aimed at harnessing digital technologies to facilitate the green transition, but tangible outcomes have not yet materialised. However, there is presently no formal assessment of the environmental footprint of the digital sector, including ICT-intensive firms, or an evaluation of the impact of government and business digitalisation. Additionally, there is a lack of data collection on indicators measuring enterprises' and households' environmental practices, impeding informed policy-making processes. Nevertheless, it is positive that Kosovo has adopted the Integrated Waste Management Strategy (IWMS) 2021-30. The Strategy promotes the development of extended producer responsibility (EPR) mechanisms in four product waste categories, including waste electric and electronic equipment (WEEE, e-waste). These efforts aim to transfer the responsibility for managing end-of-life products from consumers and municipalities to producers, leading to improved environmental outcomes, resource efficiency, and economic development.

Box 11.1. Kosovo rising among Europe's strongest on-liners

Based on the latest data from Eurostat in 2021, a large number of Europeans who use the Internet are mostly located in the northern part of the continent. Kosovo is one of the few exceptions, and it is among the top-performing economies in terms of Internet usage, along with the five Nordic countries (Denmark, Norway, Sweden, Finland, Iceland), the United Kingdom, Ireland, Luxembourg, and Switzerland. These economies have the lowest percentage of individuals who do not use the Internet, ranging from 0% to 4%.

Kosovo's exceptional performance can be attributed to two primary factors. Firstly, its citizens have embraced the Internet as a means to stay connected with family members living abroad, given Kosovo's huge diaspora. Secondly, Kosovo has Europe's youngest population with nearly 50% of its citizens under the age of 30, thus making up an economy with a high percentage of digital natives.

Sources: Big Think (2023[15]); KODE Project (2023[5]).

Sub-dimension 10.4: Trust

Kosovo has significantly enhanced its **privacy and data protection** framework since 2021. Aligning the Law on Personal Data Protection (PDP) with the EU General Data Protection Regulation (GDPR)[12] in 2021 marked a crucial step, followed by the adoption of secondary legislation, including practical guidelines for its implementation over the past two years. Despite these advancements, the government has yet to prioritise the development of an e-privacy policy to complement the legal framework in personal data protection. Such a policy would provide a more holistic approach to e-privacy issues, ensuring layered protection for personal data, while striking a balance between privacy and business interests, covering both general processing and specific electronic communication aspects. The Information and Privacy Agency, as the competent public authority for privacy and personal data protection, has actively implemented the personal data protection framework. However, Agency's current staff size of only 4 officials in the Personal Data Protection Department, coupled with insufficient financial resources funded from the state budget, limits its capacity to effectively implement the PDP framework and assess its impact in the public sector and business sectors. A plan to increase the Agency's data protection staff to 10 officials is scheduled for 2024.

The Agency's limited resources are impacting its capacity to conduct adequate awareness-raising and capacity-building activities. In 2022, the Agency had international donor support to implement awareness campaigns for public sector officials and the public, as well as to train its own personnel. These campaigns included presentations at public universities, distributing informative brochures throughout the territory, and participating in televised debates on personal data protection. Additionally, the Agency conducted training sessions for public sector officials at both central and local levels, as well as for judges, prosecutors, and data protection officers in the private sector. The Agency has gained stakeholders' trust through its proactive measures in safeguarding e-privacy and personal data, as reported by international media freedom organisations and journalists for Kosovo (CPJ, 2022[16]). In 2022, the Agency issued 172 decisions and imposed 8 misdemeanour fines, evenly distributed between public and private auditors. It also inspected the municipalities of Kosovo, regarding personal data processing through camera surveillance systems in public spaces and issuing mandatory decisions to stop the processing and transfer the surveillance system to the Kosovo Police as the competent authority where necessary (AIP, 2023[17]).

Kosovo has enhanced its policies and programmes **on consumer protection in e-commerce**, although emphasis on necessary legal reforms has been insufficient. The Consumer Protection Programme

2021-25 aims to harmonise relevant legislation, strengthen and develop administrative capacities in consumer protection, and educate consumers. However, its implementation has been slow. The Consumer Protection Department (CPD) in the Ministry of Trade employs only seven staff members and despite recommendations from the EC, the Law on Consumer Protection is not yet amended to address problematic articles and increase consumer awareness in e-commerce (European Commission, 2022[18]). The Law does not align with the EU Consumer Rights Directive[13] or the relevant Consumer Rights Directive Guidance[14] ensuring better enforcement and modernisation of consumer protection rules. Alignment is required regarding alternative dispute resolution, effective enforcement and consumer rights protection against unfair commercial practices.

The limited capacities of the CPD, co-ordinating the Consumer Protection Programme's implementation, hamper effective awareness-raising activities on consumer rights and trader obligations in online purchases. Over the past three years, the CPD received 336 complaints regarding online purchases, resolving 77.68% of them (261 complaints), but leaving 75 complaints unprocessed. This small number of complaints reveals a low level of consumer awareness regarding their rights. Although the programme recognises e-commerce consumer protection as a priority, limited progress has been made in ensuring online consumer education. The CPD distributed approximately 6 000 fliers during "Consumer Week" in March 2023 around the five main regions of Kosovo, informing e-consumers about safe online shopping practices, and published a relevant e-consumer guide on its website. However, the significant increase in e-commerce since 2021 underscores the need for stronger public campaigns, particularly as the percentage of individuals engaged in e-commerce surged from 23.1% in 2021 to 51% in 2022 (KAS, 2024[19]), closely following the EU average of 55.79% (Eurostat, 2024[20]). Additionally, while the trade/market inspectorate conducts inspections according to trading and quality standards of goods and services, inspection activities in e-commerce businesses are not emphasised.

Kosovo strengthened its **cybersecurity** policy and legal framework in 2023 aiming to enhance the economy's resilience against cybercrime. However, the implementation of relevant initiatives is pending and cybersecurity capacities remain inadequate. The new Cybersecurity Strategy 2023-27 with an Action Plan, adopted in late 2023, seeks to reinforce cybersecurity capacities and promote investments in the field, focusing on critical infrastructure protection through technological innovation and capacity-building initiatives. However, as of February 2024, the implementation of this action plan remains in its early stages. The strategy's monitoring and evaluation processes are expected to improve the availability of cybersecurity indicators and statistical data in the next assessment period.

Furthermore, the adoption of the Law on Cybersecurity in April 2023, improved Kosovo's alignment with the EU NIS Directive[15] on networks and information systems security, but implementation efforts are in the initial phase. The government has initiated the drafting of eight by-laws for the Law's implementation, pending adoption, and plans to finalise the framework with another five by-laws in 2024. However, full alignment with the EU *acquis* on cybersecurity will remain incomplete, until Kosovo amends legislation according to the EU NIS2 Directive,[16] enforced in 2023, which extends the scope of the NIS Directive and strengthens the role of the NIS Co-operation Group. Such an alignment would establish the same high level of cybersecurity in Kosovo as in EU Member States and facilitate stronger co-operation between Kosovo's forthcoming National Cybersecurity Agency and its counterpart authorities in the EU. The Agency, mandated by the current Law, is projected to be operational in 2025.

Meanwhile, the national CERT operates as a unit of the electronic communications regulator, ARKEP, awaiting its integration into the National Cybersecurity Agency. Progress on establishing sectoral Computer Emergency Response Teams (CERTs) is slow and a shortage of expert cybersecurity capacities hinders the creation of private and public sector Computer Security Incident Response Teams (CSIRTs). Addressing the shortage of cybersecurity talent is imperative, given its critical role in Kosovo's economy and social stability, especially with the significant reliance on digital services outsourced from EU and US markets. Additional challenges to be addressed include inadequate awareness raising on security risks

and the adoption of effective mitigation measures. Moreover, Kosovo lacks a cybersecurity certification framework for ICT products, services and processes, in line with the EU Cybersecurity Certification Framework. Despite awarding commercial 5G licenses, Kosovo is yet to adopt measures on 5G networks' cybersecurity.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress on implementing CO 2021 Recommendations has been mixed. The economy has made strong advancements in personal data protection and enhanced its government digitalisation efforts. Progress has been limited in aligning the electronic communications framework with the EU *acquis*, facilitating data-driven innovation and ensuring web content accessibility. Table 11.2 shows the economy's progress in implementing past recommendations for developing a digital society.

Table 11.2. Kosovo's progress on past recommendations for digital society

Competitiveness Outlook 2021 Recommendations	Progress status	Level of progress
Update legislation to ensure the financial independence of the domestic regulatory authority for electronic communications, in accordance with the EU framework	The government has yet to adopt a new Law on Electronic Communications, aligned with the European Electronic Communications Code. The new law is under preparation, anticipated by mid-year 2024. Until the adoption of the new law and accompanying secondary legislation planned for 2025, the regulator's independence is not ensured.	Limited
Accelerate the adoption of data re-use, sharing and commercialisation legislation, and strengthen the demand for open data innovation through inclusive co-creation processes	Current legislation on access to public sector information is not aligned with key EU legislation, such as the Open Data Directive and the EU Data Governance. Published datasets are not subject to review for compliance with open government data principles, limiting their re-use potential. There is a lack of opportunities for public awareness regarding data innovation and data partnerships with public institutions.	Limited
Ensure that the new Strategy for Electronic Governance 2020-25, which is pending adoption, provides a concrete vision of digital transformation across government bodies and public institutions, and promotes the creation of high-quality online transactional services	The e-Government Strategy 2023-27 was finally adopted in late 2023, providing a strong digital government vision. However, progress in digitalising public administration and fostering user-centric e-government services has been sluggish. Inefficiencies in the legal framework governing administrative procedures and digital services provision, and underutilisation of the interoperability platform, hinder the development of high-quality services. Only 10% of services are available online. To address inefficient governance of public administration IT services, the government recently established the Digital Transformation Commission under the PM Office and the operational Digital Transformation Unit.	Moderate
Accelerate the establishment of the Agency for Curriculum, Assessment and Standards (AKVS) and improve co-operation with the private sector for high-quality ICT education that meets labour market needs	Digital skills development is not part of the Digital Society policy dimension framework in the current assessment	N/A
Adopt obligatory guidelines that ensure that e-accessibility of public sector websites meet international standards (e.g. WCAG 2.0), and develop a database of digital inclusion indicators	The legal framework on accessibility of public websites has not been updated since 2021 to align with EU legislation and international standards. Kosovo has not prioritised horizontal co-ordination of cross-sectoral policies tackling different aspects of digital society development, resulting in weak operational-level inter-ministerial co-operation and absence of effective monitoring of digital inclusion policy initiatives.	Limited
Appoint a commissioner to head the Information and Privacy Agency, and allocate sufficient human and technical resources to allow the agency to complete and implement the legislative framework	Kosovo has significantly enhanced its privacy and data protection framework since 2021, aligning the Law on Personal Data Protection with the EU General Data Protection Regulation (GDPR) and adopting secondary legislation. Although its resources are limited, the Agency leveraged donor funding to conduct awareness-raising activities for public sector officials and the public, as well as to train its staff. The Agency has actively implemented the framework and has gained stakeholders' trust.	Strong

The way forward for digital society

Considering the level of the previous recommendations' implementation, there are still areas in which Kosovo could enhance the digital society policy framework and further improve access to electronic communications and public data, digitalisation of government and businesses, inclusiveness of the digital society and trust in digital technologies. As such, policy makers may wish to:

- **Accelerate the adoption of the new Law on Electronic Communications and secondary legislation to facilitate investments in mobile 5G networks.** Although Kosovo has already granted 5G licences, implementing a permit-exempt deployment regime will streamline and expedite 5G network installations, specifying the characteristics of small-area wireless access points (small antennas), according to regulation (EU) 2020/1070.[17] Further alignment with the EU Connectivity Toolbox[18] and the (EU) 5G Security Toolbox[19] is crucial to developing new high-speed network infrastructure.
- **Update the legal framework on open data to foster the growth of a data-driven digital economy.** The government should adopt new legislation aligned with the Open Data Directive and the EU Data Governance Act, expanding the legal obligations of public institutions to enable re-use of public sector data. This legislation should regulate licences, dataset formats and metadata content, while identifying high-value datasets (e.g. geospatial, meteorological, statistics, mobility, etc.) and establishing trustworthy data services for data sharing and pooling. It is vital to reinforce the implementation of the framework with systematic capacity building for public officials in managing and distributing data, co-ordinating standards and processes for data re-use, and fostering partnerships with the private sector and civil society on data-driven e-service development (Box 11.2).
- **Prioritise the connection of all public registers and ensure utilisation of the interoperability platform for all data exchanges.** The government should promote these reforms to facilitate the rapid development of e-government services and effectively implement the "once only" principle for a user-centred digital government. Additionally, completing alignment with the EU interoperability framework will facilitate future development of cross-border services. Adequate planning and co-ordination of the e-Government and public administration reforms (PAR) strategies, as well as the Programme for the reduction of administrative burden, are vital to ensure that administrative simplification does not interfere with the plan for public services' digitalisation, causing further delays or creating a recurring need for e-services re-design. The government should engage in informing, educating, and garnering public support to ensure the continuity and success of ongoing and future reforms.

Box 11.2. Promoting trust-based data partnerships

Developing trustworthy data partnerships requires a holistic approach that addresses technical, legal, ethical, and organisational aspects while promoting collaboration, transparency, and accountability among partners. Data partnerships should deliver mutual benefits and value to all parties involved. Ensuring the security and privacy of data shared between partners is paramount, while compliance with data protection regulations, as well as contractual agreements outlining data usage, ownership, and liability is crucial.

The establishment of sustainable public-public, public-private and private-private partnerships across sectors and borders enables participants to share information, good practice and experience on risk and its management. They can also help improve public policies. However, trust among stakeholders is essential for such partnerships to emerge, in part because of the sensitivity of the information to be exchanged.

The OECD *Critical Activities Recommendation* provides a list of conditions to establish trust. They include the need for clear aims, values and rules, mutual benefits over time, respect for personal data protection and other regulation protecting the confidentiality of information such as trade secrets.

Source: OECD (2022[21]).

- **Ensure stronger horizontal interministerial co-ordination of activities and monitoring of digital inclusion activities.** The government should consider appointing a public body wit high-level political commitment and operational capacity to co-ordinate and support the implementation of digital inclusion activities across various public sector institutions. Regular monitoring of a specific set of digital inclusion indicators is essential for informing future policy design. Additionally, swift adoption and enforcement of compliance with EU[20] and international e-accessibility standards for all public sector websites and applications are recommended. It is also important to adopt an accessibility certification scheme and integrate accessibility requirements into public procurement processes for ICT products and services.
- **Allocate adequate resources to cybersecurity and continue aligning with the EU cybersecurity framework.** While the adoption of the new Law on Cybersecurity in 2023 is a positive step forward, the government should allocate significant human, technological and financial resources for its implementation and further alignment with the EU NIS2 Directive and the Cybersecurity Act.[21] Operationalising the National Cybersecurity Agency with integration of the national KOS-CERT by the end of 2024 is critical for managing cybersecurity challenges through increased international co-operation and knowledge sharing. Effective capacity-building efforts for public sector officials and private sector professionals, along with awareness-raising initiatives for the general public, are necessary investments.

References

AIP (2023), *Summary of AIP Activities for 2022*, Information and Privacy Agency, https://aip.rks-gov.net/download/summary-of-aip-activities-for-2022/. [17]

ARKEP (2023), *Summary of the Main Indicators of Electronic Communications No.04/2023*, Regulatory Authority of Electronic and Postal Communications, https://www.arkep-rks.org/desk/inc/media/1e267bbd-b2b1-4c0d-a5db-d4acebc22165.pdf. [6]

Big Think (2023), "Europe's stunning digital divide, in one map", https://bigthink.com/strange-maps/europe-digital-divide. [15]

CPJ (2022), *Political Pressure on Journalists Risks Undermining Media Freedom Progress in Kosovo*, Committee to protect Journalists, The John S. and James L. Knight Foundation Press Freedom Center, https://cpj.org/wp-content/uploads/2022/11/Joint-mission-findings-Kosovo-2022-Google-Docs.pdf. [16]

European Commission (2023), *Kosovo 2023 Report, Commission Staff Working Document SWD(2023) 692 Final*, European Commission, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [9]

European Commission (2022), *Kosovo 2022 Report, Commission Staff Working Document SWD(2022) 334 Final*, European Commission, https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Kosovo%20Report%202022.pdf. [18]

Eurostat (2024), *Individuals - Internet Use*, https://ec.europa.eu/eurostat/databrowser/product/page/ISOC_CI_IFP_IU (accessed on 27 May 2024). [12]

Eurostat (2024), *Internet Purchases by Individuals (2020 onwards)*, https://ec.europa.eu/eurostat/databrowser/product/page/ISOC_EC_IB20 (accessed on 28 May 2024). [20]

Eurostat (2024), *Websites and Functionalities by Size Class of Enterprise*, https://doi.org/10.2908/ISOC_CIWEB (accessed on 1 March 2024). [13]

Eurostat (2022), *Fixed Broadband Subscriptions Per 100 inhabitants*, https://doi.org/10.2908/ISOC_CI_IN_H (accessed on 11 June 2024). [8]

KAS (2024), *Purchase or Order of Goods and Services Online the Last Time*, https://askdata.rks-gov.net/pxweb/sq/ASKdata/ASKdata__ICT__ICT%20in%20Households/TIK4point1.px/table/tableViewLayout1/ (accessed on 1 March 2024). [19]

KAS (2024), *Use of Internet by Individuals in the Last 12 Months*, https://askdata.rks-gov.net/pxweb/sq/ASKdata/ASKdata__ICT__ICT%20in%20Households/TIK2point1.px/ (accessed on 27 January 2024). [11]

KAS (2023), *Results of the Survey on the Use of ICT in Household Economies 2023*, Kosovo Agency of Statistics, https://askapi.rks-gov.net/Custom/5d0263eb-07bb-4df6-96da-0e50ed13ed88.pdf. [3]

KAS (2022), *Use of Information and Communication Technology (ICT) in Enterprises*, https://askapi.rks-gov.net/Custom/618b86f2-af16-4031-af17-afbaf37fff69.pdf. [14]

KAS (2022), *Use of the Internet for Private Purposes for Public Services, Government Agencies or Administration, over the Last 12 Months*, https://askdata.rks-gov.net/pxweb/sq/ASKdata/ASKdata__ICT__ICT%20in%20Households/TIK3point1_1.px/ (accessed on 12 June 2024). [4]

KODE Project (2023), "Europe's Stunning Digital Divide, in One Map", https://kodeproject.org/en/blog/2023/02/03/europes-stunning-digital-divide-in-one-map. [5]

MIA (2023), *Kosovo's Strategy for Electronic Government 2023-2027*, Ministry of Internal Affairs, https://mpb.rks-gov.net/Uploads/Documents/Pdf/EN/2700/e-Government%20Strategy%20Kosovo%202023-2027.pdf. [2]

OECD (2022), "OECD going digital toolkit, fixed broadband subscriptions per 100 inhabitants", https://goingdigital.oecd.org/en/indicator/10. [7]

OECD (2022), *OECD Policy Framework on Digital Security: Cybersecurity for Prosperity*, https://doi.org/10.1787/a69df866-en. [21]

PM Office (2024), *Report of the Implementation of the Program for the Prevention and Reduction of the Administrative Burden 2022-2027 and the Action Plan 2022-2024*, https://kryeministri.rks-gov.net/blog/raporti-i-zbatimit-te-programit-per-parandalimin-dhe-zvogelimin-e-barres-administrative-2022-2027-dhe-planit-te-veprimit-2022-2024/. [10]

STIKK (2023), *Kosovo IT Barometer 2021-2022*, Kosovo ICT Association (STIKK), https://stikk.org/wp-content/uploads/2023/07/IT_Barometer_2021-2022_STIKK.pdf. [1]

Notes

[1] Decreased scores in the Use and Society sub-dimensions in the current assessment (CO 2024), compared with scores in the CO 2021 assessment, are mainly attributed to the incorporation of two new, forward-looking qualitative indicators in the current digital society assessment framework. Scores for these new indicators, namely emerging digital technologies and green digital technologies, are relatively low since they are still in the early stages of development in the Western Balkan region. Furthermore, the scores from the CO 2018 assessment are not directly comparable with current scores due to a significant restructuring of the digital society assessment framework.

[2] Coaxial cable technology is the dominant fixed access technology in Kosovo. Most users in coaxial networks can have access to broadband connections up to 100 Mbps, which is not sufficient to underpin gigabit society access targets.

[3] Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code (Recast) Text with EEA relevance, http://data.europa.eu/eli/dir/2018/1972/oj.

[4] Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks Text with EEA relevance, https://eur-lex.europa.eu/eli/dir/2014/61.

[5] Commission Implementing Regulation (EU) 2020/1070 of 20 July 2020 on specifying the characteristics of small-area wireless access points pursuant to Article 57 paragraph 2 of Directive (EU) 2018/1972 of the European Parliament and the Council establishing the European Electronic Communications Code (Text with EEA relevance), http://data.europa.eu/eli/reg_impl/2020/1070/oj.

[6] Kosovo's national open data portal https://opendata.rks-gov.net.

[7] Open Data Directive: Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the re-use of public sector information (recast), http://data.europa.eu/eli/dir/2019/1024/oj.

[8] Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2022/868/oj.

[9] The "once-only" principal refers to the citizen's obligation to provide information to the digital administration only once, while from that point onwards the administration can access this information automatically.

[10] Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC, http://data.europa.eu/eli/reg/2014/910/oj.

[11] World Bank, "Strengthening Digital Governance for Service Delivery" project (Project ID: P178162), approved on March 20, 2023, Total Project Cost US$ 20.00 million

[12] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), http://data.europa.eu/eli/reg/2016/679/oj.

[13] Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules (Text with EEA relevance), http://data.europa.eu/eli/dir/2019/2161/oj.

[14] Commission notice Guidance on the interpretation and application of Directive 2011/83/EU of the European Parliament and of the Council on consumer rights (Text with EEA relevance) 2021/C 525/01, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021XC1229%2804%29&qid=1640961745514.

[15] Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union, http://data.europa.eu/eli/dir/2016/1148/oj.

[16] Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive) (Text with EEA relevance), http://data.europa.eu/eli/dir/2022/2555/oj.

[17] Commission Implementing Regulation (EU) 2020/1070 of 20 July 2020 on specifying the characteristics of small-area wireless access points pursuant to Article 57 paragraph 2 of Directive (EU) 2018/1972 of the European Parliament and the Council establishing the European Electronic Communications Code (Text with EEA relevance), http://data.europa.eu/eli/reg_impl/2020/1070/oj

[18] The Connectivity Toolbox, https://digital-strategy.ec.europa.eu/en/policies/connectivity-toolbox.

[19] Cybersecurity of 5G networks - EU Toolbox of risk mitigating measures, https://digital-strategy.ec.europa.eu/en/library/cybersecurity-5g-networks-eu-toolbox-risk-mitigating-measures.

[20] Directive (EU) 2016/2102 of the European Parliament and of the Council of 26 October 2016 on the accessibility of the websites and mobile applications of public sector bodies (Text with EEA relevance), http://data.europa.eu/eli/dir/2016/2102/oj

[21] Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No 526/2013 (Cybersecurity Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2019/881/oj.

12 Transport policy

Through the development of a modern, sustainable, efficient, interoperable and integrated transport network, a sound transport policy can promote closer co-operation with neighbouring economies and be a key driver of competitiveness, both for an economy as well as for the region. The first sub-dimension, planning and management, measures the extent to which an orderly, coherent, consistent and transparent process is in place for developing transport policy and implementing infrastructure projects. The second sub-dimension, regulation and connectivity, determines how well transport modes and networks are regulated and operated, as well as how they are leveraged to promote regional connectivity. The third sub-dimension, sustainability, measures progress towards resource efficiency, environmental protection, reducing health impacts and increasing safety as well as social inclusion.

Key findings

Since the last *Competitiveness Outlook 2021*, Kosovo has made progress in improving its transport policies when it comes to the overall transport vision and policies to ensure more sustainable transport (Table 12.1). Ongoing efforts are also being made to improve rail and road transport regulations, to strengthen regional connectivity, and to establish asset management systems for transport infrastructure. More actions need to be taken to improve procedures for the selection of transport projects, as this is an area were Kosovo lags considerably behind.

Table 12.1. Kosovo's scores for transport policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Transport policy	11.1: Planning and management			2.0	2.6
	11.2: Regulation and connectivity			2.0	1.9
	11.3: Sustainability			1.8	2.1
Kosovo's overall score		**1.8**	**1.4**	**2.0**	**2.2**

The **key findings** are:

- Kosovo adopted its new Multimodal Transport Strategy (MMTS) 2023-30 in 2023. It has a clear focus on smart transport and greening the transport sector, thereby integrating policy objectives from key regional documents such as the Green Agenda for the Western Balkans and the Smart and Sustainable Mobility Strategy. The MMTS's greening measures are integrated into Kosovo's National Energy and Climate Plan (NECP), ensuring coherence in policy articulation.
- The project selection process for transport infrastructure projects is outdated, and comprehensive assessments that take into account the environmental, cost, social, climate and resilience impact of new infrastructure projects are not systematically conducted. This situation risks that new projects are not cost-effective and sustainable, in turn creating the risk of lock-in effects that can be an obstacle for the transport sector's sustainable development.
- Progress has been made in preliminary work to improve asset management systems for transport infrastructure. Funding has been secured and the government is exploring options for technical assistance to prepare a road asset management system. When it comes to rail infrastructure, the infrastructure manager, InfraKos, has begun implementing its asset management plan after significant delays.
- Some progress was made in aligning railway legislation with the EU *acquis*, with the creation of an investigative body charged with examining accidents on railways and the transposition of secondary legislation by the Railway Regulatory Authority. However, further efforts are needed to fully align the sector with the EU *acquis* and allow it to develop in line with its potential.

State of play and key developments

Sub-dimension 11.1: Planning and management

Kosovo has continued efforts to improve the planning and management of the transport sector since the last CO assessment. In 2023, the Multimodal Transport Strategy (MMTS) 2023-30 was adopted, and sets out the **transport vision** for the economy. The strategy has clear and measurable objectives and defined implementation plans with timelines and budgets to meet those objectives. The three main objectives of the strategy are i) seamless transport connections; ii) a safe transport system – toward vision zero; iii) smart and sustainable transport. Each objective includes specific indicators for which intermediate targets are defined to be achieved by 2026 and final targets by 2030 (Government of Kosovo, 2023[1]).

The above-mentioned objectives laid down in the strategy are overarching across road, rail and air transport modes, and the strategy additionally sets out the objective of a well-functioning transport infrastructure that is integrated into the Trans-European Transport Network (TEN-T network) and enables the provision of multimodal transport services. An Action Plan for the MMTS's implementation was adopted by the government in December 2023. The MMTS plans for reports to be published every six months for the duration of implementation of the Action Plan, and annual reports to be published on the implementation of the strategic document itself. However, the strategy does not plan for an evaluation of its implementation and no interim update is planned, which prevents policy makers from adjusting the objectives and effectively responding to delays.

No updates took place for the **transport project selection** process in Kosovo since the last CO assessment. The Medium-Term Expenditure Framework (MTEF) guides the project identification and selection process for all projects, not just those related to transport.[1] There is no single project pipeline (SPP); instead, three sectoral pipelines coexist, specifically focusing on projects funded by International Financial Institutions (IFIs). These three project pipelines focus on the transport, energy, and environmental sectors, yet projects under these are not always thoroughly assessed and evaluated (IMF, 2023[2]). If a single project pipeline were to be used, the three sectors could be considered together, allowing for positive externalities and better overall appraisal.

Environmental and climate impacts are not considered in the project selection process. Moreover, there is no legal mandate for cost-benefit analysis (CBA) of transport infrastructure projects in Kosovo. The Public Investment Programme (PIP) Manual introduced in 2009 requires that cost-benefit analysis and feasibility studies be provided if available. However, it does not constitute a formal requirement (IMF, 2023[2]). Such assessments are a key element in the development of public infrastructure projects. Failure to conduct thorough assessments and cost-benefit analyses may lead to the selection of projects that have not achieved the required level of maturity for implementation. This raises the probability of incurring additional costs in subsequent stages, as selection decisions could be founded on inadequate information.

The current legal framework on **public procurement** is partially aligned with the EU's 2014 public procurement *acquis*, and it is guided by the 2011 Law on Public Procurement (Official Gazette of the Republic of Kosovo, 2024[3]). A new public procurement law has been awaiting adoption by the government for over two years (European Commission, 2021[4]), and a new law on public-private partnerships (PPPs) and concessions is also awaiting governmental approval (European Commission, 2022[5]). Kosovo is in the process of exploring the potential of PPP contracts. Despite having completed one economy-level PPP for the Pristina airport (dating from 2010) and two small municipal-level PPPs, there is room for further expansion and implementation of PPP projects (IMF, 2023[2]).

While some action has been taken to improve **asset management** in the rail and road sectors, Kosovo could take action to advance further. New road maintenance contracts were signed during the first half of 2022. Kosovo has also been proactive in setting up the Road Asset Management System (RAMS); funds

were allocated in the 2022-24 budget, and the government is exploring the options for technical assistance to prepare the Terms of Reference for the RAMS (Transport Community, 2022[6]). In 2018, the European Bank for Reconstruction and Development (EBRD) supported Kosovo's railway infrastructure manager, InfraKos, in implementing an Asset Management Plan. This plan was developed by InfraKos for 2019-25, but it was not operationalised due to challenges in acquiring the necessary software (Transport Community, 2020[7]). Over the assessment period progress has been observed; InfraKos has now started the implementation phase and has also prepared the Agreement for the financing of railway infrastructure during the period 2023-27 (Transport Community, 2023[8]).

Sub-dimension 11.2: Regulation and connectivity

Kosovo's rail infrastructure density is slightly above the regional average, at 3.05 kilometres (km) per 100 square km in 2021 (compared to around 2.4 km per 100 square km on average in the Western Balkans); however, this level of density is still inferior to the EU average of 5.7 in 2021. Kosovo's rail network is in significant need of maintenance, refurbishment, and modernisation, as no section of the railway is electrified. Ongoing projects, including ones supported by IFIs, are being implemented towards this goal.[2]

Due to the need for refurbishment and modernisation of the rail network, road transport is predominantly used for both passengers and freight in Kosovo. However, data collection on the modal share of both transport modes is lacking and would need to be improved in order to effectively monitor policies that seek to promote the development and use of the rail network as a more sustainable transport mode. While the density of road infrastructure has been gradually increasing over the years, it still has a long way to go to reach the regional and EU average levels (Table 12.2).

Table 12.2. Road infrastructure density in Kosovo, the WB6 economies and the EU (2016, 2018, 2021)

In kilometers per 100 square kilometre

	2016	2018	2021
KOS	18.64	19.02	22.30
WB6	37.69	37.92	39.33
EU	146.49	146.77	145.30

Sources: ITF (2024[9]); For Kosovo, data were provided by the Kosovo Agency of Statistics for the Competitive Outlook assessment.

Kosovo has advanced on updating and aligning its **rail regulations** more closely with the Transport Community's Rail Action Plan. During the assessment period, the Railway Regulatory Agency also released a limited number of legislative acts focusing on technical specifications related to interoperability. In addition, a new Railway Law and Railway Safety and Interoperability Law are being drafted, with completion planned by the end of 2024. Railway construction works have also advanced over the assessment period with progress being observed on Route 10, the section from Fushë Kosovë/Kosovo Polje towards North Macedonia (Hani i Elezit).

Progress has also been observed in regulation of **road transport**. Kosovo is currently in the process of finalising a new Law on Roads (Transport Community, 2023[8]). The proposed law entails the relocation of certain departments to a newly established agency. This agency is set to oversee aspects such as road infrastructure planning, safety measures, and overall management. Kosovo is preparing the intelligent transport systems (ITS) Strategy for all modes of transport, and the operational concept for Road Traffic Management Centres has been finalised.

Since the last CO assessment, regulatory reforms work has continued in the field of **aviation reforms**. Kosovo is part of the European Common Aviation Area (ECAA) and is also covered by the Single European Sky (SES) arrangements (European Commission, 2023[10]). The SES I package has been transposed and is being implemented, but the SES II package has not yet been fully transposed. The aviation sector in Kosovo faces numerous challenges due to non-membership in various international civil aviation organisations. Moreover, ongoing personnel-management problems within the Civil Aviation Authority remain unresolved and may adversely affect its operation (European Commission, 2023[10]).

Maritime and inland waterway (IWW) reforms and regulations are in the early preparation stage in Kosovo; only a few updates have been reported since the last CO assessment. The Multimodal Transport Strategy 2023-30 has provisions for waterborne transport. The formulation of the Transport Law is under way and involves discussions with various stakeholders. The draft law encompasses waterborne transport and other transportation modes (Transport Community, 2023[8]). Given Kosovo's landlocked geographical position and the absence of navigable rivers or lakes, the transposition of waterborne transport legislation has not been a high priority. It is noteworthy that Kosovo authorities have collaborated with Albania to assist in transposing pertinent legislation wherever applicable.

Kosovo has continued good co-operation with the neighbouring economies to enhance **regional connectivity**. In 2021, after signing all implementing agreements, including police protocols, resulting from the approved bilateral agreement between Kosovo and North Macedonia, significant collaborative efforts took place. Police authorities from both economies actively engaged in establishing a joint rail station at Hani i Elezit (Transport Community, 2022[6]). The refurbishment of the existing station by Kosovo authorities was finalised in 2022, and it is now prepared to host agencies from both parties. Despite this, the official commencement of joint controls has not occurred due to ongoing efforts to rehabilitate the railway line. Kosovo and North Macedonia also signed a bilateral agreement for joint controls on road crossing points in September 2023, following year-long discussions and negotiations (Transport Community, 2023[8]). The operational efficiency of the shared crossing point Vermice/Morine (between Kosovo and Albania) serves as a positive illustration of efforts in this area.

The Customs Administration of Kosovo is also progressing in promoting the digitalisation of transportation and enhancing data-sharing systems. The extension of Green Lanes to all Crossing Points/Customs Clearance Points in Kosovo in 2023 ensures the provision of pre-arrival information for all goods subject to phytosanitary, veterinary, or food inspections through the Systematic Exchange of Electronic Data (SEED) system (Transport Community, 2023[8]).

The Multimodal Transport Strategy 2023-30 has provisions to support the development of **combined transport**. It aims to establish a well-functioning transport infrastructure that is integrated into the TEN-T network and enables the provision of multimodal transport services. However, measures related to the development of intermodal infrastructure and development of logistics services are absent from the Action Plan for 2023-25.

Continued efforts are observed in Kosovo to support the development of **smart transport** systems. The MMTS and its Action Plan have a strong focus on developing smart transport solutions. In this regard, CONNECTA is supporting Kosovo in the preparation of its Intelligent Transport Systems (ITS) Strategy and Operational Concept for a Road Traffic Management Centre (Transport Community, 2022[11]); the approval process for the ITS is currently under way. Once completed, it should equip Kosovo with the necessary policy framework. Approval for the Administrative Instruction on ITS, which aims to implement the ITS Directive 2010/40/EU, is still pending and depends on the approval of the Road Law.

Sub-dimension 11.3: Sustainability

Kosovo has taken some steps to advance towards an **environmentally sustainable transport** system. The Multimodal Transport Strategy for 2023-30 emphasises policies aiming to support the uptake of cleaner vehicles, and support to digitisation to reduce greenhouse gas emissions and enhance the transport system's efficiency. More specifically, it promotes the uptake of alternative fuel vehicles and sets targets for their shares up to 2030, as well as targets for lorries and buses abiding by the Euro 5 or higher standards up to 2030.

Kosovo's draft National Energy and Climate Plan (NECP) also contains measures aiming to improve the energy efficiency of the transport sector, promote the use of renewable energy in transport, and develop rail infrastructure as a means of reducing reliance on roads as a more polluting transport mode. These measures of the NECP are earmarked as falling under the MMTS and its Action Plan, ensuring coherence in policy planning and articulation between the two documents.

Kosovo is considering adopting regulations that incentivise the import and purchase of electric vehicles (EVs). For example, value added tax (VAT) and vehicle tax reductions were recommended to get EVs to represent 5% of all vehicles by 2030 (Kosovo Energy, 2024[12]). CONNECTA and the Transport Community Treaty (TCT) Secretariat have also provided dedicated Technical Assistance to the WB6 economies to support the deployment of e-charging stations on the busiest corridors, resulting in the deployment of one EV charging station on Kosovo's TEN-T highways out of the nine proposed.

Road fatalities in Kosovo have been reduced by 6% between 2019 and 2022 (Table 12.3). In 2022, Kosovo recorded 60 road deaths per one million inhabitants, higher than the EU average but lower than other regional economies. The economy has continued efforts to ensure **safe transport**, including road safety, but these could be further accelerated. The proposed Road Law, after completing internal discussions, envisions the creation of the Road Safety Agency as a component of the new framework within the Ministry of Transport. The MMTS action plan foresees the development of a National Program for Road Safety 2023-30. There is a need for increased investments to improve the crash data system, as it is not compliant with the Common Accident Data Set (CADaS), but no plans have been finalised for this purpose.

Table 12.3. Road safety trends in Kosovo and the EU (2019-22)

Changes are expressed in percentage

	2019-22	2022
Change in the number of road fatalities (KOS)	-6	..
Change in the number of road fatalities (EU)	-9	..
Number of fatalities per million inhabitants (KOS)	..	60
Number of fatalities per million inhabitants (EU)	..	46

Sources: European Commission (2023[13]); Transport Community (2023[14]).

Several pieces of legislation on rail safety issues have been developed over the assessment period by the Railway Regulatory Authority. These have resulted in the partial transposition of railway safety regulations of the EU *acquis*.[3] Kosovo also established a National Investigation Body, reporting directly to the prime minister's office, whose purpose is to undertake accident investigation as a key input to improve the safety performance of railways.

Improving the **accessibility** of the transport system is a recognised objective of several of Kosovo's strategic documents, including the MMTS, the National Strategy for People with Disabilities 2013-23, and policies at the level of municipalities. The World Bank is currently implementing a project focused on

disability-inclusive development in Kosovo, aiming to improve disaggregation of data collection and ensure the accessibility of transport modes to persons with disabilities, among other objectives.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo has made progress in following up on the Recommendations of the CO Assessment 2021 (Table 12.4). A new Multimodal Transport Strategy 2023-30 was adopted, updating the policy framework and planning measures for improving the transport sector's governance, safety and sustainability. Efforts have been taken to complete the actions of the Transport Community Rail and Road Action Plans, aligning these sectors more closely with the EU *acquis*. Moderate progress has also been observed in advancing towards enhanced regional connectivity. There is a need for continued efforts in developing CBA guidelines, improving project selection processes, and supporting the development of combined transport in the coming years.

Table 12.4. Kosovo's progress on past recommendations for transport policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Update the transport strategy regularly	A new Multimodal Transport Strategy 2023-30 has been adopted but does not include scope for regular updates over shorter time frames.	Moderate
Develop a tool for project identification, selection, prioritisation and implementation, and apply it consistently and regularly	No progress has been made in developing a process for project identification, selection, prioritisation and implementation.	None
Focus on continuing rail reforms	Kosovo has advanced on implementing rail reforms that align more closely with the EU *acquis*, through the adoption of secondary and primary legislation. However, further efforts are needed to achieve full alignment.	Moderate
Develop and tailor cost-benefit analysis (CBA) guidelines specific to Kosovo	No progress has been made in developing CBA guidelines tailored to Kosovo's needs.	None
Ensure that transport facilitation remains a priority	Kosovo has advanced on supporting transport facilitation. The Customs Administration of Kosovo is taking steps forward to foster transport digitalisation and improve data sharing systems.	Strong
Develop a combined transport strategy	Multimodal Transport Strategy 2023-30 has provisions to support the development of combined transport but actions have not been taken to implement them yet.	Moderate
Develop an Integrated Environmental and Transport Action Plan	The MMTS and NECP both have measures to advance the greening of the transport sector. Data collection on the environmental sustainability of transport needs to be further improved.	Moderate

The way forward for transport policy

Considering the level of the previous recommendations' implementation, there are still areas in which Kosovo could strengthen its transport policy framework and further address key challenges in this area. As such, policy makers may wish to:

- **Ensure regular monitoring and evaluation and update of the MMTS**. An update of the existing strategy is not proposed within the MMTS but should be carried out based on regular monitoring reports for implementing the MMTS, as well as an interim evaluation. Monitoring reports need to be developed annually and should be publicly available in order to reinforce transparency and accountability. Lessons learned in terms of challenges to implementation or new policy developments should be integrated in the updated strategy and implementation plans. Adapting

the policy framework based on regular monitoring is key to keeping it up to date, relevant and effective.

- **Develop a tool for project identification, selection, prioritisation and implementation**. This tool should be applied to all transport projects in Kosovo and ensure the consistent appraisal of budgetary, social, environmental and resilience impacts of new transport projects. These impact appraisal systems should comprise all processes, from identification to ex post monitoring of implemented projects. They should also be applied via a financial management and information technology system planned to be implemented in all spending departments of governmental institutions and implementing agencies.
- **Develop domestic CBA guidelines for all transport modes**. It is essential for Kosovo to develop its own CBA guidelines with accompanying technical instructions. The guidance must be updated often, at least every two years**.** It is necessary to develop a benchmark for all technical and economic parameters to ensure consistency in the discount rates used for similar projects in the same economy, including the financial and economic discount rates in the state guidance documents. This benchmark must be consistently applied in project appraisal at the state level.
- **Enhance efforts to develop well-functioning combined transport.** Combined transport is the most cost-efficient transport mode, reducing environmental pollution and increasing co-operation between the freight forwarding network companies. Achieving well-functioning logistical chains and establishing an international corridor approach and intermodal solutions could promote high competitiveness in Kosovo's transport market. While the Multimodal Transport Strategy 2023-30 has provisions to support the development of combined transport, the recently adopted Action Plan does not contain concrete actions to support its development, such as investments into the necessary infrastructure, e.g. intermodal terminals. Putting more emphasis on such measures and planning ahead could bring substantial benefits to Kosovo's transport system once Kosovo's rail infrastructure is better developed thanks to the implementation of measures under the current Action Plan. In order to effectively monitor and evaluate policies seeking to promote intramodality and the use of rail, Kosovo should also prioritise improving its data collection by collecting statistics on the use of road and rail for both passenger and freight transport.
- **Continue efforts to improve road safety, including on data collection.** Once Kosovo's Road Safety Agency is properly established, it should focus on adopting a safe system approach and collecting key performance indicators that the European Union recommends (Box 12.1). These indicators cover various aspects such as speed, seat belt usage, alcohol consumption, helmet usage, distraction, vehicle safety, infrastructure quality, and post-crash care. Collaboration with the TCT Secretariat is crucial to facilitating the integration into European road safety initiatives. A proactive step in this direction would be to initiate collaborative efforts to implement "Joining EU CARE", thereby ensuring the economy's commitment to advancing road safety standards in line with European benchmarks.

Box 12.1. Adopting the Safe System Approach and safety performance indicators for improved road safety

In the past decade, the International Transport Forum (ITF) has promoted the adoption of the Safe System Approach to road safety. This approach can drastically reduce road fatalities and is endorsed by the United Nations General Assembly. It now forms the basis for the new Global Plan for the Decade of Action on Road Safety 2021-30. The Safe System Approach is a proactive approach to road safety; it is preventive and predicated on the notion that people make mistakes and that these errors can result in traffic crashes. It seeks to identify and proactively address vulnerabilities in the transportation system

in a holistic manner. Adopting the Safe System Approach is a concrete step that the WB6 economies can take to improve road safety outcomes.

The Safe System Approach requires road safety authorities to collect, analyse, and use accurate road safety data and develop safety performance indicators (SPIs). The European Commission developed a list of SPIs with the correspondent methodology in the Baseline project. These safety performance indicators are related to driving behaviours, such as following speed limits, drunk driving, and seat belt usage. Indicators related to vehicles, infrastructure and trauma are also important. Road safety improvement can be further accelerated by identifying distinct at-risk user groups – or vulnerable user groups – and implementing safety performance indicators to improve road safety outcomes. Vulnerable road users for whom the ITF report recommends tailoring SPIs include pedestrians, cyclists, and motorcyclists. Implementing SPIs that are specific to these groups can help the WB6 economies advance on the Road Safety Action Plan goal of protecting vulnerable road users.

Sources: ITF (2022[15]; 2023[16]).

References

European Commission (2023), *Kosovo 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_692%20Kosovo%20report_0.pdf. [10]

European Commission (2023), "Road safety in the EU: fatalities below pre-pandemic levels but progress remains too slow", https://transport.ec.europa.eu/news-events/news/road-safety-eu-fatalities-below-pre-pandemic-levels-progress-remains-too-slow-2023-02-21_en. [13]

European Commission (2022), *Kosovo 2022 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Kosovo%20Report%202022.pdf. [5]

European Commission (2021), *Kosovo 2021 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2021-10/Kosovo%202021%20report.PDF. [4]

Government of Kosovo (2023), *Multimodal Transport Strategy*, https://www.mit-ks.net/repository/docs/2023_03_17_060811_MULTIMODAL_TRANSPORT_STRATEGY_2030.pdf. [1]

IMF (2023), *Republic of Kosovo: Technical Assistance Report - Public Investment Management Assessment Update and Climate PIMS*, https://www.imf.org/en/Publications/CR/Issues/2023/12/04/Republic-of-Kosovo-Technical-Assistance-Report-Public-Investment-Management-Assessment-541925. [2]

ITF (2024), *Indicators: Transport Infrastructure*, https://stats.oecd.org/index.aspx?queryid=73638 (accessed on 12 June 2024). [9]

ITF (2023), *Using Safety Performance Indicators to Improve Road Safety: The Case of Korea, International Transport Forum Policy Papers, No. 126*, OECD Publishing Paris, https://www.itf-oecd.org/sites/default/files/docs/safety-performance-indicators-road-safety-korea_0.pdf (accessed on 30 May 2024). [16]

ITF (2022), *The Safe System Approach in Action, Research Report*, https://www.itf-oecd.org/sites/default/files/docs/safe-system-in-action.pdf. [15]

Kosovo Energy (2024), *It Is Recommened to Remove VAT, Customs and Exise for Electric Cars*, https://kosovo.energy/rekomandohet-largimi-i-tvsh-se-doganes-dhe-akcizes-per-veturat-elektrike/ (Accessed: 5 February 2024). (accessed on 5 February 2024). [12]

Official Gazette of the Republic of Kosovo (2024), *Law No. 04/L-042 on Public Procurement in the Republic of Kosovo*, https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=2772 (accessed on 6 February 2024). [3]

Transport Community (2023), *Action Plan and the EU Acquis Progress Report 2023 (2023a)*, https://www.transport-community.org/wp-content/uploads/2023/12/Action-Plans-and-EU-Acquis-Progress-Report-2023-WEB.pdf (accessed on 30 May 2024). [14]

Transport Community (2023), *Sustainable and Smart Mobility Strategy in the Western Balkans*, https://www.transport-community.org/wp-content/uploads/2023/12/Sustainable-and-Smart-Mobility-Strategy-Report_designed.pdf. [8]

Transport Community (2022), *Action Plans and the EU Acquis Progress Report*, https://www.transport-community.org/wp-content/uploads/2022/11/Action-Plans-Progress-Report-1.pdf. [6]

Transport Community (2022), *Technical Assistance for Preparation of National ITS Startegy for Bosnia and Herzegovina, Kosovo (All Modes) [...] and Deployment of Road Traffic Management Centers in Bosnia and Herzegovina and Kosovo*, https://www.transport-community.org/wp-content/uploads/2022/10/7.-CONNECTA_ITS_9th_RTC_Belgrade_Draft.pdf. [11]

Transport Community (2020), *Railway Infrastructure Asset Management System (RI-AMS) Questions*, https://www.transport-community.org/wp-content/uploads/2020/03/RIAMS-Summary.pdf. [7]

Notes

[1] The MTEF indicates the sources of funding for capital investments, disaggregated by ministry and programme. For a project to be included in the MTEF, it must be outlined in the Ministry's Strategy and available funds must be allocated to it.

The prioritization of projects for budget allocation is guided by Section 11 of the Public Investment Program (PIP) and the same selection process is applicable to Public-Private Partnership projects.

[2] For example, projects being financed and implemented by the European Bank for Reconstruction and Development, European Investment Bank and EU under the Western Balkans Investment Framework. For more information, please see: https://www.ebrd.com/news/2022/ebrd-and-eu-back-rehabilitation-of-kosovos-railway-network.html.

[3] Such as Commission Regulation (EU) No. 1158/2010 on a common safety method for assessing conformity with the requirements for obtaining railway safety certificates; Commission Regulation (EU) No. 1169/2010 on a common safety method for assessing conformity with the requirements for obtaining a railway safety authorisation; Commission Regulation (EU) No. 1078/2012 on a common safety method for monitoring to be applied by railway undertakings, infrastructure managers after receiving a safety certificate or safety authorisation and by entities in charge of maintenance; and Commission Decision 2009/460/EC on the adoption of a common safety method for assessment of achievement of safety targets (Transport Community, 2023a).

13 Energy policy

The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonisation, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

Key findings

Since the previous *Competitiveness Outlook* (CO) 2021, Kosovo has further enhanced its energy policy performance (Table 13.1). Progress was made in advancing energy market reforms, mostly as a result of the go-live of the Albanian Power Exchange (ALPEX) branch in Kosovo and the market coupling with Albania and the creation of the underlying legal frameworks. Kosovo advanced both in the area of renewable energy policy and energy efficiency but has to strengthen its efforts in the areas of decarbonisation and energy poverty.

Table 13.1. Kosovo's scores for energy policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Energy	12.1: Governance and regulation			3.5	3.3
	12.2: Energy security			3.0	2.5
	12.3: Sustainability			3.0	2.8
	12.4: Energy markets			3.7	3.3
Kosovo's overall score		**2.3**	**3.0**	**3.3**	**3.0**

The **key findings** are:

- Kosovo has reinforced its policy framework for energy by adopting the Energy Strategy 2022-31, as well as its accompanying Implementation Programme for the period covering 2022-25. These documents contain ambitious targets for deployment of renewable energy capacity, aiming to generate 35% of electricity consumption from renewable sources by 2031, as well as to use renewables as the main source for diversification. Kosovo also developed its National Energy and Climate Plan (NECP), paving the way for a roadmap for the energy sector's decarbonisation and improved governance.
- The market coupling between Kosovo and Albania's electricity markets through ALPEX has been completed in 2024. This market coupling has the potential to provide significant liquidity and price benefits for both economies and is the first such coupling in the region.
- The Energy Regulatory Office (ERO) remains understaffed and lacks the financial resources to conduct its duties effectively. Despite this challenge, ERO has taken important steps in launching *ex-officio* investigations and imposing fines on key energy market stakeholders, showcasing its proactivity and independence.
- Progress has been made in deploying renewable capacity through competitive auctions, as the first auction for 100 megawatts (MW) of capacity for solar powered generation was launched in May 2023. Kosovo is also planning to develop battery storage capacity; this is considered one of the most important storage projects in the Western Balkans, making Kosovo a pioneer in this area.

State of play and key developments

Sub-dimension 12.1: Governance and regulation

Within Kosovo's **energy policy, legal and institutional framework**, the adopted Energy Strategy for 2022-31 reflects a significant step forward in the development of Kosovo's energy policy, further articulated by the already adopted Energy Strategy Implementation Programme (ESIP) for 2022-25. The legislation that is currently being finalised to align with the Clean Energy Package further underlines Kosovo's continuous striving to reform its energy sector in line with EU and Energy Community good practices. However, it is important to note that none of the laws required for transposing the Clean Energy Package has yet been adopted. Moreover, a significant issue that remains problematic is the lack of a well-established retail market in the electricity sector of Kosovo.

The institutional framework for energy policy in Kosovo appears to be stable and characterised by effective horizontal governance tools designed to enhance co-ordination across various government bodies. This stability is further evidenced by the capacity of government officials to effectively fulfil their roles, as well as their regular participation in international bodies.

In terms of policy evaluation and performance assessment, there are plans to monitor activities assessing programme inputs - such as budget and assets - and outputs, such as the number of companies complying with the energy framework. Information systems and databases containing key energy indicators are regularly updated, ensuring that energy policy needs are communicated to the public effectively. There also appear to be adequate co-ordination and evaluation processes in place to oversee these developments.

The existing salaries of the **energy regulator** remain inadequate and staffing remains a challenge given that salaries at the Energy Regulatory Office (ERO) are below industry level. With the originally envisaged changes in the Law on the Regulator, ERO's independence and ability to execute its tasks would have been further undermined as it would have led to significant additional salary reductions. Those amendments, however, did not form part of the final draft law; nevertheless, the area remains one of particular importance and constant oversight on this matter will be needed.

ERO has proactively initiated a number of investigations, resulting in severe fines being imposed. These investigations, targeting all four main sector stakeholders - namely the Kosovo Energy Corporation (KEK), the Transmission System Operator (KOSTT), the Distribution System Operator (KEDS) and the Kosovo Electricity Supply Company (KESCO) - demonstrate ERO's advanced investigative powers and their adequate application. The initiation of these investigations *ex-officio* and the consequential imposition of fines underscore ERO's commitment to regulating the energy sector effectively. However, ERO still needs to place additional emphasis on enforcing further opening of the retail electricity market.

Sub-dimension 12.2: Energy security

In the area of **crisis response and resilience**, Kosovo is working on transposing the Risk Preparedness Regulation as part of the ongoing general overhaul of the main pieces of legislation in the energy sector. The respective provisions have already been drafted and underwent a consultation process. Also, the newly adopted Distribution System Operator's Network Development Plan has been drafted with an eye towards increasing resilience to external factors, including the effects of climate change. These developments overall reflect an increased focus on crisis response and resilience within the energy sector.

As a response to the recent energy crisis, the government of Kosovo adopted Decision 01/91 in July 2022 announcing a number of emergency measures. Concretely speaking, between September 2022 and March 2023, the government has provided financial support in the amount of EUR 90 million to subsidise electricity bills. Additionally, households that reduced their electricity usage compared to the same period

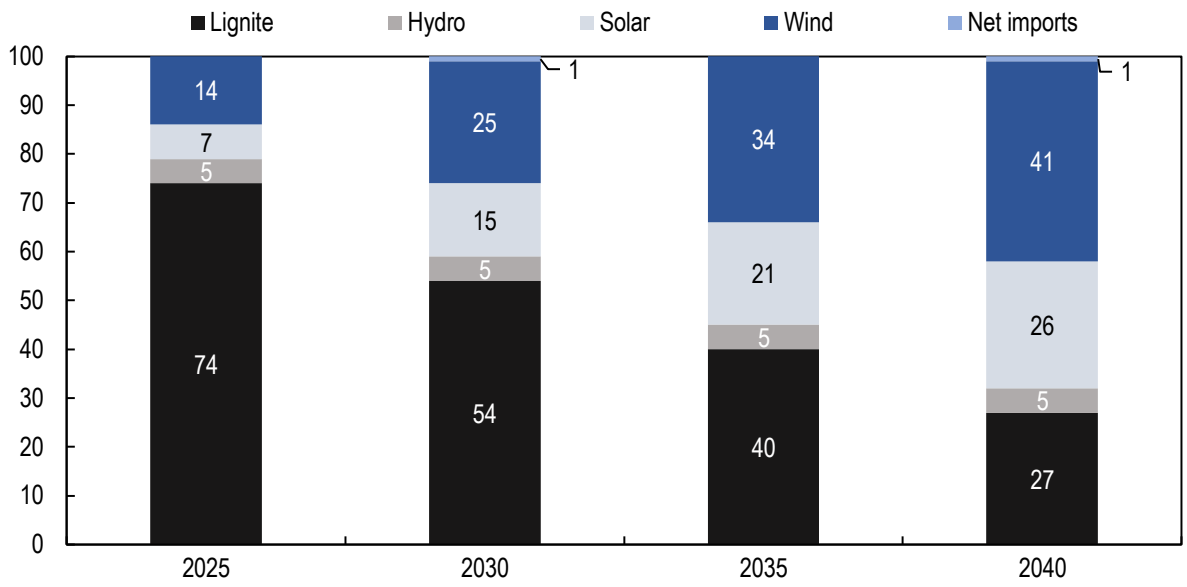
in the previous year received subsidies amounting to EUR 22.8 million. The Ministry of Economy has further supported households with EUR 6 million for the purchase of efficient heating equipment. Two-tier tariffs were also introduced to further reduce electricity consumption, as households consuming more than 800 kilowatt hours (kWh) had to pay a higher tariff than those customers consuming less than 800 kWh. These measures promote energy efficiency while also enhancing consumer awareness about energy savings. Such support measures were also continued throughout 2023 and 2024.

At an institutional level, Kosovo has established fast crisis reaction mechanisms and decision-making bodies to improve crisis response and enhance resilience. In August 2022, the Ministry of Economy established the Emergency Technical Committee (KTE), composed of members from different institutions to serve as a central platform for policy discussion and co-ordination. In this regard it also needs to be highlighted that while information systems and databases for key energy infrastructure indicators have been created, they are not regularly updated, which potentially limits the impact of exchanges in such dedicated committees.

In its striving to enhance energy security, Kosovo has also shown additional advancement towards the **diversification of energy supply** (Figure 13.1). Kosovo's energy strategy for the period 2022-30 was officially adopted in March 2023 and sets ambitious renewable energy sources (RES) targets. It is also noteworthy that Kosovo explicitly highlights the importance of additional renewable generation in its diversification stride, together with a gradual coal phase out (Ministry of Economy, 2022[1]). In this regard, another notable advancement is the adoption of the Administrative Instruction no. 01/2023, which facilitates energy generation from renewable sources through the initiation of competitive RES auctions. The ongoing transposition efforts of the Clean Energy Package can also have a positive impact on the uptake of additional RES generation and thus support Kosovo's diversification efforts.

Figure 13.1. Electricity mix in gross final consumption trends with additional measures (WAM) in Kosovo (2025-40)

Percentage of gross final consumption



Source: Government of Kosovo (2023[2]).

A Battery Storage project is also underway. Implemented under the Millennium Challenge Compact, the project can be seen as an illustration of Kosovo's commitment to diversifying and strengthening its energy infrastructure. However, its positive and actual impacts will ultimately depend on the actual implementation of the new already adopted and upcoming policies and legal acts.

Concerning other sources of energy, it must be noted that Kosovo currently lacks gas infrastructure and a natural gas market and is thus currently exempted from transposing the Gas Security of Supply Regulation. The 2023 Implementation Report of the Energy Community Secretariat highlights that the proposed Law on Compulsory Oil Stockholding was anticipated to be approved by early 2023 but has not been finalised yet (Energy Community Secretariat, 2023[3]).

Looking towards future projects with an impact on Kosovo's energy supply diversification, the pre-feasibility study for the Albania – Kosovo Gas Interconnector has been completed. Additionally, the Gas Master Plan and the feasibility study for the North Macedonia-Kosovo gas interconnection pipeline are in the process of finalisation. While those projects can enhance Kosovo's access to gas sources and increase diversification, their exact status remains unclear and the development of gas infrastructure is not specifically outlined in Kosovo's new energy strategy, leaving the future development of the gas market without a policy to guide its strategic direction.

Sub-dimension 12.3: Sustainability

Recent legal developments in Kosovo's energy sector reflect a commitment to transposing European Union standards and enhancing climate action to strengthen **energy sector decarbonisation**. The Regulation on the Governance of the Energy Union and Climate Action is set to be transposed through the Law on Climate Change and the new Law on Renewables. While the Law on Climate Change has been adopted by the parliament in January 2024, the Law on Renewables is scheduled for adoption by the end of Q1 2024. The final draft of the National Energy and Climate Plan (NECP) was submitted to the Energy Community for comments in July 2023, with completion of the document expected by June 2024. At the end of December 2023, the Energy Community Secretariat submitted its comments, highlighting remaining gaps in the transposition of the relevant EU and Energy Community *acquis*. The comments also highlighted the need to reinforce and streamline efforts towards decarbonisation and align the NECP with the Energy Strategy in this regard.

In terms of institutional changes, the government of Kosovo has established the National Council for Climate Change (NCCC), represented at the ministerial level, including various ministries and the office of the presidency. The creation of a new climate division within the Ministry of Environment, Spatial Planning, and Infrastructure underscores a strengthened focus on climate and decarbonisation issues. The extent to which the creation of this dedicated division will also enhance Kosovo's policy framework and initiatives in these areas will, however, ultimately depend on whether adequate staffing and capacity building can ensure effective implementation of the climate and decarbonisation agenda.

The NECP includes specific targets and measures for reducing greenhouse gas (GHG) emissions from the energy sector. A national GHG inventory, including the energy sector, has been established and is regularly updated. However, a GHG pricing mechanism is not yet in place. The policy framework includes plans for the refurbishment of two units of the Kosova A TPP, with the refurbishment of unit A3 planned to be completed in 2027, and that of unit A4 in 2028. The refurbished units are then planned to be kept as a strategic reserve from 2031 onwards. As outlined in the Energy Strategy, this would mean that these units would be available in the crucial higher-demand heating season, or during extraordinary occasions such as severe energy crises.

The new law on climate change also foresees the development of a long-term decarbonisation strategy. As part of the Transition towards the low emissions and climate-resilient economy in the Western Balkans and Türkiye project, financed by the EU and implemented by a Consortium of Umweltbundesamt GmbH

and NIRAS, Kosovo is receiving some support for the drafting of the Strategy; however, the budget for this support is rather limited.

Kosovo's overall policy framework for energy is marked by a strong emphasis on **renewable energy policy** and the promotion of RES. Kosovo's energy strategy 2022-31 has set an ambitious strategic objective, namely to ensure that RES accounts for at least 35% of electricity consumption by 2031. The Energy Strategy does not contain targets concerning the share of renewables in overall energy consumption, but the draft NECP that was submitted to the Energy Community for comments in July 2023 does entail a target of 32% share of renewable energy in the gross final energy consumption which is in line with the Energy Community's 2030 targets (Energy Community Secretariat, 2023[3]). The Energy Strategy also foresees the development of new RES capacities, aiming for 600 MW from wind, 600 MW from solar photovoltaic (PV), 20 MW from biomass, and at least 100 MW from prosumer capacity. The goal is to achieve a total installed RES capacity of 1,600 MW by 2031.

The RES law is currently in its final stages of completion and has already been approved by the government. The law is aligned with the Clean Energy Package and will mark the shift to a comprehensive market-based support scheme for additional RES capacity. This is a continuation of the spirit of Administrative Instruction no. 01/2023 from April 2023, which already provided the basis for competitive auctions in the RES sector and paved the way for Kosovo's first-ever solar auction for a 100 MW solar PV plant which was launched in May 2023 and completed in March 2024. Plans are underway to launch Kosovo's first-ever wind auction in 2024. Additionally, ERO adopted the Rule for Prosumers in 2023, facilitating the deployment of small-scale PV installations. It is anticipated that this advanced legal framework will positively impact RES projects and enhance energy security. However, engaging the private sector remains a challenge. The Ministry of Economy, with support from USAID, has developed a white paper exploring various measures to encourage households to install small-scale solar generation. This white paper could serve as a foundation to boost RES generation and activate the private sector further, potentially catalysing investments in additional small-scale RES generation.

In the area of **energy efficiency** the Ministry of Economy, together with the Kosovo Energy Efficiency Agency, has prepared a draft of the National Energy Efficiency Action Plan 2022-25, which is currently in the preliminary consultation phase. Concurrently, the drafting of a new law for energy efficiency is underway (Box 13.1). The Ministry of Environment, Spatial Planning, and Infrastructure has also drafted the new Law to transpose on Energy Performance of Buildings, which is in the approval phase in the government. These legal changes can be the basis to transpose the Energy Efficiency Directive and the Energy Performance of Buildings Directive, and further align the energy efficiency legislation with the relevant EU and Energy Community *acquis*. In this regard it also should be noted that a complete transposition of the Labelling Regulation remains outstanding (Energy Community Secretariat, 2023[3]).

With regard to the financing of energy efficiency projects, the Kosovo Energy Efficiency Fund plays a crucial role in Kosovo. After its creation, based on Law No. 06/L-079 on Energy Efficiency from 2018, its focus was originally on promoting, supporting and implementing energy efficiency measures in the public sector. Recently, however, a shift towards the residential sector is taking place, which is a much needed development given that in 2020, households accounted for 40% of the total final energy consumption, which is an increase since 2008 of 148 tons of oil equivalent (ktoe), up to 609 ktoe. This was the highest increase in all sectors, as also highlighted in the Kosovo Energy Strategy.

The policy framework in Kosovo regarding **energy poverty** and support for vulnerable customers is currently in a state of development. Direct financial assistance is provided to low-income households, particularly those benefiting from various Social Assistance Schemes. In 2022, 35,641 families benefited from social and pension schemes. The approximate annual expenditure for this support amounts to EUR 4.5 million. Energy poverty as such, however, is not defined in Kosovo and while some programmes exist to address the root causes of energy poverty, they are more incidental than systematic. A more structural approach to tackling energy poverty is necessary for long-term sustainability and effectiveness.

Box 13.1. Advantages of robust energy efficiency legislation

The applicable energy efficiency legislation in the Energy Community aims to create a more sustainable, competitive, and secure energy systems across the Contracting Parties. These laws are designed to meet ambitious energy and climate targets and to enhance energy efficiency at all stages of the energy chain, from production to final consumption.

The advantages of such legislation are multifaceted, ranging from environmental and financial benefits accompanying less energy consumption to more general aspects of increased competitiveness and innovation due to the need to respond to stricter technical requirements.

Energy efficiency legislation, such as the Energy Efficiency Directive, the Energy Performance of Buildings Directive and the Labelling Regulation provides a comprehensive approach to harnessing these advantages.

Source: European Parliament (2024[4]).

Sub-dimension 12.4: Energy markets

In the area of **market operation**, Kosovo is undergoing significant changes and developments. The Market Rules for the organised electricity market through the ALPEX have been adopted and ERO has nominated ALPEX as the Nominated Electricity Market Operator (NEMO) for Kosovo. This process aligns with the Capacity Allocation and Congestion Management (CACM) Regulation, which is currently also being transposed in full as the first Network Code of the Electricity Integration package in Kosovo. This demonstrates a commitment to aligning Kosovo's energy market operations with broader regional standards and is a crucial step towards integrating Kosovo more fully into the regional and European energy markets.

Furthermore, the go-live of the branch of ALPEX in Kosovo has taken place in early 2024, which also marked the go-live of market coupling with Albania. This development positions the project as the first successful coupling initiative in the region, enhancing regional energy co-operation and market efficiency.

In terms of publication requirements, Kosovo has implemented the Transparency Regulation, aiming to ensure the openness and accessibility of market information. It is not, however, implemented fully and not all required data are regularly being published. Furthermore, the market environment faces certain challenges. ERO's licensing regime hampers mutual recognition of trade licenses which can be seen as an additional burden that significantly limits the participation of new market entrants, potentially stifling competition. Moreover, market participants from Energy Community Contracting Parties are not allowed to participate in procedures organised by companies under public service obligations in Kosovo. The continued existence of the bulk supply agreement between KESCO and KEK limits competition and liquidity of the energy market in Kosovo, as also highlighted by the EU (European Commission, 2023[5]) and the Energy Community Secretariat (Energy Community Secretariat, 2023[3]).

The implementation of the framework regarding **unbundling** is progressing effectively. KOSTT and KED have been unbundled and compliance officers have been established in all the necessary sectors. Despite Kosovo being at the forefront of unbundling its system operators, ERO has had to enforce compliance through financial penalties. In a decision in 2022, ERO imposed substantial fines on KESCO and KEDS. These penalties were primarily due to the companies' activities concerning the procurement of energy for covering distribution losses directly from KESCO, which raises some concerns about regulatory compliance and the effectiveness of the unbundling process.

When it comes to **third-party access rules** in the energy market, the situation presents a mix of progress and challenges. The implementation of third-party access plans is advancing positively, which is encouraging for the market's openness and competitiveness. In terms of tariff structuring, separate access and usage tariffs have been instituted for each voltage level. However, a significant hurdle remains in the form of trading license recognition. Currently, trading licenses are not mutually recognised, which can limit the scope of energy trading and market integration. The only exception to this is the mutual recognition of trading licenses with Albania and a similar set up is currently being developed with North Macedonia. Furthermore, the grid codes have successfully transposed the Connection Codes. This transposition is a crucial step in aligning Kosovo's energy sector with European standards, facilitating better integration and co-operation within the regional energy market.

As already indicated above, the go-live of market coupling between Albania and Kosovo is a significant achievement in terms of **regional market integration**. It represents a concrete step towards a more interconnected and robust energy market in the region, which is expected to benefit consumers through improved security of supply and potentially lower prices due to increased competition. Moreover, ERO has adopted the Shadow Allocation Rules for the markets of Albania and Kosovo. These rules are set to be applicable in scenarios where the day-ahead market coupling is unable to produce results. The adoption of these Shadow Allocation Rules is a prudent measure, ensuring market stability and continuity even in the face of technical challenges or unforeseen circumstances.

Furthermore, Kosovo has also signed the Memorandum of Understanding concerning market coupling with Greece, Albania, and North Macedonia. This commitment is a clear indication of Kosovo's dedication to regional energy collaboration.

As pointed out by the Energy Community Secretariat in its 2023 Implementation Report, the majority of cross-border capacities are allocated through the regional auction platform SEE CAO (Energy Community Secretariat, 2023[3]). Allocation for the intraday timeframe occurs bilaterally between the respective system operators. Regarding the interconnection with Serbia, there is no capacity allocation and agreed common rules are absent.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo has made progress in development of a legal framework for organised markets and working towards further regional integration (Table 13.2). Deficiencies remain in the area of decarbonisation. Furthermore, legislative procedures are taking a very long time. While the pending primary legal acts are aimed at transposing the Clean Energy Package, their final adoption is still outstanding and additional secondary legislation will also need to be drafted and swiftly adopted to ensure proper transposition and implementation.

Table 13.2. Kosovo's progress on past recommendations for energy policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure additional human resources	In the final draft law for the Energy Regulator, the provisions related to the remuneration of the ERO Board and staff are amended with the aim of establishing an independent regulator. References to the Law no. 08/l-196 on Salaries in the Public Sector and Law No. 08/l-128 on Amending and Supplementing Law no. 06/l-114 on Public Officials are not incorporated in the final draft. Despite the changes not taking place, ERO remains seriously understaffed.	Moderate
Draft and implement policies to promote competition and liquidity within energy markets	Kosovo has launched its day ahead market at the end of January 2024. There is still no progress on the promotion of competition within the wholesale segment, since the bulk agreement between KEK and KESCO is still in place. There is still no progress on the promotion of competition within the retail segment, since	Limited

	all customers connected to the low and medium voltage, are supplied by KESCO. On the high-voltage segment, the first customer is supplied from alternative suppliers.	
Improve market monitoring and transparency	The Transparency Regulation (Regulation 543/2013) is fully transposed and implemented. The data published from the regulator are not regularly updated. The regulator has published an electricity app with detailed data about the electricity sector. Capacity constraints within ERO can undermine monitoring functions.	Moderate
Design and implement a decarbonisation strategy and phase out coal	The Energy Strategy foresees at least one of the Kosovo A units to be refurbished by the end of 2024. A decision on whether to refurbish or phase out a second unit will be made in 2024 at the latest, while the third unit will be permanently closed upon completion of the refurbishment of the other units. The refurbished unit(s) is (are) then planned to be kept as a strategic reserve from 2028 onwards. As is outlined in the Energy Strategy, this would mean that these unit(s) would be available in the crucial higher demand heating season, or during extraordinary occasions such as severe energy crises KEK plans construction of a 100 MW PV plant and is considering an additional PV project, which is being studied. KEK is also planning a coal transition strategy to align with the energy strategy. Drafting and adoption of the Long-Term Decarbonisation Strategy is one of the activities set in the Economic Reform Programme 2023-25. As part of the TRATOLOW (Transition towards the low emissions and climate-resilient economy in the Western Balkans and Türkiye) project, financed by the EU and implemented by a Consortium of Umweltbundesamt GmbH and NIRAS, Kosovo is receiving some support for the drafting of the Strategy, however; the budget for this support is rather limited.	Moderate
Improve the approach to the renewable energy project assignment and support to encourage renewable growth, and improve the deployment of energy efficiency	Renewable energy generation is considered in the policy framework for diversification, including but not limited to the Energy Strategy 2022-31, ESIP 2022-25 and draft NECP. Kosovo's target is to cover at least 35% of electricity consumption by 2031, and develop new RES capacities (600 MW wind, 600 MW solar PV, 20 MW biomass & at least 100 MW of prosumer capacity), to reach a total installed RES capacity of 1600 MW by 2031. The RES law is under the finalisation process. Kosovo has already initiated the first competitive auction for 100 MW of solar power and plans to initiate its first wind auction for 150 MW of capacity. The Energy Regulatory Office has adopted the Rules on Prosumers in 2023. Overall, it is expected that the more advanced legal framework will have a positive effect on RES projects and thus energy security.	Moderate
Improve regional integration	There is a regulatory commitment for participation in market coupling with Greece, Albania and North Macedonia. Active participation in SEE CAO. Kosovo is part of the SEE Electricity Day-Ahead Market Coupling initiative. Framework Agreement on Market Coupling between Albania and Kosovo electricity markets is already in place. ALPEX went live on the Kosovo market at the end of January 2024, also marking the coupling of the day-ahead markets of Albania and Kosovo.	Moderate
Finalise the transposition and implementation of the EU's Third Energy Package	Kosovo is reviewing the most important acts of the primary legislation (law on energy, law on electricity, law on the energy regulator, law on energy efficiency and RES law) to comply with the EU's Clean Energy Package. The process for the transposition of EU Network Codes and Guidelines has started.	Moderate

The way forward for energy policy

Although Kosovo has shown improvement in various fields since the previous CO, more work is required to bridge current disparities and to better conform to the standards set by the EU and the Energy Community. The following suggestions offer a perspective on key issues which, if addressed effectively, could greatly enhance Kosovo's energy sector and its efforts to align with the relevant *acquis.*

- **Increase salaries of the regulator and tackle ERO's inadequate staffing.** ERO's salary structure does not allow ERO to attract the most highly skilled professionals, which hampers adequate staffing within ERO and further aggravates already existing brain drain away from the regulator. High-quality staff is crucial for effective oversight, as ERO's staff must navigate complex

regulatory landscapes and make informed decisions. Well-compensated regulators furthermore are more likely to remain impartial and dedicated to their public service roles, fostering trust in regulatory institutions and promoting a fair, transparent, and accountable regulatory environment.

- **Adopt the outstanding primary legislation.** Several draft laws are currently pending adoption which would align Kosovo's legal framework further with the Clean Energy Package and the Electricity Integration Package, such as the Law on Energy, Law on Electricity and the Law on the Regulator. Nevertheless, full, adoption is still pending and should take place as soon as possible.
- **Initiate competitive auctions as well for RES technologies other than solar.** In order to diversify its RES portfolio, Kosovo should not only focus on solar auctions but should also initiate auctions focusing on other technologies, such as for example wind. In order to support this development the government should conduct an analysis of currently existing obstacles that hamper the uptake of wind technology, which would include assessing the financing needs, identifying wind potential and providing an overview of suitable locations.
- **Strengthen the Energy Efficiency Fund.** The Fund can play a crucial role in strengthening energy efficiency in Kosovo, but needs to receive additional support in terms of budget, legal structure and corporate governance in order to be able to implement energy efficiency projects in the residential sector in a sustainable way.
- **Strengthen work on the decarbonisation strategy until 2050.** To accommodate the related socio-economic effects, work on the decarbonisation strategy should be complemented by a just transition strategy. Such a strategy should focus on the economic, social, and environmental challenges associated with a coal phaseout to mitigate its negative impacts on workers, communities, and the environment. It can ensure fairness, equity, and resilience in the face of the envisaged transition, ultimately leading to a more sustainable and prosperous future for all.

References

Energy Community Secretariat (2023), *Annual Implementation Report 2023*, https://www.energy-community.org/implementation/report.html. [3]

European Commission (2023), *EU Progress Report for Kosovo*, European Commission, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [5]

European Parliament (2024), *Fact Sheets on the European Union, Energy Efficiency*, https://www.europarl.europa.eu/factsheets/en/sheet/69/energy-efficiency (accessed on 30 May 2024). [4]

Government of Kosovo (2023), *National Energy and Climate Plan of the Republic of Kosovo 2025 - 2030*, https://www.energy-community.org/dam/jcr:e6badfbe-313d-4ebc-a450-416dcdbd5499/20230714_Final%20Version_First%20Draft%20NECP%202025-2030%20of%20Kosovo.pdf. [2]

Ministry of Economy (2022), *Energy Strategy of the Republic of Kosovo 2022- 2031*, https://me.rks-gov.net/wp-content/uploads/2023/04/Energy-Strategy-of-the-Republic-of-Kosovo-2022-2031-1-1.pdf. [1]

14 Environment policy

A healthy and sustainable environment is crucial for economic competitiveness as it supports resource efficiency, enhances resilience to climate-related risks, fosters innovation, and attracts investments while mitigating environmental degradation and associated costs. The chapter analyses the robustness and comprehensiveness of environment policies across four sub-dimensions. The first sub-dimension, climate action, assesses strategies aimed at both mitigating and adapting to climate change. The second sub-dimension, circular economy, focuses on policies promoting waste minimisation, resource efficiency, as well as sustainable production and consumption. The third sub-dimension, protection of ecosystems, explores challenges in managing freshwater, biodiversity and forestry, as well as land-use. The fourth sub-dimension, depollution, analyses policies related to air quality, water supply and sanitation, and industrial risk management, all of which are paramount for enhancing competitiveness while ensuring environmental sustainability.

Key findings

Kosovo's score for environment policy has shown improvement since the last *Competitiveness Outlook* (Table 14.1), although it remains below the regional average. Progress has been noted in strengthening circular economy policies and depollution legislative frameworks. Nonetheless, additional efforts are required to reinforce climate action commitments and improve ecosystem protection.

Table 14.1. Kosovo's scores for environment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Environment	13.1: Climate action			2.3	2.5
	13.2: Circular economy			2.3	2.2
	13.3: Protection of ecosystems			1.8	2.1
	13.4: Depollution			2.3	2.3
Kosovo's overall score		**1.8**	**2.1**	**2.2**	**2.3**

The **key findings** are:

- Kosovo's efforts to address climate change have advanced, particularly with the adoption of the Law on Climate Change, which aims to improve institutional co-ordination and establish a system for monitoring, reporting, and verifying greenhouse gas emissions. Nevertheless, the framework lacks decarbonisation targets to achieve net-zero emissions by 2050, and adaptation measures need to be enhanced.
- Kosovo is advancing towards the transition to a circular economy, with the adoption of a roadmap and mainstreaming of the concept into relevant sectoral policies. Nevertheless, understanding of the concept is still limited and initiatives aimed at raising awareness among citizens and businesses remain limited. Moreover, despite improvements in waste collection services, recycling rates currently stand at less than 1% of treated waste, underscoring the pressing need for enhanced waste management practices to support the transition to a circular economy.
- Pollution and illegal activities continue to strain ecosystems in Kosovo, although there have been enhancements to protection frameworks, particularly through the development of new legislation for freshwater, biodiversity, and forestry management. However, the implementation of these policies is limited by resource shortages, inadequate data, and lack of monitoring.
- Kosovo has taken preliminary steps to address air, water, and soil pollution, which remain significant environmental and health challenges. While enforcement efforts need to be intensified, policies for air quality have been strengthened, investments are being made in wastewater treatment, and the legislative framework on industrial pollution has been strengthened.

State of play and key developments

Sub-dimension 13.1: Climate action

From 2011 to 2020, Kosovo witnessed a slight upward trend in greenhouse gas (GHG) emissions; the overall growth of 1.3% is primarily attributed to the prevalent use of fossil fuels in the energy and transport sectors (Eurostat, 2023[1]). Although the economy's emissions per capita remain lower than the European average, its emissions intensity per GDP unit is notably high, primarily due to reliance on carbon-intensive lignite coal. Kosovo faces significant climate change risks, including droughts, floods and wildfires, which pose substantial threats to both its economy and population. Projections suggest that regional warming could lead to a reduction in snow cover by 50-days annually by 2050, while four out of five water basins may experience increased stress or scarcity. Furthermore, climate change poses a threat to the agriculture sector, which contributes 7% to GDP, potentially exacerbating poverty levels in rural areas (IMF, 2023[2]).

Kosovo has committed to achieving carbon neutrality by 2050 by endorsing the Green Agenda for the Western Balkans in 2020. Important strides have been achieved in developing a climate change framework, though it remains in its early stages. In addition to the Climate Change Strategy (2019-28), the first Law on Climate Change was adopted in January 2024, harmonising the framework with EU legislation.[1] During the assessed period, the implementation and monitoring of the Climate Change Strategy have, however, been limited. Nevertheless, efforts to co-ordinate climate change measures are anticipated to improve with the re-establishment of the National Climate Change Council in 2021, the aim of which is to mainstream climate action across relevant sectors and enhance public awareness. Since 2021, the Council has also been leading the development of voluntary Nationally Determined Contributions (NDC),[2] with a target to reduce greenhouse gas emissions by approximately 16.3% by 2030 compared to 2016 levels. Moreover, the enactment of Kosovo's Law on Environmental Impact Assessment, adopted in 2023, could represent a crucial measure in climate change efforts if rigorously enforced. The Law mandates comprehensive assessments and corresponding mitigation and adaptation measures for project permits, thereby integrating climate considerations into decision-making processes. The Law on Climate Change also foresees the establishment of a Division for Climate Change with the objective to increase human and technical capacities, notably through training and capacity-building activities. The latter have begun in several municipalities, notably as part of the Global Climate Promise Project of the United Nations Development Programme (UNDP).[3]

In addition to enhanced efforts to bolster co-ordination and build capacities, strides have been made in the development of the **climate change mitigation** framework. While the Climate Change Strategy lacks specific decarbonisation targets to achieve net-zero emissions by 2050, Kosovo has initiated the development of the National Energy and Climate Plan (NECP). The first draft is undergoing revision to incorporate the comments from the Energy Community Secretariat and the legal framework for its adoption has been established by the recently enacted Law on Climate Change. The Law will also regulate a system for monitoring, reporting, and verifying greenhouse gas emissions. Currently, the Kosovo Environmental Protection Agency (KEPA) has prepared a greenhouse gas inventory until 2021, which includes emissions from energy, Industrial Processes and Product Use (IPPU), agriculture, Land Use, Land Use Change, and Forestry (LULUCF), and waste, but this inventory is not publicly available. Kosovo has additionally pledged to decrease emissions from the energy sector through adoption of the new Energy Strategy (2022-31), which targets a 32% reduction in emissions and includes commitments to introduce carbon-pricing instruments by the end of 2025. The definition of vulnerable energy citizens will also undergo revision in 2024, with the aim to guarantee the effectiveness of subsidies and to prevent the energy transition from marginalising the poorest population. Nevertheless, economic instruments and incentives to discourage high-carbon activities remain scarce and are mainly targeted at promoting renewables.

Climate change adaptation policies are gaining momentum, though the overall framework remains limited. The recently enacted Law on Climate Change aims to bolster national capacity to adapt to the adverse effects of climate change and proposes the establishment of a Scientific Advisory Board. Tasked with assessing vulnerabilities, overseeing implementation and enhancing co-ordination, the Board would involve stakeholders from central, local, and non-governmental sectors. In this regard, Kosovo intends to update its 2016 Disaster Risk Assessment, albeit without a specific timeline. Despite limited considerations for adaptation in the Climate Change Strategy, efforts are under way to develop a National Adaptation Strategy, focusing on disaster risk reduction and climate change vulnerabilities; drafting is planned for the end of 2024. Additionally, adaptation measures encompassing water, agriculture, forestry, land use, biodiversity, and health sectors are planned for inclusion in the voluntary NDC. Some municipalities have established Municipal Directorates for Protection and Rescue to address natural hazards, but they face challenges related to competencies and capacities. Furthermore, some municipalities affected by floods in 2023 are in the process of formulating emergency response plans to enhance preparedness. Considerable progress has been achieved in increasing resilience to floods, with advancement in mapping flood risks with the support of international partners.[4] A flood risk management plan is also due to be developed to better guide infrastructure investments and reduce risks to human, ecological and economic health. Nevertheless, Kosovo's Early Warning System remains incomplete and data collection on climate is limited, hampering effective readiness and management of climate-related risks.

Sub-dimension 13.2 Circular economy

Transitioning to a circular economy requires implementing measures that encompass the entire life cycle of products, spanning from design and manufacturing to consumption, repair, reuse, recycling, and the reintegration of resources into the economy. In an effort to promote sustainable practices and improve resource management, Kosovo adopted a circular economy roadmap in 2023. This roadmap identifies six key areas for action, encompassing food and forest systems, the creative and retail sectors, the built environment, and manufacturing. Recognising the interconnectedness of these sectors, the roadmap also includes horizontal areas to facilitate the transition to a circular economy, such as waste and water management, transport, green public procurement, digitalisation and information and communication technology (ICT), energy, and education for sustainable and circular practices. Moreover, circular economy principles have been increasingly integrated into relevant sectoral policies. For instance, the Integrated Waste Management Strategy (2020-29) prioritises promoting circular economy in waste practices. The Strategy for Agriculture and Rural Development (2022-28) addresses sustainable agriculture and food production and mentions principles of the circular bioeconomy. Additionally, the Strategy for Industrial Development and Business Support (2023-30) includes objectives aimed at advancing the circular economy; these involve supporting businesses in increasing recycling, promoting circular practices in the manufacturing, production and consumption of green products, and enhancing technological efficiency. Efforts to raise awareness about circular economy concepts have been initiated as part of the Integrated Waste Management Strategy, including activities to reduce plastic bag usage and promote waste utilisation. Although there are plans to increase awareness of circular concepts among the private sector, particularly through seminars on circular economy business models for manufacturing in 2023-24 as outlined in the Economic Reform Programme, such activities had not been initiated at the time of writing. Nevertheless, international partners are increasingly collaborating with civil society organisations and businesses to promote circular practices. This support includes providing acceleration services for SMEs offering green solutions[5] and grants for reuse services.[6]

Waste management continues to pose a significant environmental challenge in Kosovo, with over 99% of municipal waste ending up in landfills. Waste separation at source remains largely nonexistent and recycling activities are minimal, primarily carried out by the informal sector.[7] However, notable progress has been made in expanding the coverage of waste collection and treatment services. From 2015 to 2019, there was a reported 40% increase in total municipal solid waste treatment, largely due to a rise in the

percentage of the population connected to waste collection services (EEA, 2022[3]). By 2021, coverage reached 90% of the population, a 5% increase from the previous year, meeting the initial target outlined in the Kosovo Integrated Waste Management Strategy (KIWMS) (2021-30) (Kosovo Environmental Protection Agency, 2021[4]). Despite its recent adoption, the KIWMS is undergoing revisions to further align recycling targets with those of the EU, and is planned to be approved in the second half of 2024. The waste management legislative framework was strengthened with the revision of the Waste Law, amended in 2022 to align with the EU Waste Framework Directive. The revised Law specifically focuses on circular economy, introduces the legal basis for the Deposit Refund System (DRS) and extended producer responsibility (EPR), and prescribes sanctions on waste dumping. In line with the revised Law and with the support of international partners, Kosovo is working on a business case for DRS implementation for bottles and cans[8] and conducting a pre-design study for EPR across four waste streams.[9] Additionally, in 2023 Kosovo took steps towards aligning with EU Directives on Packaging and Packaging Waste by adopting the Administrative Instruction on Packaging and Packaging Waste. This regulation aims to mitigate the environmental impact of certain plastic products by focusing on prevention and enhanced recycling practices, although it does not include a prohibition on single-use plastics.[10] Efforts were also undertaken to address the proliferation of illegal landfills, driven by performance-based grant schemes for municipalities. This initiative, led by the government of Kosovo and financed by international partners between 2017 and 2021, tasked municipalities with identifying and mapping out the locations and categories of illegal dumpsites.[11] In 2022, a total of 736 illegal landfills were recorded across all 38 municipalities, marking a reduction by almost half compared to the number recorded in 2020. Additionally, waste disposal to sanitary landfills increased by 9% during the same period.

While some investments are planned for the construction of landfills and closure of non-sanitary landfills in several cities through EU funding,[12] further efforts are required to increase investments in new integrated waste management facilities and infrastructure to ensure proper waste disposal and boost recycling activities. Encouraging progress has been made in bio-waste management, with home-composting systems introduced in 18 out of 38 municipalities and the operationalisation of a composting plant in 2021 for garden and park waste in Pristina. Moreover, while challenges persist in the planning and enforcement of waste management, the quality of waste data collection and comparability was strengthened since the last assessment. With the support of an EU-funded project, KEPA has significantly enhanced its monitoring efforts. Data collection and processing now occur on an annual basis, and the reporting system has undergone digitalisation, facilitated by the National Waste Management Information System. In 2022, 33 municipalities reported their waste data, a notable increase from just 3 municipalities in 2021.

Sub-dimension 13.3 Protection of ecosystems

Kosovo has low renewable water resources, which stood at 1 600 m³ per person per year compared to the regional average of 9 805 m³ in 2018 (World Bank, 2018[5]). With heavy reliance on internal sources, including limited inflow from the Ibër/Ibar River into Gazivoda Lake, and low externally provided water resources, Kosovo is particularly vulnerable to water scarcity. Compounding the challenges are high surface water pollution in urban areas, insufficient wastewater treatment infrastructure, and a lack of effective monitoring systems. These issues are further exacerbated by increasing demand for water resources, driven by pollution and the impacts of climate change. The **freshwater management** framework in Kosovo was further developed to address these challenges in the assessed period, although implementation has remained limited. Efforts are ongoing to strengthen the legislative framework, with the development of the Law on Water Resources and the Law on Financing the Management of Water Resources, scheduled to be adopted in 2024. Moreover, more responsible water management practices within the agricultural sector are expected to be enhanced with amendments to the Law on the Irrigation of Agricultural Lands, adopted in 2022. The amendments provide for increased punitive measures for illegal use of irrigation systems and damages resulting from negligent water usage. The First Review of the State Water Strategy (2017-36) for the period 2023-27 with a corresponding Action Plan for 2023-25

were adopted, aimed at providing clearer guidelines for consolidating the legal and institutional framework governing water management. While implementation has been limited in the first phase of the strategy due to limited capacities, funds have been secured from international partners for the enforcement of the subsequent phase. The delayed development of river basin management plans for the four main river basins[13] poses considerable challenges for freshwater management, particularly in establishing water protection zones. Without these zones, there are limitations in addressing cumulative impacts that economic activities, such as the development of hydropower plants, may have on freshwater resources. While KEPA regularly collects basic data on water resources and uses them to inform water management decisions, there is a notable absence of comprehensive data and forecasting measures. This gap hampers efforts to provide effective guidance for managing water resources, especially in safeguarding Kosovo's freshwater ecosystems against competing demands from agriculture, industry, and private households. Additionally, Kosovo has yet to establish a transparent water monitoring system accessible to the public.

Although relatively small in size, Kosovo is distinguished by rich biodiversity and a high rate of endemism. Moreover, forests accounted for 44.7% of Kosovo's total territory according to the 2012 inventory, a higher share than the EU average's 39.9% (World Bank, 2023[6]). However, over the past decade, forests have been excessively exploited for heating purposes and industrial activities, leading to concerns about illegal logging for timber sales, which persist as a serious issue. Since the last assessment, the **biodiversity and forestry management** framework has shown improvements, but implementation remains limited. Efforts are under way to develop a Nature Protection law aligned with the post-2020 UN Convention on Biological Diversity. Additionally, a new Forestry Law adopted in 2023 aims to promote sustainable forestry resource utilisation. Apart from the establishment of a Task Force for the Protection and Legal Use of Forests in 2021, progress in implementing measures outlined in the Forestry Sector Development Strategy 2021-30 has been slow due to reported resource shortages, particularly in addressing illegal logging. The absence of a recent economy-wide forest inventory since 2012 also hampers efforts to assess sustainable forest management. On nature conservation, while Kosovo has initiated inventories of natural habitats and species, little progress has been made in expanding protected areas. Although twelve new areas have been added to the national register – covering 11.6% of the territory in 2021, up slightly from 11.5% in 2019 – detailed regulatory plans for national parks remain incomplete. Efficient management of protected areas and prevention of illegal actions such as construction, hunting, and logging persist and require addressing (KEPA, 2022[7]). Moreover, the absence of dedicated programmes for systematic biodiversity monitoring, including specific species, poses a barrier to effective conservation efforts, policy formulation, and sustainable resource management.

In Kosovo, approximately 5% of the land is designated as constructed area, while forests and semi-natural areas account for 57%, and agricultural land covers 38% (KEPA, 2022[7]). However, due to incomplete building legalisation processes and ongoing construction without permits, official data on land occupation by the construction industry remain unavailable, particularly in rural areas (KEPA, 2022[7]). Other factors contributing to land degradation include soil pollution from industries, lack of environmental policies to reduce chemical use, and inadequate enforcement and assessment of land loss from construction, erosion, and degradation (KEPA, 2022[7]). The **land-use management** framework remains underdeveloped, and limited progress has been achieved since the last assessment to address these challenges. The government established a Task Force for the Protection of Agricultural Land in July 2021,[14] demonstrating its commitment to regulate unplanned urban constructions and combat land degradation. Furthermore, amendments to the Laws on Land Regulation, Agricultural Land, and Treatment of Construction without a Permit were adopted in 2023, aimed at readjusting punitive measures and defining clearer responsibilities at both ministerial and local levels. However, implementation is hampered by the lack of data collection on land use and soil quality, despite some progress made through an ad hoc project in 2020 by the MAFRD, which trained farmers in soil analysis. The monitoring of environmental aspects related to land use is also hindered by the lack of personnel.

Sub-dimension 13.4 Depollution

Air quality continues to be a major health threat in Kosovo, with annual average concentrations of fine particulate matter ($PM_{2.5}$) reaching 16.4 micrograms per cubic metre air (µg/m^3) in 2021, more than three times higher than WHO recommended levels of 5 µg/m^3 (EEA, 2023[8]). Air pollution in Kosovo stems from various sectors including energy, industry, transport, and domestic heating, and is exacerbated by the two ageing and highly polluting lignite-fired power plants, Kosovo A and B, situated a few kilometres from Pristina. Nonetheless, the air quality legislative framework has been enhanced with the enactment of the new Law on Air Protection from Pollution (2022), which defines institutional capacities and responsibilities to enhance air quality management and sets limits for air quality pollutants, in line with the EU Ambient Air Quality Directive. Air monitoring and reporting practices are also expected to improve with the adoption of the bylaw outlining criteria and methodology for air quality monitoring.[15] Air quality is currently monitored by 12 stations across two zones, but continuous monitoring at major industrial installations is not ensured for all types of pollutants. Moreover, maintenance of measuring devices is frequently challenging due to limited human and financial resources. Despite mandated under the Law on Air Protection from Pollution, several municipalities with heavily polluted zones have not yet developed local action plans on air quality. Such municipalities could take inspiration from the city of Pristina, which adopted its Air Quality Plan in June 2023 for a five-year period, although tangible progress of the plan's implementation is yet to be seen (Box 14.1).

Box 14.1. Pristina's Air Quality Plan 2023-28

The air quality in Pristina remains consistently poor, largely attributed the to two ageing and highly polluting lignite-fired power plants mentioned above, Kosovo A and B, located just a few kilometres from the city. Additionally, emissions from domestic heating and older diesel vehicles contribute to the problem, further exacerbating the pollution levels.

Air quality assessment in Pristina employs two monitoring stations to measure pollutants, including sulphur dioxide, nitrogen oxides, and particulate matter. Despite improvements, seasonal spikes in pollution underscore the ongoing need for targeted actions.

Strategic documents, such as the Municipal Development Plan, underscore Pristina's commitment to sustainable development, environmental preservation, and public health. In line with this commitment, the city has taken a proactive approach to addressing environmental concerns and mitigating air pollution, with the adoption of an Air Quality Plan for the 2023-28 period.

The Plan for Pristina includes a comprehensive set of six measures across different categories aiming to address pollution from various sources:

1. Cleaner vehicles for Pristina:
   - *Installation of particulate reduction filters on existing buses – a* programme to equip buses with selective catalytic reduction systems for nitrogen oxide by mid-2024.
   - *Electric buses* – introduction of electric buses and replacement of older buses by the end of 2024, with financial support from the European Bank for Reconstruction and Development (EBRD).
   - *Cleaner municipal vehicles* – modernisation of the municipal vehicle fleet, including waste collection and other service vehicles and the transition to electric vehicles where possible.
2. Promotion of local public transport and public green spaces:
   - *Dedicated bus lanes and expansion of the bus network* – implementation of dedicated lanes for buses and expansion of the city's bus network to improve public transport efficiency.

- *Public spaces and parks* – creation of new public spaces and parks, planting of seedlings, and creating green corridors to improve the urban climate and air quality.

3. Promotion of walking and cycling:
   - *New pedestrian and cycling infrastructure* – development of new paths, safe environments for cycling, bicycle parking spaces, and a digital cycling map to encourage active transport modes.
4. Creation of a low emission zone (LEZ):
   - *Designation and criteria for LEZ* – establishment of a low emission zone with defined criteria for vehicles allowed to enter, aimed at reducing emissions from older motor vehicles in the busiest parts of the city.
   - *Identification and monitoring of vehicles* – use of cameras and vehicle licensing databases to monitor vehicles in the LEZ and detect those that do not comply with the standards.
5. Supplying cleaner heat:
   - *Change of heating equipment* – improvement and replacement of heating equipment using wood or lignite with electric heat pumps or air-conditioned equipment, and thermal insulation of houses in the urban area of Pristina to reduce emissions from domestic heating.
   - *Cleaner heat with solar energy* – introducing solar thermal energy for heating and hot water in residential units, targeting approximately 4 000 homes in Pristina and reducing over 13 500 tonnes of CO_2 equivalent (tCO_2eq) emissions annually.
6. Air quality monitoring in Pristina:
   - *Enhanced monitoring system* – improvement of the air quality monitoring system with additional sensors and real-time data availability, aiming to better identify sources of emissions and manage air quality.

Source: City of Pristina (2023[9]).

While the revision of the Strategy on Air Quality (2013-22) is yet to be conducted, priorities to combat air pollution will be outlined in the upcoming Strategy for Environmental Protection and Sustainable Development (2022-31), still in the drafting process. The strategy's implementation has advanced at a limited pace, mainly supported by the Japan International Cooperation Agency (JICA), with a focus on addressing pollution stemming from the energy and transport sectors. Efforts have included initiatives to mitigate household pollution, raise awareness among citizens, and enhance technical and human capacities for controlling pollution from transportation. Ongoing activities at the time of writing include the development of a database and training sessions on measures to be implemented when pollution levels from the transport sector exceed limits.

The **water supply and sanitation** system in Kosovo is underdeveloped, with supply services reaching 79% of the population and sanitation services covering only 25% of total wastewater in 2022 (Water Services Regulatory Authority, 2023[10]). Despite this share of wastewater covered by sanitation services increasing from 11% in 2021 due to new investments and the operationalisation of wastewater treatment plants,[16] untreated sewage discharge remains the primary cause of water pollution, particularly in rivers. To address this challenge, the regulatory framework for water supply and sanitation was amended between 2021 and 2022; three administrative instructions were adopted, pertaining to the payment structure for water use, wastewater discharges, and the sanitary protection zones of water resources. However, these adjustments only partially transpose the EU Framework Water Directive (European Commission, 2023[11]). Improved planning and enhanced institutional capacities necessary to strengthen water resource management are supported by the first phase (2020-24) of the 12-year Integrated Water Resources Management Programme (2020-32).[17] In 2021, the installation of 15 new rural water supply systems was

completed, and an additional 93 systems are expected to become operational. This expansion will potentially increase the percentage of the population with access to water supply systems. However, interruptions in drinking water supply for all consumers continue to be common, partly due to high levels of non-revenue water. According to the monitoring report of the Strategic Plan for Regional Water Companies (2018-22), non-revenue water decreased only marginally from 58% in 2018 to 55% in 2021, and unbilled water as a percentage for the sector has remained largely unchanged for 15 consecutive years. This challenge is planned to be addressed in a specific objective outlined in the State Water Strategy 2023-27 to reduce water losses in the public water supply system.

While there have been some improvements in the legislative framework for **industrial risk management** since the last assessment, implementation remains limited. The adoption of the Law on Integrated Prevention and Control of Pollution in 2023 is a positive development, but it does not fully align with key EU directives such as the Industrial Emissions Directive and Seveso III,[18] and issuance of permits for large installations has remained limited (European Commission, 2023[11]). Amendments to the Law on Chemicals and related regulations adopted in 2022 have enhanced chemicals' market entry governance and permitting processes, partially aligning with the REACH Directive.[19] These changes also seek to facilitate the implementation of a mandatory system for harmonising criteria related to the classification, labelling, and packaging of substances. However, the general register for chemicals, planned for 2022, has yet to be established. Issues persist with hazardous mine waste, industrial discharge into rivers, and industrial dumpsites, posing significant threats to soil, water, and human health. Kosovo lacks disposal facilities for hazardous waste, with EU funding for their establishment cancelled due to disagreements among municipalities over their location.[20] Although the Strategy (2021-30) and Action Plan (2021-23) for Integrated Waste Management in Kosovo outline the development of an Industrial Waste Management Plan, including provisions for hazardous waste and site-specific plans for large industries, no progress has been reported in this regard and efforts to clean up industrial sites remain limited. Implementation is further hampered by inadequate data collection on industrial waste and contaminated sites.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress on implementing past CO Recommendations has been mixed. Below, Table 14.2 shows the economy's progress on implementing past recommendations for environment policy.

Table 14.2. Kosovo's progress on past recommendations for environment policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Advance waste management by enforcing measures to separate and reduce waste, and increase recycling and recovery in line with circular economy principles	While there has been an increase in waste collection, the treatment of waste remains underdeveloped, with the majority still ending up in landfills. Despite some initiatives targeting illegal landfilling, implementation of the waste management strategy is limited, and it is unlikely that recycling targets will be met. However, the adoption of the circular economy roadmap is expected to bolster recycling and recovery practices.	Limited
Improve air quality by decreasing dependence on fossil fuels in the energy mix, improving household heating systems, and reducing emissions from the transportation sector	Air pollution remains an important environmental and health concern in Kosovo. The legal framework for air quality did see improvement with the adoption of the Law on Air Protection from Pollution (2022), which establishes limits for air quality pollutants. However, the policy framework for air quality has not been revised for the upcoming period. Some progress has been achieved to address pollution stemming from the energy and transport sectors with the support from international partners. The city of Pristina has also developed an Air Quality Plan, with specific measures being planned.	Moderate

The way forward for environment policy

While Kosovo has strengthened its regulatory and policy frameworks in several areas of environment policy, overall implementation could be further improved. Some of the priorities are as follows:

- **Ensure implementation of the Integrated Waste Management Strategy, particularly by increasing waste recycling rates.** Although there have been advancements in enhancing waste collection services, Kosovo still faces a major environmental challenge regarding waste treatment, as more than 99% of municipal waste is currently disposed of in landfills. To improve recycling rates, the adoption of EPR take-back schemes, as outlined in the revised Waste Law, could be instrumental. To shift end-of-life management costs of products from the public sector to producers and consumers, Kosovo can follow the guiding principles laid out in Box 14.2.

Box 14.2. Guidance on implementing extended producer responsibility take-back schemes

OECD EPR Guidance

To effectively implement EPR take-back schemes to shift end-of-life management costs of products from the public sector to producers and consumers and to increase the collection and recycling rates of these waste streams, economies should ensure the application of the following principles (a selection of principles is based on the OECD EPR Guidance):

- *Clear legal framework* – The legislation should be clear on the definitions and responsibilities of all actors involved in EPR. There needs to be a legal framework for the operation of producer responsibility organisations. The EPR targets should be periodically reviewed.
- *Transparency* – The governance of EPR systems needs to be transparent to provide more effective means for assessing the performance of the actors involved and holding them accountable for their activities. This will require collecting both technical and financial data and setting up registers of producers, accreditation of producer responsibility organisations, and appropriate sanctions.
- *Sufficient existing waste management capacity* – For EPRs to work effectively, adequate waste infrastructure needs to be in place across the economy, including infrastructure for waste separation at source, collection and treatment (ideally recycling).
- *Administrative oversight capacity for better enforcement* – This concerns enforcement capacity to prevent unauthorised facilities and collection points from operation. This should also minimise free-riding and noncompliance.
- *Stakeholder engagement* – Platforms for dialogue among stakeholders need to be established.

Prevent Waste Alliance EPR Toolbox

To facilitate the adoption of general good practices and OECD guidance on EPR, authorities and other relevant actors could make use of the EPR Toolbox developed by Prevent Waste Alliance, to consult other international practices and participate in knowledge exchange in order to enhance the functioning of the domestic EPR system. The EPR Toolbox contains three modules that span more general aspects of an EPR, including the monitoring of financial flows, but also focus on concrete actions, such as the integration of the informal sector or the creation of a market for recycled plastics.

Data collection and processing for EPR schemes – example of the Czech Republic

While certain technical requirements must be met, the first step towards ensuring transparency of EPR schemes is effective co-ordination and compliance with reporting obligations under applicable legislation. The Czech Republic's electronic registry for waste is an exemplary model for a successful national waste information database. Recently rated as the best European system for waste data management and evaluation by the European Topic Centre for Circular, it employs two distinct systems. One handles the mandatory data reported by entities subject to relevant legal acts (Information System for Reporting Obligations), while the other manages the subsequent verification, processing and evaluation of the reported data (Information System for Waste Management). This streamlined process is further enhanced by extending verification authority to municipal and regional authorities, with the Environmental Information Agency functioning as the central data hub. By engaging a diverse array of stakeholders, including the statistical office, the information system becomes a catalyst for the development and implementation of evidence-based waste management policies.

Sources: OECD (2016[12]); Prevent Waste Alliance (2023[13]); Tuscano et al. (2022[14]).

- **Strengthen collaboration among relevant stakeholders and partnerships between public and private organisations to ensure a transition to a circular economy**. While Kosovo has adopted its roadmap for a circular economy in 2023, promoting inter-sectoral, cross-agency and interdepartmental collaboration would help scale up innovative circular business models, as the circular economy concept cuts across economic sectors and value chains as well as the competencies of public authorities. Kosovo could establish a circular economy stakeholder/ business platform to strengthen collaboration, information exchange and the exchange of good practices. Such platforms may also facilitate synergies and knowledge sharing across the different parts of the value chain. Most European countries have established national circular economy stakeholder platforms or hubs that serve as fora for information exchange, peer learning, multi-stakeholder co-operation, and a depository of information, data and other relevant material (see Box 14.3 for a few examples).

Box 14.3. Examples of circular economy platforms/hubs

- **Slovak Circular Economy Platform (Circular Slovakia)** – established in 2019 in the form of a public-private partnership by the Slovak Ministry of Environment, the Embassy of the Kingdom of the Netherlands, the Institute for Circular Economy, PwC Slovakia, the Slovak Business Agency and the Slovak Environment Agency. Its main goals are to promote circular economy to businesses as an approach that provides economic benefits and opportunities, exchange, information and experience; help build business partnerships and new projects; inform businesses about the latest legislation in the area; and support their participation in the policy-making process. The platform also helps increase discussion between the public and private sectors as well as among businesses themselves.
- **Circular Glasgow** – hosted since 2015 by the Glasgow Chamber of Commerce, Zero Waste Scotland and the Glasgow City Council (United Kingdom). Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas. This is done through workshops and events: a series of knowledge-sharing business-to-business networking events; a circle

assessment, a tool that helps businesses understand opportunities to become more circular; and the Circle Lab, an online hackathon event to find a circular solution to local challenges.

- **The Italian Circular Economy Stakeholder Platform** – established in 2018 by the National Agency for New Technologies, Energy and Sustainable Economic Development, as a mirror initiative of the European Circular Economy Stakeholder Platform. It acts through six working groups: 1) research and eco-innovation; 2) policy and governance; 3) measuring the circular economy; 4) sustainable and circular design, production, distribution and consumption; 5) cities and territory; 6) good practices. The platform aims to foster synergies between relevant stakeholders, overcome the fragmentation of initiatives at the national level, map good practices, and promote the Italian way for the circular economy at the national and international level.
- **Türkiye Circular Economy Platform** – established in 2020 by the Business Council for Sustainable Development of Türkiye. The platform aims to provide practical solutions, incentives, news and opportunities in the field of circular economy. It includes a knowledge hub, an e-commerce platform for industrial symbiosis (as part of the Türkiye Materials Marketplace established in 2016), and measurement tools, and offers training, financial opportunities, and consultancy services for companies that are looking to accelerate their circular transition.

Sources: BCSD (2024[15]); ICESP (2024[16]); OECD (2021[17]).

- **Ensure the preservation of forestry resources by reducing illegal logging, notably by strengthening stakeholder collaboration.** Despite recent progress in establishing a Task Force for the Protection and Legal Use of Forests, forests in Kosovo continue to face significant exploitation, with illegal logging remaining a major challenge. Sustainable forest management is crucial as forests harbour rich biodiversity and act as vital carbon sinks, playing a pivotal role in global climate regulation. In order to reduce dependence on logging, Kosovo should prioritise empowering local communities through alternative livelihood opportunities, such as agroforestry, eco-tourism, and non-timber forest products. Kosovo could follow Indonesia's Illegal Logging Monitoring and Environmental Protection Programme to implement such measures (see greening cluster under the CO2024 regional profiles).
- **Adopt the Land Regulation Concept Document and strengthen institutional co-ordination between different ministries responsible for land use issues** related to climate, biodiversity and agriculture, both horizontally (at national level) and vertically (between different levels of government) to achieve a more holistic governance of land use. The document should have a particular focus on reducing illegal construction and unauthorised development in environmentally sensitive areas, which remains a significant challenge in Kosovo. The land use nexus involves multiple issues and affects multiple actors from both the public and private sectors, and requires a whole-of-government approach to co-ordinate policies across all relevant stakeholders, which Kosovo currently lacks. One good practice example that provides such co-ordination is the Austrian Conference on Spatial Planning (see Box 14.4).

Box 14.4. Enhancing land use co-ordination with the Austrian Conference on Spatial Planning

The Austrian Conference on Spatial Planning (ÖROK, Österreichische Raumordnungskonferenz) is an organisation dedicated to co-ordinating spatial planning policies between the three levels of government in Austria (the national level, the states and the municipalities). Its decision-making body is chaired by the Federal Chancellor and its members include all federal ministers, the heads of all federated states,

and representatives of associations of local governments. Furthermore, business and labour organisations are represented on the body as consulting members. The work of the decision-making body is supported by a permanent secretariat with a staff of approximately 25-30.

One of the central tasks of the ÖROK is the preparation of the Austrian Spatial Development Concept (ÖREK, Österreichisches Raumentwicklungskonzept). The current Austrian Spatial Development Concept ("ÖREK 2030") was published in 2021 and covers a planning period of around ten years. Guided by the key theme of "Need for Transformation", it is a strategic instrument for overall spatial development in Austria. Beyond the preparation of the Spatial Development Concept, the ÖROK also monitors spatial development across Austria. It has developed an online tool that provides a mapping function of a variety of important indicators at the municipal and regional level, and releases a report on the state of spatial development every three years.

The ÖROK is also the co-ordinating body for structural funds provided by the European Union. It manages the integration of these funds into broader spatial strategies and was directly responsible for the programming work related to 1 of the 11 Thematic Objectives of the programming period 2014-20. The ÖROK also serves as National Contact Point within the framework of European Territorial Cooperation.

Sources: OECD (2017[18]); ÖROK (2024[19]).

References

BCSD (2024), *Turkey Circular Economy Platform*, https://donguselekonomiplatformu.com/en/ (accessed on 24 January 2024). [15]

City of Pristina (2023), *Plani Lokal i Veprimit për Cilësinë e Ajrit për Prishtinën 2023-2028*, https://prishtinaonline.com/uploads/plan_i_cilesise_se_ajrit_per_prishtinen_2023-2028.pdf. [9]

EEA (2023), *Kosovo – Air Pollution Country Fact Sheet*, https://www.eea.europa.eu/themes/air/country-fact-sheets/2023-country-fact-sheets/kosovo-air-pollution-country (accessed on 12 February 2024). [8]

EEA (2022), *Municipal Waste Management in Western Balkan Countries - Kosovo Country Profile*, https://www.eea.europa.eu/themes/waste/waste-management/municipal-waste-management-country/kosovo-municipal-waste-factsheet-2021/view. [3]

European Commission (2023), *EU Progress Report for Kosovo*, European Commission, https://neighbourhood-enlargement.ec.europa.eu/document/download/760aacca-4e88-4667-8792-3ed08cdd65c3_en?filename=SWD_2023_692%20Kosovo%20report_0.pdf. [11]

Eurostat (2023), *Enlargement Countries - Environment Statistics*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_environment_statistics&oldid=627524 (accessed on 1 March 2024). [1]

ICESP (2024), *Italian Platform of Actors for the Circular Economy*, http://www.icesp.it (accessed on 20 January 2024). [16]

IMF (2023), *Kosovo: Request for Stand-by Arrangement and an Arrangement Under the Resilience and Sustainability Facility—World Bank Assessment Letter for the Resilience and Sustainability Facility*, https://www.elibrary.imf.org/view/journals/002/2023/200/article-A002-en.xml#RA002fn13. [2]

KEPA (2022), *Annual Report on the State of the Environment 2021*, https://www.ammk-rks.net/assets/cms/uploads/files/Raporti%20i%20mjedisit%202021_eng(1).pdf. [7]

Kosovo Environmental Protection Agency (2021), *Report of Municipal Waste Management in Kosovo - Reporting Year 2021*, https://www.ammk-rks.net/assets/cms/uploads/files/Raporti%20i%20mbeturinave%20komunale%20p%C3%ABr%20vitin%202021_%20eng(1).pdf. [4]

OECD (2021), *The Circular Economy in Glasgow, United Kingdom*, OECD Publishing, Paris, https://doi.org/10.1787/7717a310-en. [17]

OECD (2017), *The Governance of Land Use in OECD Countries: Policy Analysis and Recommendations*, OECD Publishing. Paris, https://doi.org/10.1787/9789264268609-en. [18]

OECD (2016), *Extended Producer Responsibility: Updated Guidance for Efficient Waste Management*, https://doi.org/10.1787/9789264256385-en. [12]

ÖROK (2024), *Austrian Conference on Spatial Planning – ÖROK*, https://www.oerok.gv.at/english-summary#:~:text=The%20Austrian%20Conference%20on%20Spatial,development%20at%20the%20national%20level. [19]

Prevent Waste Alliance (2023), *ERP Toolbox*, https://prevent-waste.net/epr-toolbox/ (accessed on 1 March 2024). [13]

Tuscano, J. et al. (2022), *Electronic Registries for Waste Across Europe*, ETC CE Report 2022/3, European Topic Centre for Circular Economy and Resource Use, https://www.eionet.europa.eu/etcs/etc-ce/products/etc-ce-products/etc-ce-report-3-2022-electronic-registries-for-waste-across-europe. [14]

Water Services Regulatory Authority (2023), *Raporti për Nivelin e Shërbimeve të Ujit të Ofruara nga Ofruesit e Licencuar të Shërbimeve (Report on the Level of Water Services Provided by Licensed Service Providers)*, http://www.arru-rks.org/assets/cms/uploads/files/Inspektimi/Raportet/Raporti%20per%20Nivelin%20e%20Sherbimeve%202022%20(1).pdf. [10]

World Bank (2023), *Forest Area (% of Land Area) - European Union*, https://data.worldbank.org/indicator/AG.LND.FRST.ZS?locations=EU (accessed on 17 January 2024). [6]

World Bank (2018), *Kosovo Water Security Outlook*, https://documents1.worldbank.org/curated/en/496071548849630510/Water-Security-Outlook-for-Kosovo.pdf. [5]

Notes

[1] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action.

[2] While Kosovo is not a party to the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, and therefore is not required to submit NDCs, it started to draft its voluntary NDCs in 2021, with the support of the United Nations Development Programme (UNDP).

[3] The first phase of the Climate Promise has supported Kosovo in raising its ambition with regard to reducing greenhouse gas emissions, and building resilience to the impacts of climate change. For instance, together with the Austrian Development Agency and UNDP, the municipalities of Prizren and Suhareke/Suva Reka are implementing the "Strengthening Local Climate Action Project" (2021-24). The aim of the project is to bolster local capacities for setting and achieving ambitious mitigation targets through gender-responsive measures; promote innovative finance for the green transition; and accelerate the shift to more sustainable food systems. In 2022, the Municipality of Prizren also developed an Intervention Plan for Rural Development to Mitigate and Adapt to Climate Change, outlining 14 measures for mitigation and adaptation for the period 2021-24.

[4] Since 2021, Watershed-Based Implementation Funding (WBIF) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) have implemented the project Flood Risk Maps and Flood Hazard Maps for all river basins in Kosovo. In the studies undertaken, potential high flood risk areas were identified, resident vulnerability was assessed, and key industrial risks were mapped. The study will continue assessing medium and lower risk areas until the completion of the project, foreseen in 2024.

[5] As part of UNDP's Climate Promise project, through BOOST x Kosovo – a business acceleration for start-ups – UNDP is supporting 50 women and men-helmed SMEs on green business practices, while providing mentorship, matchmaking with global companies, and grants for the best green solutions.

[6] For instance, the association Let's Do It Peja has received a grant from the EU to expand its textile reuse network to all cities of Kosovo.

[7] Informal waste pickers play an important role in the collection of recyclable waste throughout Kosovo (mainly plastics, metals, paper, waste electrical and electronic equipment [WEEE], and selling them for export), but there are no data or official measurements of the waste quantities collected this way.

[8] Several roundtables and meetings have been convened with stakeholders from the private sector (including producers, importers and retailers), municipalities, and other relevant institutions. These aim to facilitate the exchange of views and opinions and gather reliable market data on potential implications associated with the establishment of the system.

[9] A pre-design study is under way for four distinct waste streams: WEEE, Batteries and Accumulators, End-of-Life Vehicles (ELV), and Oils. From these, three will be chosen for the implementation of EPR schemes. This process entails the development of secondary legislation and is projected to be operationalised by 2026.

[10] Nonetheless, following roundtable consultations involving relevant stakeholders (institutions, manufacturers and importers of plastic bags, retailers), a draft document outlining recommendations to reduce the use of single-use plastic bags in Kosovo was developed.

[11] The Municipal Performance Grant – Clean Environment (MPG-CE), introduced in 2017 until 2021, was a performance-based grant scheme owned by the government of Kosovo and jointly designed and co-financed with the EU and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), where municipalities were assessed and awarded based on their performance. Through the implementation of the MPG-CE, municipalities have successfully identified and mapped out the exact locations and categorised illegal landfills with advanced technological means. This allows them to better approximate the costs of removal and monitor whether the number of illegal landfills is increasing or decreasing over time.

[12] These initiatives encompass various projects, such as the construction of a new landfill for the Pristina Region, the extension of landfills in Gjilan/Gnjilane and Prizren, the closure of the landfill in Podujeva/Podujevo along with the construction of a transfer station, the upgrade of the Ferizaj/Uroševac transfer station, the construction of a landfill in Peja/Peć and the closure of the Istog/Istok landfill, and the development of waste management infrastructure for the Peja/Peć region.

[13] White Drin, Ibër (including Sitnica), Morava e Binçës, and Lepenc.

[14] It is co-ordinated by the Ministry of Agriculture, Forestry and Rural Development (MAFRD), and further consists of the Prime Minister's Office, the Ministry of Environment, Spatial Planning and Infrastructure (MESPI), the Ministry of Administration and Local Government, Ministry of Justice, Ministry of Finance, Labour and Transfers and the Association of Municipalities of Kosovo. It met for the first time in 2022.

[15] The Administrative Instruction on the Method of Air Quality Monitoring, Data Collection, Criteria, and Methodology (2023) establishes standards for various aspects of air quality monitoring. This includes specifying the minimum number of measurement locations, outlining measurement methods, validating air quality measurements and data, ensuring conformity of data processing and reporting with local norms, and verifying the calibration and accuracy of measuring devices.

[16] The wastewater treatment plants (WWTPs) of Peja/Pec, Prizren, Gjavoka/Djakovica, Skenderaj/Srbica, and Junik were operationalised between 2021 and 2022. WWTPs in Gjilan/Gnjilane, Pristina, Fushe-Kosova/Kosovo Polje, Obiliq/Obilić, and Mitrovica/Kosovska Mitrovica are currently being operationalised, while the WWTPs for Podujeva/Podujevo and Ferizaj/Uroševac are in the planning phase. In the next five-year period, a new plant is additionally planned for the municipality of Gracanice/Gračanica, and feasibility studies are drawn up for the municipalities of Vushtrri/Vučitrn, Malishevë/Mališevo, Drenas/Glogovac, Lipjan/Lipljan, Rahovec/Orahovac, Therandë/Suva Reka, Viti/Vitina, Istog/Istok, Deçan/Dečani, Klinë/Klina, and Kamenicë/Kamenica.

[17] The "Integrated Water Resources Management in Kosovo" is a 12-year transformational programme of the Swiss Agency for Development and Cooperation (SDC) and the government of Kosovo. Its implementation has been entrusted to the Consortium of Skat Consulting Ltd., St. Gallen, Switzerland, and Environment Agency Austria. By working with decision makers, civil society and citizens on tackling key water challenges, this programme will help replace an outdated, traditional, and fragmented approach with more comprehensive and dynamic ways of managing water resources at river basin scale, in line with the principles of the EU Water Framework Directive.

[18] The Seveso III Directive (Directive 2012/18/EU) on the control of major-accident hazards involving dangerous substances provides for the relevant framework on risk management measures to prevent major accidents and to limit their consequences.

[19] The Regulation on the registration, evaluation, authorisation and restriction of chemicals (REACH) (EC 1907/2006) is the main EU law to protect human health and the environment from the risks that can be posed by chemicals.

[20] Planning of a central disposal facility for hazardous waste started in 2018. However, EU IPA funds of EUR 12 million were cancelled in 2019, after institutions were unable to find an alternative location to the pre-identified plot in Fushë Kosovë/ Kosovo Polje whose municipality assembly had rejected the project within its territory.

15 Agriculture policy

Agricultural development remains a priority for all economies, not only in response to the essential resource needs of a growing population but also due to its substantial contributions to total employment and GDP. The chapter analyses the performance and trends of agriculture policies across three sub-dimensions. The first sub-dimension, rural development and infrastructure, assesses strategies and programs related to rural infrastructure, livelihood support, and irrigation systems. The second sub-dimension, agricultural support systems, covers the policy, governance and instruments in the agricultural sector. The third sub-dimension, food safety and quality, focuses on the policy framework regulating food safety and on the food quality legislation and agencies, which are key tools in an economy's path towards productive and sustainable agriculture.

Key findings

Kosovo has substantially increased its overall agriculture policy score since the previous *Competitiveness Outlook*, exceeding the regional average (Table 15.1). The economy significantly strengthened its rural development and infrastructure. On the other hand, Kosovo's policy frameworks on food safety and food quality remain relatively weak compared to the other Western Balkan economies, due to persistent challenges to effective monitoring and enforcement.

Table 15.1. Kosovo's scores for agriculture policy

Dimension	Sub-dimension	2018 Score	2021 Score	2024 Score	2024 WB6 average
Agriculture policy	14.1: Rural development and infrastructure			3.8	3.2
	14.2: Agriculture support system			3.5	3.3
	14.3: Food safety and quality			2.8	3.4
Kosovo's overall score		**2.4**	**2.4**	**3.4**	**3.3**

The **key findings** are:

- Ongoing initiatives to enhance rural and irrigation infrastructure have engendered notable progress, including the connection of 100 schools and health institutions to ultra high-speed broadband and new irrigation projects in eight municipalities. Yet despite such efforts this infrastructure remains inadequate, hindering the potential for improved agricultural productivity and enhanced quality of life for rural populations.
- Despite the record-high agriculture budget of EUR 56.1 million in 2022, marking a 20% increase from just two years earlier, the implementation of agricultural policies in Kosovo remains limited by insufficient financial resources. While additional funding through the Instrument for Pre-Accession Assistance for Rural Development (IPARD) III would be advantageous to accelerating the sector's development and modernisation, the economy currently lacks the necessary institutional capacity to access these funds.
- Since 2021, the Ministry of Agriculture, Food and Rural Development (MAFRD) has made significant updates to producer support instruments, including the reduction of eligibility criteria for certain direct payments and new subsidies for key inputs. These changes aim to increase the number of potential beneficiaries, underscoring the government's priority of expanding the assistance available to farmers.
- Although Kosovo has functional agricultural information systems, such as a Farm Accountancy Data Network (FADN) and a Land Parcel Identification System (LPIS), there is significant scope to further develop these platforms. Interruptions to the FADN and an outdated LPIS have undermined these systems' efficacy and in turn the economy's capacity for evidence-based policy making and implementation.
- While there have been some improvements in strengthening the capacities of the Food and Veterinary Agency, namely through ongoing training with the EU and the Luxembourg Development Cooperation Agency, food safety in Kosovo still suffers from weak enforcement of and compliance with policies.
- Kosovo has made strides in aligning its food quality policy with EU standards, most recently demonstrated by the adoption of the new law on Market Organisation for Agricultural Products.

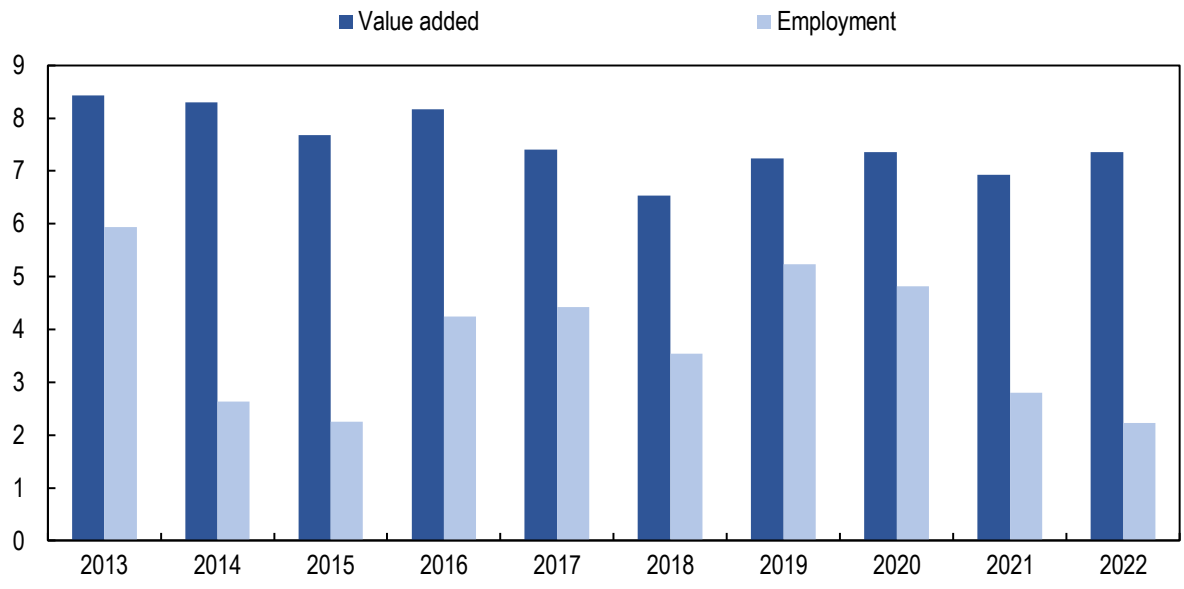
However, this still is the economy's weakest area of performance, in part due to the limited development of its organic farming and production.

State of play and key developments

Over the past decade, Kosovo's agricultural sector has strengthened, its output rising from EUR 428 million in 2013 to EUR 658 million in 2022 (World Bank, 2024[1]). This 54% growth is primarily attributed to increased investment and government support. However, despite the sector's growing value, its contribution to GDP has decreased slightly, from 8.4% to 7.4% in 2022 (Figure 15.1). Moreover, the sector has experienced significant fluctuations in its annual percentage growth rate over the same period. Specifically, between 2017 and 2022, growth occurred in just two of the six years (2019 and 2022), with the latter's increase only a modest 4.5% (Figure 15.2).

Figure 15.1. Agriculture's contribution to value added and total employment in Kosovo (2013-22)

In percentage of GDP and employment



Source: World Bank (2024[1]).

StatLink https://stat.link/xwypj1

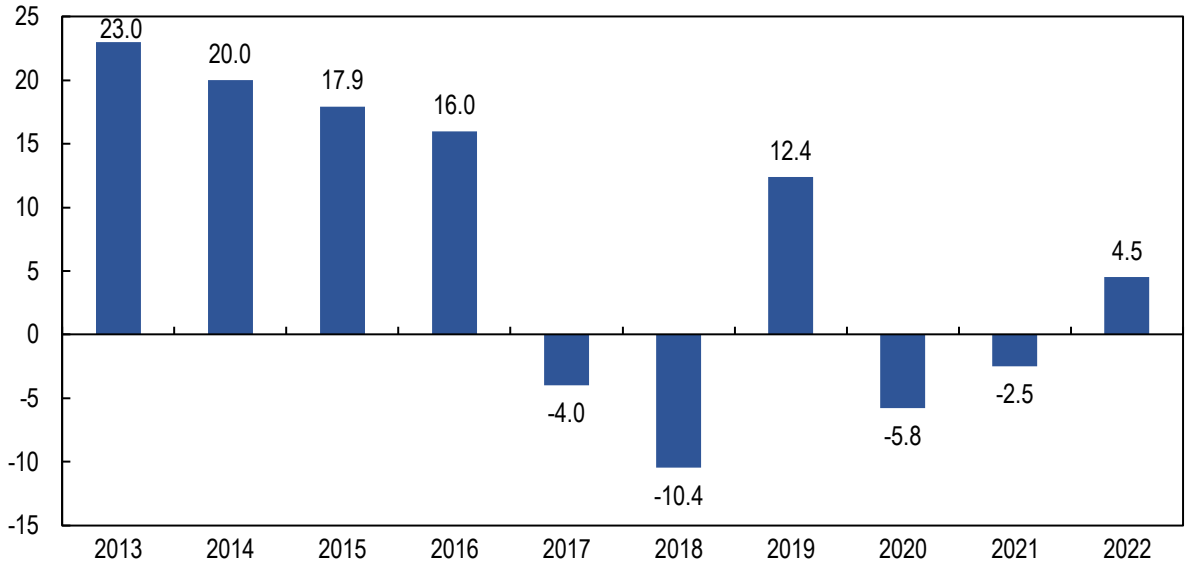
The agricultural sector's contribution to employment has been low and continues to decline, falling from 5.2% in 2019 to 2.2% in 2022 – representing the lowest rates in the Western Balkans (Figure 15.1). This drop can be attributed to both demographic trends – such as decreasing fertility rates and high levels of emigration of young people (European Comission, 2021[2]) – and the sector's modernisation. Furthermore, informal employment is common in Kosovo particularly in the agriculture sector (Çela, 2022[3]).

Agricultural land constitutes approximately 38% of the total land area in Kosovo. Like the other Western Balkan economies, the sector is characterised by the prevalence of semi-subsistence farming on small, highly fragmented land plots. The average agricultural land holding is approximately 3.2 hectares and is

usually comprised of six to eight plots (European Commission, 2024[4]). This is dramatically smaller than in the EU, which boasts an average agricultural holding of 17.4 hectares (Eurostat, 2023[5]). Beyond this high degree of land fragmentation, other prominent structural challenges to the agricultural sector in Kosovo include low labour efficiency and high production costs (Kostov and Davidova, 2023[6]).

Figure 15.2. Agricultural sector's value added annual variation in Kosovo (2013-22)

In percentage of value added



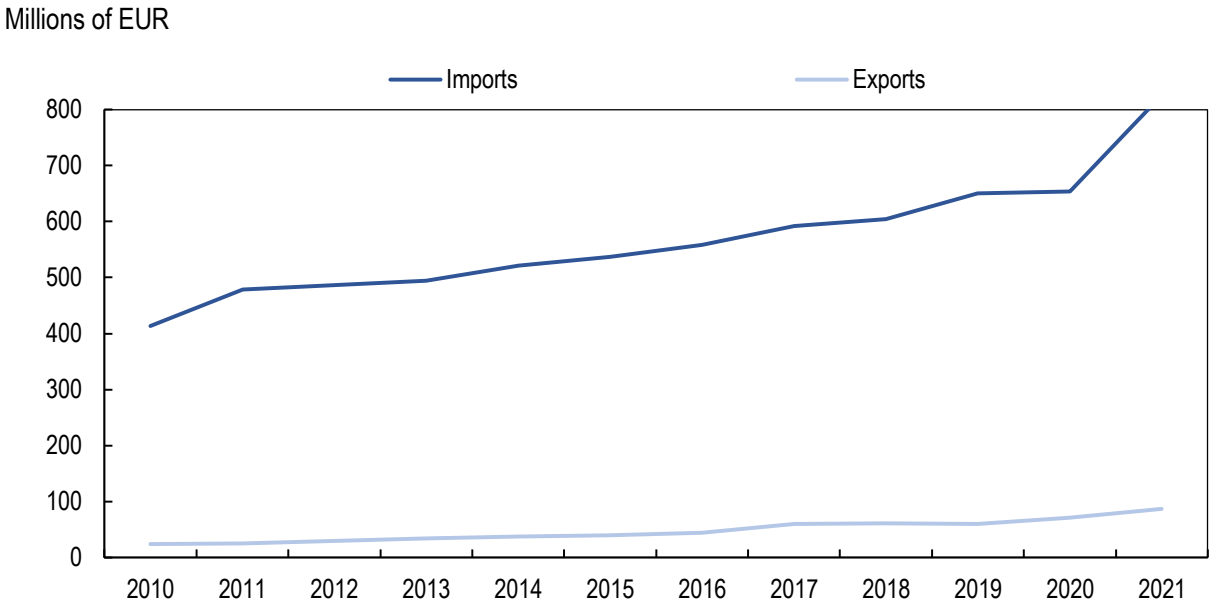
Source: World Bank (2024[1]).

The agricultural sector's contribution to employment has been low and continues to decline, falling from 5.2% in 2019 to 2.2% in 2022 – representing the lowest rates in the Western Balkans (Figure 15.1). This drop can be attributed to both demographic trends – such as decreasing fertility rates and high levels of emigration (European Comission, 2021[2]) – and the sector's modernisation. Furthermore, informal employment is common in Kosovo, particularly in the agriculture sector (Çela, 2022[3]).

Agricultural land constitutes approximately 38% of the total land area in Kosovo. Like the other Western Balkan economies, the sector is characterised by the prevalence of semi-subsistence farming on small, highly fragmented land plots. The average agricultural land holding is approximately 3.2 hectares (ha) and is usually comprised of six to eight plots (European Commission, 2024[4]). This is dramatically smaller than in the EU, which boasts an average agricultural holding of 17.4 ha (Eurostat, 2023[5]). Beyond this high degree of land fragmentation, other prominent structural challenges to the agricultural sector in Kosovo include low labour efficiency and high production costs (Kostov and Davidova, 2023[6]).

Trade for the food and beverage sector has seen a substantial deficit, peaking at EUR 739 million in 2021 (Figure 15.3). Although the trade deficit has grown in nominal terms, partially due to rising inflation, there is a more positive trend when examining the export-to-import ratio, which has increased from 5% in 2010 to over 10% in 2021. The improvement largely stems from the agriculture sector's enhanced productivity, which in turn was a product of modernised infrastructure and increased funding. Reducing this trade deficit should be considered a priority for policy makers. Specifically, efforts should centre on bolstering the competitiveness of local production by enhancing efficiency, improving compliance with food safety and quality standards, and better positioning products in both domestic and export markets.

Figure 15.3. Kosovo's international trade of agrifood products (2010-21)



Source: Kosovo Agency of Statistics (2023[7]).

StatLink https://stat.link/f3j075

Sub-dimension 14.1: Rural development and infrastructure

Rural infrastructure in Kosovo has benefited from continuous government efforts to expand and modernise road, electricity, and information and communication technology systems (Table 15.2), although outcomes still fall short of desired levels. Rural areas are particularly affected due to the combination of factors, including the absence of paved roads — with around 35% of local roads remaining unpaved (Institute for Spatial Planning, 2020[8]) — limited data on regional development plans, insufficient road networks, and poor infrastructure for accessing agricultural plots and forested areas, all of which collectively impedes sustainable development efforts. Ongoing initiatives to improve road infrastructure has led to increases in the lengths of both national roads and connecting roads, by 13% and 28% respectively, between 2019 and 2022 (Kosovo Agency of Statistics, 2023[7]).

Staggered progress is also evident in terms of electricity development. While all households in Kosovo have access to electricity, shortages and cuts are quite common, as the economy has historically suffered from frequent electricity blackouts (Imami et al., 2020[9]). For instance, amid the rise in international energy prices in 2022, Kosovo faced blackouts stemming from its heavy reliance on imported electricity. This prompted the adoption of a policy that granted citizens access to six hours of electricity followed by a two-hour break (Davies, 2022[10]). As such, this inconsistent access to electricity adversely affects both agricultural productivity and quality of life in rural areas. Moreover, even when electricity is accessible, its cost can prove prohibitive and thus pose challenges for agricultural production.

Recent efforts to improve digital infrastructure have resulted in widespread internet access, with more than 90% of households in Kosovo reporting access at home (Ministry of Agriculture, Forestry and Rural Development, 2021[11]). Additionally, the Kosovo Digital Economy (KODE) project, launched in 2018, has significantly improved rural populations' access to broadband services. Within the programme's first three years, it enabled around 80% of households in 163 villages to gain access to these services, achieving one of the highest broadband penetration rates in Europe. Furthermore, by 2022, KODE had equipped 76 schools and 27 health institutions with ultra-high-speed connections (World Bank, 2023[12]). Indeed, the

availability of information is vital to the success of rural infrastructure initiatives, particularly those supporting agriculture. Yet there remains significant scope to improve farmers' access to information. For example, Kosovo currently does not have a functional platform that regularly provides information on market prices and weather conditions to farmers, as its Market Information System (which offered detailed data on the latest prices) ceased to be updated in 2022 (Market Information System Kosova, 2024[13]). Initiatives have however been launched to enhance rural infrastructure; information is available in the table below. For example, the EU had several projects in the period 2020-22 in many Kosovo municipalities, with the aim of increasing capacities and competitiveness, increasing incomes, improving physical farming infrastructure, and improving access to markets (European Union, 2024[14]).

Table 15.2. Ongoing projects to improve rural infrastructure in Kosovo

Project	Funder	Objectives	Time frame
Empowering Rural Economies through Agriculture (EREA)	Caritas Switzerland	This project, among other things, aims to strengthen rural economies in agriculture by strengthening value chains, increasing gender and social inclusion in agriculture, strengthening advisory services and organic agriculture, and advocating for policies beneficial to the sector.	3 years (2024-2026)
Sustainable and Inclusive Rural Economic Development (SIRED)	Caritas Switzerland	The programme aims at changing the performance and behaviour of existing system actors (public and private) in order to make the market system more advantageous for the beneficiaries. Using a facilitative approach, the project activities target systemic changes along three dimensions: agro-ecological, socio-political and economical. More sustainable and inclusive market systems contribute to poverty reduction and to empowerment, especially among rural women and marginalised people.	3 years (2020-2023)
Private Sector-led Workforce Development Activity	USAID	Private Sector-Led Workforce Development is a five-year activity that provides young people with the necessary skills to meet the needs of Kosovo's growth industries, in particular in the wood processing, ICT and agribusiness sectors. The activity promotes market-driven and inclusive workforce efforts by engaging a wide variety of stakeholders, including learners, educators, vocational institutions, private sector companies, the diaspora, civil society, policy makers, and donors – all vital members of the workforce development ecosystem. By fostering innovative workforce solutions, the activity better prepares young people to enter the workforce, and strengthens the competitiveness of Kosovo's economy. This activity contributes to USAID's overall goal of increasing opportunities for inclusive democratic and economic participation.	5 years (May 2022-May 2027)
Promoting Private Sector Employment (PPSE)	Swisscontact/ Riinvest Institute (Partner)	The project contributes to innovation, consolidation, and sustainability in the Food and Natural Ingredients and Tourism sectors. Building upon the objectives, achievements, and lessons learned during the previous phase, in Phase III (2021-25) the project will tackle private sector recovery, development, and job creation with more emphasis on youth, women and minorities. Through the Food and Natural Ingredients sector, PPSE facilitates the scaling of product development services usage, to influence innovation and product development. Facilitating further growth of the contract farming model for both medicinal aromatic plants and fruit and vegetables sub-sectors, the aim is to expand outreach and make this model sustainable. In terms of support services such as marketing, digitalization, and e-commerce PPSE facilitates models of affordable services tailored to the needs of sector SMEs.	4 years (November 2021-November 2025)
Rural Water and Sanitation Support Programme in Kosovo	Embassy of Switzerland	The public utilities (Regional Water Companies RWCs) with their state oversight institutions (Water Service Regulatory Authority WSRA, National Institute of Public Health NIPH) progress towards universal access by providing high quality water and	4 years (2018-2022)

		sanitation services together with improved sustainability and governance of water and energy resources, thereby contributing to better living conditions for the population.	
Fostering Employment and Growth Opportunities (FEGO)	Sida/Swisscontact (partner)	FEGO applies a Market Systems Development (MSD) approach, specifically focusing on market facilitation through new, innovative business models to ensure large-scale sustainable changes in respective sectors. One of the main project objectives is supporting local communities operating with rural tourism activities, and their micro and small enterprises towards development of rural tourism. It will contribute to more sustainable and inclusive market systems, improving income and productivity, and enhancing job creation in the private sector, thereby contributing to addressing high unemployment and poverty rates in the economy, especially amongst youth and women.	2022-ongoing
Improvement and Rehabilitation of Irrigiation Systems Project	EU	Supporting an economically, environmentally and financially sustainable irrigation sector through investment and technical assistance measures that will increase the efficiency of water utilisation and boost agricultural productivity.	2023-2026

Source: Information provided by Government of Kosovo for the Competitiveness Outlook assessment.

Thus, despite Kosovo's latest advancements, the existing transportation, electricity and ICT infrastructure and policies only partially address agriculture and rural development needs in Kosovo. This gap is largely a product of limited human and financial resources to fully implement the policy priorities delineated in the new Agriculture and Rural Development Program (ARDP) 2023-27, one of the main strategic documents guiding rural infrastructure policy.

In Kosovo, **rural livelihood** support policies mainly promote rural diversification through measures targeting economic development and agritourism, as delineated in the Law on Agriculture and Rural Development (adopted in March 2023); that being so, key aspects of rural livelihoods such as education or health are not prioritised within rural development strategies. The availability and quality of these services are vital to ensure a good standard of living in rural areas and to prevent mass migration, a trend that poses a major challenge to agriculture and rural development in Kosovo (and other Western Balkan economies).

Of note, Kosovo does have an official definition for "rural areas", as outlined in its Agriculture and Rural Development Strategy (ARDS) 2022-28. While the original delineation involved each municipality making an administrative decision on what areas should be classified as "rural", MAFRD now stipulates that any place with more than 30 000 inhabitants is considered "urban". This approach diverges from that of the OECD, which uses population density instead of size. For MAFRD's purposes, 98.8% of Kosovo's territory is considered to be rural (Ministry of Agriculture, Forestry and Rural Development, 2021[11]).

Kosovo does not benefit from the EU's IPARD,[1] as the economy has not obtained entrustment for the budget management and implementation of the programme. However, the economy has developed specific support measures for rural diversification that align with several measures delineated under IPARD (Ministry of Agriculture, Forestry and Rural Development, 2020[15]). Namely, these support schemes align with IPARD's measures on diversification and local development strategies (Ministry of Agriculture, Forestry and Rural Development, 2020[16]).[2] Regarding Measure 5, the LEADER initiative seeks to bring together diverse stakeholders to form local action groups (LAGs), which are then tasked with establishing local development strategies. Kosovo has passed legislation on LAGs, but there is a lack of active sustainable LAGs, also reflecting poor collective action engagement. This issue is exacerbated by challenges faced by the public extension service, including the insufficient staffing and funding of municipal agriculture consultants. Consequently, there is a need to reassess and potentially reorganise the regional-based Local Action Groups to address these obstacles and enhance their effectiveness in promoting agriculture and rural development (Wehinger, Miftari and Rexhepi, 2021[17]).

While the **irrigation policy framework** is well established, the actual irrigation infrastructure in Kosovo remains notably limited. Only 20 000 hectares (ha) of land are currently irrigated out of the 280 000 potential ha (Ministry of Agriculture, Forestry and Rural Development, 2021[11]). The primary document guiding Kosovo's irrigation policy is the Water Strategy Document 2017-36, which delineates strategic objectives, evaluates existing legislation, institutions and policies, and outlines planned actions and investments, including measures directly related to agricultural irrigation. Specifically, the irrigation policy framework contains measures aimed at expanding and modernising irrigation infrastructure, detailing the types of systems to be used, such as open canals, pipeline distribution, and pressurised systems. In this context, there have been ongoing investments. Between 2020 and 2022, the first phase of the irrigation project "Rehabilitation of the Radoniq-Dukagjin system" was carried out with support provided through the World Bank's Agricultural Rehabilitation and Development Project. During 2022 and 2023, contracts were issued for irrigation projects for the rehabilitation and expansion of the irrigation systems (which are under development) in eight municipalities.

Two government bodies oversee irrigation policy: the MAFRD, which is responsible for the design and implementation of policies for the irrigation and drainage of agricultural land, and the Ministry of Environment and Spatial Planning, which drafts laws and regulations on water resources. At the local level, municipalities are responsible for implementing irrigation measures and managing water sources, natural resources, public springs, public wells and water lines. Irrigation user associations, whose establishment and operations were outlined under Kosovo's Irrigation Law, used to be plentiful, reaching a maximum of 60 active groups. However, these associations are no longer functional due to inadequate legislation and weak collective action to position public irrigation enterprises as the primary entities tasked with implementing water policies (Bäuml et al., 2022[18]).

Sub-dimension 14.2: Agriculture support system

The **agricultural policy framework** in Kosovo is fairly comprehensive, with the Agriculture and Rural Development Strategy (ARDS) 2022-28 serving as the main legal basis. The ARDS aims to foster a competitive and innovative agricultural and rural sector, drawing from modern knowledge, technology, and standards. The strategy's desired outcomes extend beyond the provision of high-quality products to domestic, regional, and international markets. They also include the sustainable development of natural resources and the environment, bolstering employment opportunities, and improving social inclusion and quality of life for residents of rural areas (Ministry of Agriculture, Forestry and Rural Development, 2021[11]). The ARDS 2022-28 serves as a reference document for the ARDP – supporting the implementation of agricultural policies – as well as for donor projects.

Additional support plans and measures are elaborated in the national Agriculture and Rural Development Project (ARDP) 2023-27, which is subject to yearly revision in relation to the annual budget's drafting and approval processes (Ministry of Agriculture, Forestry and Rural Development, 2023[19]). Each year, a new annual programme guiding rural development, which specifies support measures in the ARDP, is drafted by the MAFRD.

As defined in both the ARDS and the ARDP, Kosovo's main strategic objectives for agriculture and rural development include increasing competitiveness and efficiency, promoting the sustainable use of natural resources, supporting rural businesses, and implementing institutional and sectoral reforms. Kosovo's agriculture and rural development policy displays a relatively limited degree of alignment with the EU Common Agricultural Policy (CAP), with only four of the ten EU CAP objectives[3] encompassed in this policy framework. Namely, while Kosovo's policies seek to boost productivity and ensure food security, the EU CAP has shifted its focus to prioritise environmental concerns, rural development, and competitiveness. The most evident area of discrepancy is in the environmental domain, as agri-environment schemes addressing biodiversity, carbon sequestration, climate change, and renewable energy in Kosovo are minimal. However, the ARDP 2023-27 aims to bridge some of this gap with some climate change mitigation

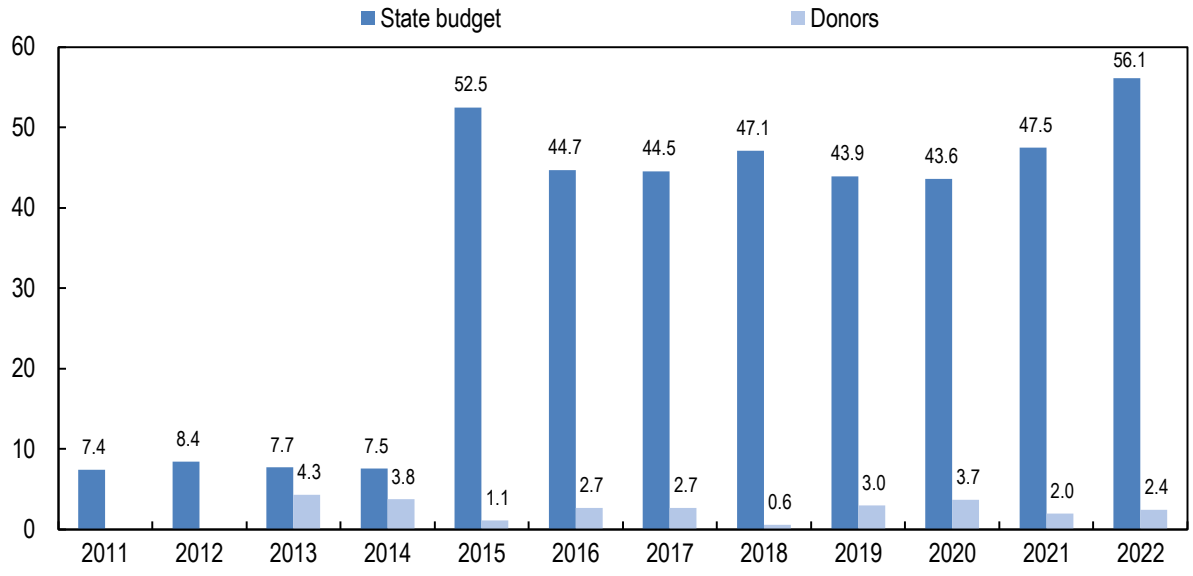
measures, namely the provision of support for investments in photovoltaic energy, fertiliser depots, and animal welfare. Additionally, the EU CAP includes market interventions for market stability, minimum prices for farmers, and production level regulation – aspects that are notably absent from Kosovo's agricultural strategy.

Regular monitoring activities and impact assessments on producer support instruments are conducted in addition to consultation processes with stakeholders. However, systematic evidence-based assessments primarily rely on donors' support, initiated at the request of the MAFRD. In Kosovo, there is a Farm Accountancy Data Network (FADN, recently transformed into Farm Sustainability Data Network [FSDN]) in place[4] (Box 15.1). Its functionality was interrupted following the COVID-19 pandemic but resumed during 2023. The Land Parcel Identification System (LPIS) is functional but very outdated; it uses outdated orthophotographs and cannot support new technologies.

Funding dedicated to implementing the agriculture strategy has demonstrated impressive growth throughout the past decade, rising by 20% since 2020 and peaking at EUR 56.1 million in 2022 (Figure 15.4). Use of the available support for agriculture in relation to the budget frames was close to 100% during 2022, reflecting significant progress since 2021 (61%). However, Kosovo is heavily reliant on the national budget to support agricultural policies and programmes, partly because the economy did not benefit from IPARD II (which concluded recently) and is not currently benefiting from the newest cycle, IPARD III (2021-27).

Figure 15.4. Budgetary support for the agriculture sector in Kosovo (2011-22)

In millions of EUR



Source: Information provided by MAFRD, Department of Finance and General Services, for the Competitiveness Outlook assessment.

Box 15.1. Kosovo's Agricultural information system - The case of FADN

The Department of Economic Analysis and Agricultural Statistics (DEAAS) within MAFRD oversees the collection and analysis of agricultural statistics. It includes two divisions: the Economic Analysis Division, which performs market evaluations and sectoral analyses, and the Division of Agricultural Statistics, managing statistical databases and the Farm Accountancy Data Network (FADN). Established in the early 2010s, DEAAS introduced the Economic Analysis Division as a new capability within MAFRD.

The FADN, now known as the Farm Sustainability Data Network (FSDN) in the EU, collects annual financial data from farms to assist in policy evaluation. Starting as a pilot in Kosovo in 2004 with 50 farms, it has grown to include 1 250 farms. These data are crucial for evaluating farm performance and policy impacts, supporting evidence-based policymaking.

In collaboration with the Food and Agriculture Organization (FAO), DEAAS/MAFRD is assisting the Albanian Ministry of Agriculture and Rural Development to develop capabilities to implement FADN, which has not previously been established in the economy. Support from EU partners and experts, along with drawing from the experiences of Kosovo—given the similarities between the two economies – is essential. This collaboration serves as a prime example of how more advanced economies in specific policy areas can assist others facing similar developmental challenges and pathways.

Sources: CMO (2024[20]); Alishani (2019[21]).

A wide variety of **producer support instruments is** offered in Kosovo. Support measures available to producers primarily centre around two pillars: improving the efficiency or sustainability of buildings and technologies used by farmers, and ensuring compliance of products with EU safety and environmental standards. Based on the 2022-28 Agricultural and Rural Development Strategy, applications for direct payments/income support must comply with simplified Good Agricultural and Environmental Conditions (sGAECs), while grant applications for investments should meet EU food safety and waste management standards, with organic farming scheme beneficiaries being either transitioning to organic farming or already certified as organic land users. Although Kosovo does not benefit from the IPARD programme, these two measures align with two of IPARD's central measures: investments in physical assets of agricultural holdings (Measure 1) and investments in physical assets concerning processing and marketing of agricultural and fishery products (Measure 3). Such endeavours are closely linked to rural livelihoods, given that agriculture is a core economy activity for most populations living in rural areas.

Several new measures have been introduced since 2021 that aim to support prices and income for farmers. Many of these instruments are linked to production (e.g. the quantity sold or delivered) and target goods such as wheat, fish, raspberries, wine, and milk. The MAFRD also inaugurated new support for livestock farmers by providing payments of EUR 25 per head of calves raised for fattening, contingent on the farm raising at least ten calves. The Ministry also reformed some instruments used to support input use and purchase, namely by offering new subsidies for livestock production and fuels and fertilisers used to grow grains (such as wheat and maize). Of note, the MAFRD decreased the minimum eligibility criteria for receiving direct payments for selected crops in order to increase the total possible number of beneficiaries.

Moreover, there are instruments in place to support risk management related to the agriculture sector, including subsidies for insurance (via direct payments for insurance premiums for certain agricultural crops) and support for catastrophic events affecting rural areas and the agriculture sector. Starting in 2021, the MAFRD introduced a measure to support agricultural operators covering a wide range of agricultural activities in case of a natural disaster, and increased support to 75% if the insurance premiums were paid.

Conversely, while Kosovo protects farmers from external shocks due to natural disasters, there was no specific support provided to support farms against the adverse consequences of the Russian war of aggression against Ukraine. While most effects of the conflict were indirect, the subsequent food price inflation and rising cost of inputs did contribute to the government of Kosovo's decision to increase subsidies for agricultural inputs (namely oil excise duties) (UNDP, 2022[22]).

In addition to direct support, other agricultural support policies include an **agricultural tax regime**. Agriculture inputs are excluded from value added tax (VAT), except insecticide for which VAT of 18% is applied in Kosovo. On the other hand, there is an 8% VAT on essential goods (including food) and an 18% VAT on all other goods. Low VAT on agrifood products benefits both farmers and consumers. However, there are no specific tax provisions for farms, co-operatives, or agriculture-related businesses, nor is there any assessment of the impact of tax policies on small farmers.

Regarding **agricultural trade policy**, Kosovo belongs to both the Central European Free Trade Agreement (CEFTA) and the World Customs Organisation. Consequently, most imports from CEFTA countries are exempt from duties within this framework. For economies with which Kosovo does not have a free trade agreement, there is a 10% customs duty. Since April 2016, a Stabilisation and Association Agreement (SAA) has been in effect, which eliminates customs duties on over 1 044 agricultural and 487 fishery imports from the EU. Under the same agreement, customs tariffs on industrial imports will be phased out gradually over a period of ten years, with complete phaseout set to occur in 2026 (Administration, 2022[23]). Quotas for imports are only applied to wine and fish. Kosovo does not have any export subsidies, export credit support, or export duties.

Agricultural **research, innovation, technology transfer and digitalisation** (RITTD) in Kosovo is supported by a relatively well-developed policy framework, although there is scope to better complement this framework with relevant programmes. The policy framework is comprised of two main documents: the ARDP 2023-27, which prioritises the development and transfer of knowledge, and the new strategy on advisory services, the Strategic Plan of the Kosovo Advisory System for Agriculture and Rural Development 2023-27 (Ministry of Agriculture, Forestry and Rural Development, 2023[24]). The emphasis on digitalisation has been a key aspect of recent strategies, particularly in enhancing human resource capabilities, upgrading data systems, and integrating digital technologies into farming practices. Additionally, alongside agricultural products, MAFRD has directed attention towards non-agricultural services such as rural and agro-tourism, aligning with various measures of the SARD and national strategy, which are closely intertwined with digitalisation efforts and research and development endeavours for new products and services.

Extension and advisory services play an important role in Kosovo's agriculture support system, particularly due to their ability to facilitate farmers' access to technology and knowledge. Since most farms in Kosovo are small, the role of public institutions to ensure technology transfer and advice is crucial (Miftari, 2022[25]). The MAFRD's public extension and advisory services provide advice and training to farmers free of charge, although there is a notable absence of programmes for climate change mitigation and adaptation. Official statistics indicate that the number of farmers benefiting from public extension services has increased by almost 15% since 2019 (Table 15.3). It is important to note that use of these services significantly declined in 2020, largely attributed to the impact of the COVID-19 pandemic, which limited face-to-face interactions.

Table 15.3. Number of farms using public extension services in Kosovo (2011-22)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
6200	7400	8200	8900	9800	10400	10800	11900	23000	14000	26373	26412

Source: MAFRD (2023[19]).

Another important source of advice is private advisory services, which have been regulated since the passage of the Law on Advisory Services in 2015. This law inaugurated the certification of public and private advisors. Since then, more than 200 private advisors have been certified to provide guidance and advice in the field. With both public and private extension and advisory services widely available, there is a need for institutional co-ordination to manage their delivery. The Department of Advisory Technical Services (DATS) serves this function, co-ordinating and supporting other organisations operating in the advisory extension system. Additionally, the DATS prepares training programmes that reflect the demands and needs of farmers.

Sub-dimension 14.3: Food safety and quality

Kosovo's policy framework guiding **food safety and animal and plant health** covers all key components, including hygiene, prevention and risk reduction, and traceability, although these standards suffer from a low level of implementation. Legislation including the Animal welfare law, Veterinary law, and the Law on plant protection coalesce to form this overarching policy framework. Moreover, the ARDS 2022-28 includes a specific objective of improving food safety. The legal bases for food safety and animal health and welfare are partially aligned with EU regulations, whereas the legal basis for plant health and protection has a much lower degree of alignment. However, in 2023, Kosovo's Food and Veterinary Agency (FVA) analysed its existing gaps in legislation (European Commission, 2023[26]).

While the FVA is the sole competent authority for policy implementation in the fields of food safety and animal and plant health, there are other government bodies that play a role in this domain. Namely, the Ministry of Agriculture and Rural Development (MARD) is responsible for preparing policies, including strategies and annual programmes. At the end of 2022, the FVA was transferred and now operates under the MAFRD. The anticipated transfer of inspectors from municipalities to support this transition has not yet occurred, contributing to long-standing human resource shortages. Additionally, the FVA is supported by the Food and Veterinary Laboratory, which is accredited by the Directorate for Accreditation of Kosovo to test food and animal diseases. These laboratories conduct testing on food safety and veterinary and phytosanitary health for agricultural product exports to the EU, but they have not yet obtained international accreditation. Moreover, there has been little progress toward establishing a reference laboratory network.

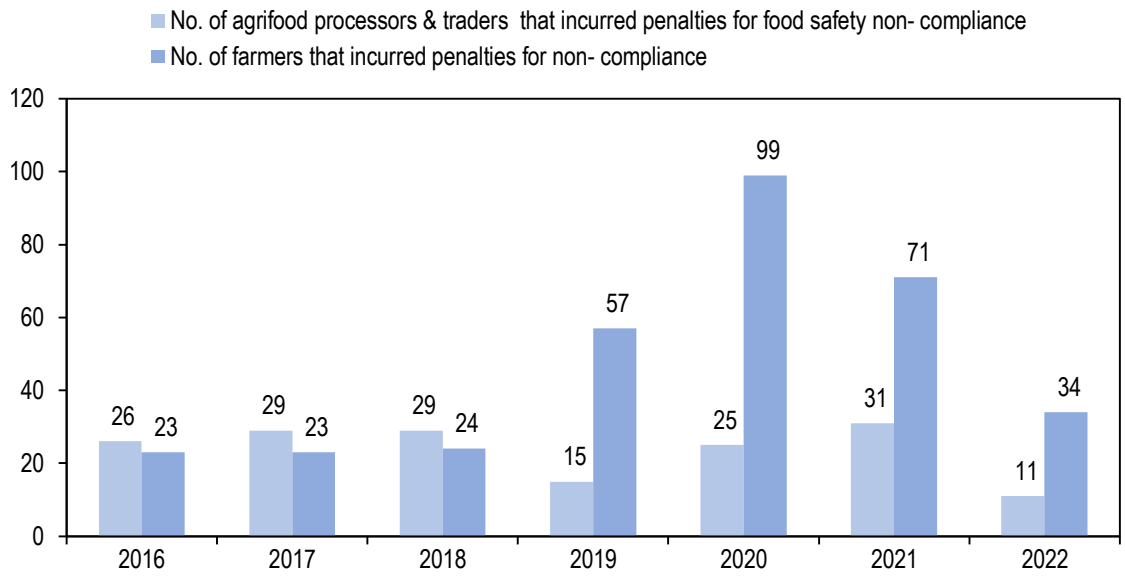
Part of the FVA's responsibilities entail overseeing risk management, the principles of which are largely harmonised with EU legislation and the World Trade Organisation's sanitary and phytosanitary (SPS) rules. Moreover, it utilises several international methodologies – including those developed by the World Organisation for Animal Health, the Food and Agricultural Organisation and the World Health Organisation, and the European Food Safety Authority – to guide its risk analysis. These principles are applied to the national control plan, developed yearly by the FVA. This plan categorises operators into four risk groups, ranging from low to high risk, and determines inspection frequency accordingly (ranging from quarterly to annually).

With respect to information management, the FVA made strides since the last assessment cycle by launching a Food Control Management System and a laboratory information system, both of which seek to streamline actions related to food safety. The institution has also bolstered its efforts to strengthen its capacities by participating in a comprehensive training session in June 2023 with the Luxembourg Development Cooperation Agency (LuxDev, 2023[27]). The focus of this training was on improving preparedness and knowledge of the EU's food safety reporting system, the Rapid Alert System for Food and Feed. However, there is still a pending need for the agency to establish a comprehensive disease monitoring and control system that meets both EU and World Organisation for Animal Health standards (European Commission, 2023[26]).

Despite this progress, food safety policy implementation and compliance remain limited, constrained by weak enforcement and institutional capacities (Ministry of Agriculture, Forestry and Rural Development, 2021[11]). As such, citizens in Kosovo express much higher levels of concern regarding the safety of their

food compared to EU citizens. A 2022 survey by the European Food Safety Authority found that food poisoning from food or drinks contaminated by bacteria, viruses, and parasites were the biggest concern for respondents from Kosovo (EFSA, 2023[28]). Participants from Kosovo also were much more likely to be concerned about food risks (compared to a healthy diet) than their EU counterparts. Additionally, Figure 15.5 shows that a significant number of farmers, agrifood processors and traders have incurred penalties for food safety noncompliance – although the downward trend in recent years potentially indicates improving conformity to both domestic and international standards.

Figure 15.5. Number of farmers, agrifood processors and traders that incurred penalties for food safety noncompliance in Kosovo (2016-22)



Source: Information provided by Kosovo's Food and Veterinary Agency for the Competitiveness Outlook assessment.

Regarding **food quality**, Kosovo has made progress in drafting and implementing food quality legislation, particularly in organic food regulations and laws on Geographical Indications (GIs). These partially align with EU standards, although they do not yet reference spirits in the national legislation, and the GI control system is not fully operational. Regarding GIs, Kosovo registered its first one for Sharr cheese in June 2023, followed by a second for Rahovec wine in September 2023.Another clear example of improvement was observed in the recent preparation of a law on Market Organisations for Agricultural Products. Supported by the EU, this law was adopted in December 2023. On the other hand, Kosovo still lacks national food marketing standards, which represents a significant gap with both its Western Balkan and EU peers.

While regulations for food marking are notably absent, those governing food quality exist and are at least partially implemented. Several initiatives have been launched in Kosovo to promote organic agriculture, including the publication of the National Organic Action Plan[5] 2023-26 by MAFRD in collaboration with Caritas Switzerland and Austrian Development Cooperation; the establishment of the Organic Agriculture Association Kosovo (OAAK) in 2002 to support farmers in adopting organic practices; and the formation of Organika in 2013 to represent and assist operators in the Non-Wood Forest Products (NWFPs) and Medicinal and Aromatic Plants (MAPs) sector, affiliated with International Federation of Organic Agriculture movements (IFOAM) Organics International. However, there are currently no local organisations that certify products as organic – and consequently, no local accreditation agencies that can accredit these organic certification bodies. Instead, three international entities operating in Kosovo carry out the activities

related to certifying organic products. As for organic farming, certification and control operations are similarly conducted by several international organisations (European Commission, 2023[26]). The total area certified organic in Kosovo grew from 1 604 ha in 2020 to 1 990 ha in 2021, marking a notable increase. Yet, this remains a negligible share to total agricultural land.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Kosovo's progress on implementing past CO Recommendations has mostly been limited, as no major reforms were undertaken to strengthen agricultural information systems or to meeting the preconditions of the IPARD III programme. However, notable advances were made with respect to upgrading its sanitary and phytosanitary system and aligning it with EU regulations. Table 15.4 shows the economy's progress on implementing past recommendations for agriculture policy.

Table 15.4. Kosovo's progress on past recommendations for agriculture policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Improve irrigation water management	Between 2020 and 2023, ongoing investments, supported in part by the World Bank, extended to eight municipalities. The World Bank's assistance included capacity building and monitoring support. Additional support is planned through a EU-WB project to support irrigation is set to run until 2026. However, there is room to further enhance governance and the collection of payments for the irrigation services, as the economy still has a very low level of irrigation coverage.	Limited
Enhance the land consolidation process	The Land Parcel Identification System (LPIS) has not yet been implemented. However, there is a functional Farm Accountancy Data Network (FADN) in place, which is an important tool for policy evaluation.	Limited
Meet the preconditions and increase capacity for the facilitation of IPARD funding.	Kosovo did not benefit from IPARD II and does not currently benefit from IPARD III, as the economy has not yet obtained entrustment. Both the Law on Agriculture and Rural Development and the law on the Market Organisations for Agricultural Products have been adopted recently.	Limited
Continuously upgrade the SPS system and harmonise it with EU requirements	The food control and traceability management system as well as the laboratory information management system for the food safety and veterinary laboratories was put in place. There has been progress in the field of food control and traceability as well as the laboratory information management system handled by the Food and Veterinary Agency (FVA). However, gaps in the financial and human resources of FVA hinder full implementation of the EU *acqu*is in this area. The FVA has not developed a comprehensive disease monitoring and control system that is in line with the requirements of the EU or the World Organisation for Animal Health.	Moderate

The way forward for agriculture policy

Considering the level of the previous recommendations' implementation, there are still areas in which Kosovo could strengthen its rural development and infrastructure or its agriculture support system, or further enhance its food safety and quality policies. As such, policy makers may wish to:

- **Improve road, electricity, and irrigation infrastructure, particularly in rural areas**. Despite the strides achieved through initiatives by both the government of Kosovo and donors, the existing infrastructure remains underdeveloped, adversely affecting farmers and rural populations. The expansion of irrigation systems is especially crucial given Kosovo's vulnerability to climate change. Therefore, the MAFRD should continue investing in the modernisation and rehabilitation of this

infrastructure, seeking collaborations with organisations such as the World Bank and the Food and Agriculture Organisation when possible.

- **Continue to strengthen institutional capacities to secure entrustment for IPARD III**. Given that limited progress was made since the last assessment cycle, the government of Kosovo should fortify its efforts to enhance the capacities of the MAFRD, particularly its management authority and payment agency. Specifically, in line with the objective outlined in the ARDS 2022-28, the government should prioritise the reorganisation and independence of its Agriculture Development Agency as an IPARD III agency, in line with EU directives. It also should allocate sufficient human, financial, and technical resources to the MAFRD to facilitate achieving entrustment for budget implementation tasks under the IPARD programme.
- **Update agricultural information systems to improve evidence-based policy making**. Namely, the MAFRD should prioritise updating both the FADN to address gaps resulting from its temporary interruption and the LPIS, by acquiring new, up-to-date systems and orthophotography. These reforms are crucial for strengthening the economy's capacity for evidence-based policy making, as using the data collected through these platforms can significantly enhance the formulation and implementation of policies and programmes. Ireland's Agriculture and Food Development Authority (Box 15.2) has enacted several good practice examples to promote data-driven decision making in the agricultural sector.

Box 15.2. Evidence-based policy making in Ireland's agriculture sector

Ireland's Agriculture and Food Development Authority, Teagasc, has developed and implemented various digital tools aiming to bolster its advisory services throughout the country. By aggregating data from various sources and analysing them together, these tools aimed to facilitate evidence-based decision making at the farm level.

One of the tools developed under this overarching initiative is "Pasturebase Ireland," which is an online grassland management support tool. Over 3 000 farms in Ireland use this tool to record and monitor grass growth and consequently develop grass budgets. "Nutrient Management Planning Online," is another digital tool that enables farm advisors to create comprehensive nutrient management plans for their clients. Through the integration of data from the Department of Agriculture's Land Parcel Identification System and Teagasc's soils database, the programme generates colour-coded maps and infographics in order to facilitate more accessible interpretation of data.

Source: EU SCAR AKIS (2019[29]).

- **Allocate adequate resources to the FVA to ensure it can effectively fulfil its mandate**. The recent transfer of the FVA to the MAFRD was an important first step in ensuring that the agency is sufficiently resourced. However, given the persistent challenges to compliance with food safety standards, Kosovo should emphasise bolstering the FVA's capacities to improve enforcement and monitoring mechanisms for food safety and animal and plant health.
- **Prioritise development of the organic farming sector**. Despite recent efforts to expand the amount of agricultural land dedicated to organic production, it remains significantly underdeveloped. As such, the government of Kosovo should intensify its support for organic farming through targeted incentives, capacity-building programmes, and awareness campaigns for farmers and agricultural producers. This not only can enhance the sustainability of the agricultural sector, but also can allow the economy to tap into growing global markets for organic products.

References

Administration, U. (2022), *Kosovo - Country Commercial Guide*, https://www.trade.gov/country-commercial-guides/kosovo-import-tariffs (accessed on 9 January 2024). [23]

Alishani, A. (2019), "The impact of support policies on technical efficiency of farms in Kosovo. Review of Agricultural and Applied Economics (RAAE)", Vol. 22/2, pp. 46-54, https://www.fao.org/countryprofiles/news-archive/detail-news/es/c/1600619/ (accessed on 30 May 2024). [21]

Bäuml, T. et al. (2022), "Producer organisations in an export-oriented value chain: What motivates small-scale farmers in Kosovo to collaborate?", *European Countryside*, Vol. 14/2, pp. 379-396, https://doi.org/10.2478/euco-2022-0019. [18]

Çela, D. (2022), *Implications of Unregistered Employment in Kosovo's Pension System*, RIT Kosovo, Pristina, https://repository.rit.edu/cgi/viewcontent.cgi?article=12443&context=theses (accessed on 29 February 2024). [3]

CMO (2024), *Integrated Agricultural Information System*, https://cmo-ks.org/integrated-agricultural-information-system/ (accessed on 30 May 2024). [20]

Davies, R. (2022), *Kosovo Stops Import of Electricity and Begins Energy Rationing*, https://www.theguardian.com/world/2022/aug/15/kosovo-stops-import-of-electricity-and-begins-energy-rationing (accessed on 1 March 2024). [10]

EFSA (2023), *Food Safety in IPA Countries: Kosovo Factsheet*, https://www.efsa.europa.eu/sites/default/files/corporate_publications/files/eurobarometer22/country-factsheets/eb994_factsheet_xk_en.pdf (accessed on 29 February 2024). [28]

EU SCAR AKIS (2019), *Preparing for Future AKIS in Europe*, https://agriculture.ec.europa.eu/document/download/576bd513-6809-4e28-b11c-057e2078ec5a_en?filename=report-preparing-for-future-akis-in-europe_en.pdf. [29]

European Comission (2021), *European Social Policy Network (ESPN) Thematic Report on Long Term Care for Older People – Kosovo*, https://ec.europa.eu/social/BlobServlet?docId=24031&langId=en. [2]

European Commission (2024), *Agriculture in the Enlargement Countries*, https://agriculture.ec.europa.eu/international/international-cooperation/enlargement/candidates_en (accessed on 1 March 2024). [4]

European Commission (2023), *Kosovo Report 2023*, https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2023_en (accessed on 9 January 2024). [26]

European Union (2024), *KosovoProjects.eu*, https://kosovoprojects.eu/project/?filter_municipality=&filter_sector=21&filter_beneficiary=&filter_start_date=&filter_end_date=&Search=Search (accessed on 1 March 2024). [14]

Eurostat (2023), *Farms and Farmland in the European Union - Statistics*, https://ec.europa.eu/eurostat/statistics-explained/SEPDF/cache/73319.pdf (accessed on 15 February 2024). [5]

Imami, D. et al. (2020), "Closer to election, more light: electricity supply and elections in a post-conflict transition economy", *Post-Communist Economies*, Vol. 32/3, pp. 376-390, https://doi.org/10.1080/14631377.2019.1640982. [9]

Institute for Spatial Planning (2020), *Zonal Map of Kosovo 2020-2028*, http://www.testenv.info/DivisionDocs/1%20Shq%20-%20HZKos%20-%20Pjesa%20tekstuale%201120.pdf. [8]

Kosovo Agency of Statistics (2023), *International Trade of Agrifood Products*, https://ask.rks-gov.net/Themes/Agriculture (accessed on 10 January 2024). [7]

Kostov, P. and S. Davidova (2023), "Smallholders are not the same: under the hood of Kosovo agriculture", *Land*, Vol. 12/1, p. 146, https://doi.org/10.3390/land12010146. [6]

LuxDev (2023), *KOSOVO - Strengthening Food Safety and Administrative Capacity*, https://luxdev.lu/en/news/show/2023-06-20-2 (accessed on 29 February 2024). [27]

Market Information System Kosova (2024), *About Us*, http://www.sitkosova.org/about (accessed on 9 January 2024). [13]

Miftari, I. (2022), *Agricultural Knowledge and Innovation Systems (AKIS) in Kosovo: National Report and Proposed Draft Action Plan*, https://seerural.org/wp-content/uploads/2022/10/AKIS-report-Kosovo.pdf (accessed on 9 January 2024). [25]

Ministry of Agriculture, Forestry and Rural Development (2023), *National Program for Agriculture and Rural Development (2023-2027)*, https://www.mbpzhr-ks.net/repository/docs/NATIONAL_PROGRAM_FOR_AGRICULTURE_AND_RURAL_DEVELOPMENT_20232027.pdf (accessed on 9 January 2024). [19]

Ministry of Agriculture, Forestry and Rural Development (2023), *Strategic Plan of the Kosovo Advisory System for Agriculture and Rural Development 2023-2027*, https://www.mbpzhr-ks.net/repository/docs/English.pdf (accessed on 9 January 2024). [24]

Ministry of Agriculture, Forestry and Rural Development (2021), *Strategy for Agriculture and Rural Development 2022-2028*, https://kryeministri.rks-gov.net/wp-content/uploads/2023/01/STRATEGJIA-2022-2028-FINAL-ENG-Web-Noprint-final-PDF.pdf (accessed on 9 January 2024). [11]

Ministry of Agriculture, Forestry and Rural Development (2020), *Measure 302: Diversification of Farms and Business Development*, https://www.mbpzhr-ks.net/repository/docs/Masa_302_Anglisht_202007.pdf (accessed on 9 January 2024). [15]

Ministry of Agriculture, Forestry and Rural Development (2020), *Measure 303: Implementation of Local Development Strategy - Leader Approach*, https://www.mbpzhr-ks.net/repository/docs/Masa_303_Anglisht_202007.pdf (accessed on 9 January 2024). [16]

UNDP (2022), *Assessing the Impact of the Ukraine Crisis on Kosovo*, UNDP, https://www.undp.org/sites/g/files/zskgke326/files/2023-03/Assessing%20the%20Impact%20of%20the%20Ukraine%20crisis%20on%20Kosovo%20-%20An%20Exercise%20in%20Strategic%20Foresight%20Including%20Scenario-Based%20Projections.pdf (accessed on 29 February 2024). [22]

Wehinger, T., I. Miftari and A. Rexhepi (2021), *Support to the Ministry of Agriculture, Forestry and Rural Development (MAFRD) in Developing its Agriculture Policy Under the Financial Framework 2021-2027*, https://img1.wsimg.com/blobby/go/03cefef5-701c-45ac-b2d7-bc72ecee7da2/downloads/03a_en_Diversification_Sector%20Study_21-11-18_f.pdf?ver=1691661274400. [17]

World Bank (2024), *World Development Indicators, DataBank*, https://databank.worldbank.org/source/world-development-indicators (accessed on 6 February 2023). [1]

World Bank (2023), *Digital Infrastructure Boosts Resilience and Improves Lives in Rural Kosovo*, https://www.worldbank.org/en/results/2022/04/11/digital-infrastructure-boosts-resilience-and-improves-lives-in-rural-kosovo (accessed on 10 January 2024). [12]

Notes

[1] IPARD is the Instrument for Pre-Accession Assistance for Rural Development. Although Kosovo has not benefited from IPARD II or III, it is a potential beneficiary and may benefit in the future. In this context, national schemes tend to be (at least to some extent) aligned with the measures delineated under the IPARD programme.

[2] The specific IPARD III measures are Measure 7, “Farm diversification and business development,” and Measure 5, “Implementation of local development strategies using the LEADER approach.”

[3] The ten EU CAP objectives are: ensuring a fair income for farmers; increasing competitiveness; improving the position of farmers in the food chain; climate change action; ensuring environmental care; preserving landscapes and biodiversity; supporting generational renewal; ensuring vibrant rural areas; protecting food and health quality; and fostering knowledge and innovation. Kosovo’s ARDP 2023-27 is only aligned with the following four: ensuring a fair income for farmers; increasing competitiveness; ensuring environmental care; and fostering knowledge and innovation.

[4] The FADN stands as the main source of microeconomic data in EU (and in some candidate countries), founded upon harmonised bookkeeping principles. It facilitates the evaluation of the impact of agriculture and rural development policies over time.

[5] The 2023-2026 National Organic Action Plan gives an overview of the sector up to 2022, and proposes activities to develop the production and processing, market development, legislation, **certification and policies**, and research, education, training and extension (https://www.mbpzhr-ks.net/repository/docs/NOAP_2023__2026_ENG.pdf).

16 Tourism policy

Sound and robust frameworks are essential for the tourism sector to drive positive economic development, enhance competitiveness, and strengthen resilience within economies, particularly those heavily reliant on tourism. This chapter assesses the comprehensiveness of the legislative structure and practices governing tourism across three sub-dimensions. The first sub-dimension, governance and enabling conditions, assesses the effectiveness of efforts aimed at strengthening strategic co-ordination and co-operation in tourism across governance, vertical co-operation, public-private dialogue, and data collection. The second sub-dimension centred on accessibility, tourism offer and human resources, examines progress and challenges in addressing the sector's connectivity framework and infrastructure, accommodation capacity and quality, and availability of qualified workforce. The third sub-dimension, sustainable and competitive tourism, explores the impact of tourism branding and marketing strategies, natural and cultural heritage valorisation frameworks, and operations promoting sustainable development.

Key findings

Kosovo's tourism policy dimension has improved: the overall score increased from 1.5 in 2021 to 2.3 in the CO 2024 assessment (Table 16.1). Kosovo has made progress in all sub-dimensions. Positive developments were recorded in the areas of tourism governance, public-private dialogue, data collection, connectivity framework, accommodation framework and availability of qualified labour. Little progress was made in tourism marketing or in the valorisation of natural and cultural heritage, while almost no progress was made in vertical co-operation and information exchange or the promotion of sustainable tourism.

Table 16.1. Kosovo's scores for tourism policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tourism	15.1: Governance and enabling conditions			2.8	2.8
	15.2: Accessibility, tourism offer and human resources			2.3	2.7
	15.3: Sustainable and competitive tourism			1.5	1.9
Kosovo's overall score		**1.3**	**1.5**	**2.3**	**2.5**

The **key findings** are:

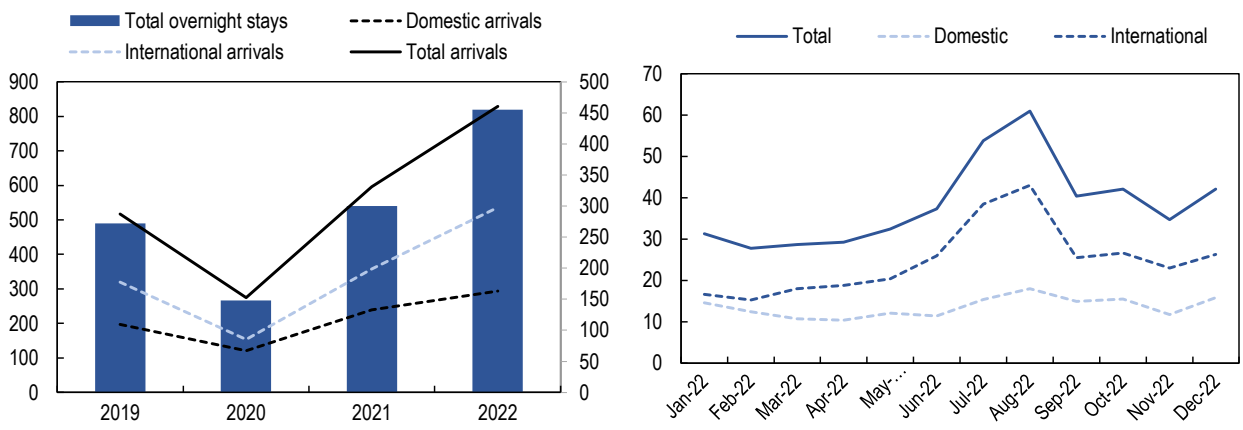
- Kosovo has made strides in its strategic framework for tourism development, marked by the enactment of a new Law on Tourism in 2022 and the formulation of a draft Tourism Development Strategy spanning 2023-30. Nonetheless, the rollout of the strategy remains uncertain as it awaited governmental approval at the time of writing.
- While some aspects of data collection for tourism statistics have undergone modernisation, the data still lack reliability in accurately assessing the full scope of tourism activity in the economy. Additionally, the absence of Tourism Satellite Accounts (TSA), due to resource constraints, further hampers comprehensive measurement of the sector's economic impact.
- Positive steps have been taken to bridge skill gaps for the tourism workforce. Kosovo has forged connections with regional skills partnerships and initiatives, like the Education Reform Initiative of Southeastern Europe project, aimed at establishing shared international professional standards for the technical aspect of tourism across the Western Balkans.
- While the Department of Tourism is instrumental in overseeing tourism development and marketing, the establishment of an economy-wide tourism organisation could further enhance the effectiveness and efficiency of efforts to promote tourism and drive economic growth. Potential benefits could include improved co-ordination, enhanced strategic planning, increased investment and collaboration and stronger monitoring and evaluation mechanisms.
- Concerted efforts towards capacity building and certification of accommodation facilities are gaining momentum. Consequently, various measures, including financial incentives and support, are being implemented, particularly targeting specific regions. However, there is a recognised need to intensify training programmes and provide additional support to ensure the successful implementation of these initiatives.
- Enhanced collaboration between municipalities and the national government driven by the Kosovo Tourism Council is evident, as demonstrated by various regional collaborative initiatives.

State of play and key developments

Since the last assessment in 2021, Kosovo has been experiencing a steady increase in tourism in recent years. In 2023, the economy welcomed 386 661 foreign tourists, a significant increase from the pre-pandemic year of 2019, when the economy received 177 358 visitors (Kosovo Agency of Statistics, 2023[1]). Overall, Kosovo's accommodation establishments recorded 1 523 297 overnight stays in 2023. International tourists contributed significantly with 64.5% (297 589) of the arrivals, while domestic tourists accounted for 35.5% (162 878), resulting in a total of 460 467 arrivals for the year, as indicated by Kosovo Agency of Statistics data for 2023 (Kosovo Agency of Statistics, 2023[1]). With 1.78 overnight stays per tourist, Kosovo shows a considerable difference to the benchmark in WB6, Montenegro (3.7). As Figure 16.1 shows, there is also a seasonal distribution of arrivals in Kosovo, with further strong arrivals in the period after the summer.

Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-2022) and seasonal distribution of arrivals (2022) in Kosovo

In thousands



Source: Kosovo Agency of Statistics (2023[2]).

StatLink https://stat.link/6gtdvy

In 2022, accommodation and food services contribute to 2.1% of GDP and 6.4% of employment revenues (Kosovo Agency of Statistics, 2023[1]) now constitute 1% of Kosovo's GDP, with diaspora-related tourism playing an important role in this development. Around 50% of foreign tourists are from five destinations: Albania (22%), Germany (12%), Switzerland (10%), Turkey (6%) and the United States (4%).

Pristina International Airport achieved a record by serving 3 million travellers through 21 842 flights in 2022. Compared to the previous year, passenger numbers surged by 37.31%, totalling 2 994 560 while flight operations also increased by 21.28%.

In turn, Kosovo has been investing in developing its tourism infrastructure, including accommodation, transportation, and tourist attractions. The Kosovo Government, along with international organisations and stakeholders, has been implementing various initiatives to promote tourism development, including markeing campaigns, investment incentives, and capacity- building programmes.

Sub-dimension 15.1: Governance and enabling conditions

Kosovo's **tourism governance** is currently undergoing several developments that demonstrate signs of clear progress since the last assessment. The adoption of a new Law on Tourism No. 08/L-074 in 2022 aims to define principles, standards and rules for the development and promotion of sustainable tourism and delineates the duties and responsibilities of public institutions, travel agencies, tour operators and other entities operating in the field of tourism[1]. In addition to the new law, several regulatory initiatives related to tourism have been developed over the past two years by the Ministry of Industry, Entrepreneurship and Trade (as listed in Table 16.2). Updates to the National Tourism Strategy have been in progress since 2021. While the draft strategy for national tourism development has been prepared and publicly discussed, it awaits government approval. The expected updates to the strategy aim to enhance strategic clarity and detail action plans, responsible bodies, budgets, implementation timeframes and monitoring and reporting mechanisms. The strategy is complemented by the Action Plan 2023-25, which provides concrete measures, timelines, and budgets for implementing activities. Similarly, OECD member states are striving to develop sustainable tourism destinations with a comprehensive approach to sustainability, as exemplified by Estonia's National Tourism Strategy 2022-25 (see Box 16.1).

Table 16.2. Government regulatory initiatives on tourism

Name	Description
Administrative Instruction on the Criteria of Defining Priority Areas For Tourism Development (2023)	Defines the criteria for designating the priority area for the development of tourism
Administrative Instruction on Determining the Conditions for the Provision of Active and Adventure Tourism Services	Regulates the conditions and security criteria that must be met by the professional tourism associations and commercial companies that deal with the provision of active and adventurous tourism services.
Administrative Instruction on the Requirements for Provision of Tourism Services in other Areas	Determines the conditions of providing tourism services in the fields of agriculture, aquaculture, fisheries, forestry and similar fields
Administrative Instruction for the Tourism Council	Defines the manner of establishment, composition, duties and responsibilities of the Tourism Council (hereinafter the Council) as an advisory body and for exchange of information in the field of tourism
Administrative Instruction on Tourism Registry	Regulates the content, management and process of registration of data in the tourism register.
A draft concept document for rural tourism	Aims to improve living conditions and income of residents in rural areas through better use of natural, cultural and, gastronomic heritage and development of other tourist attractions in rural areas.

Source: Government of Kosovo (2024[3]).

Despite the absence of an economy-wide tourism organisation, the Department of Tourism within the Ministry of Industry, Entrepreneurship, and Trade (MIET) oversees tourism development and marketing, producing an annual progress report on strategy objectives and action plan implementation. Additionally, Kosovo has formed the Kosovo Tourism Council (KTK), a governmental body comprising representatives from multiple ministries, municipalities, tourism experts, and NGOs. The Council is tasked with overseeing tourism governance, including marketing, policy development, and facilitating dialogue between public institutions and economic operators, while also striving to promote innovation in the tourism sector through the ongoing revision of the National Strategy for Innovation and Entrepreneurship. However, key challenges facing the governance structure of the national tourism strategy governance structure in Kosovo are insufficient capacity and technical ability of staff, lack of financial resources, and shortage of human resources. In certain instances, local-level tourism strategies have faced hindrances due to inadequate budget allocations, as evidenced by the difficulties in implementing the National Strategy for Cultural Heritage 2017-2027. To address these challenges, the government is taking significant steps by allocating more funding for tourism efforts; notably, the MIET budget for policy development and supporting tourism businesses has been increased, with plans to disburse grants in 2024. Furthermore, the Ministry of

Agriculture not only has increased grants targeting the promotion of rural tourism and agritourism but also has prioritised tourism within its Agriculture and Rural Development (ARDP) programme for 2023-27, particularly under Measure 7, "Diversification of farms and business development[2] (Ministry of Agriculture, Forestry and Rural Development, 2023[4]). However, several elements of the governance structure and monitoring mechanisms, including climate change adaptation strategies and risk mitigation plans, are yet to be fully established, indicating areas where further development is required to bolster Kosovo's tourism governance.

Vertical co-operation and information sharing in Kosovo showcases effective vertical co-operation betweenthe national and local levels, spearheaded by the Kosovo Tourism Council (KTK). This structure, established in 2017, encourages the participation of local communities and regional authorities in shaping national tourism strategy. Additionally, some municipalities maintain tourism departments that oversee local development projects and activities, while the Regional Development Agency for the West co-ordinates six municipalities in the region. Collaborative initiatives, such as the development of walking and cycling paths and cross-border projects like the Via Dinarica Trail[3] demonstrate further co-operation among different levels of government. However, challenges persist, primarily linked to a lack of financial resources in implementing local and regional tourism strategies. Moreover, the national level contributes on a needs basis to the planning and implementing of local and regional destination strategies which may lead to uncoordinated efforts. While destination management organisations (DMOs) actively involve stakeholders in the tourism development process (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2019[5]), concrete evidence showcasing advanced vertical co-operation contributing to efficient national strategy implementation remains elusive. DMO-West, an NGO, supports sustainable tourism development and promotion in the region by collaborating with local authorities, businesses, public institutions, and strategic partners, including municipalities, private companies, civil society organisations, and other tourism stakeholders, to attract visitors and generate significant economic benefits. Furthermore, the absence of a comprehensive tourist information system, coupled with a pending action plan for information availability, limits tourists' access to accurate and convenient information about Kosovo's attractions.

Kosovo's **public-private dialogue** in tourism demonstrates a meaningful presence of the private sector, which is represented by various associations and organisations, such as the Union of Tourism of Kosovo (UTK) and the Chamber of Hospitality and Tourism of Kosovo (OHT). Recommendations from private sector representatives significantly influence the development of the national tourism strategy. Public-private collaboration at the national level is facilitated through the Kosovo Tourism Council (KTK), which includes representatives from various ministries, tourism experts, NGOs and academia. Likewise, roundtables, organised by the Ministry, are held to foster dialogue for tourism development. Despite these efforts, challenges persist, particularly in terms of financial and human resource constraints. These limitations can hinder the effective operation of the body. Kosovo's destination management structure encourages public participation in sustainable planning and management, primarily at the municipal level. Municipalities, such as Pjese, Pristina, Prizren and Ferizaj prioritise tourism development and naturally include public input in their development plans. While dedicated events inform the private sector at all levels about the national tourism strategy during its drafting, there is room for improvement in terms of publishing the strategy on various platforms and establishing a public-private partnership model for national tourism.

In Kosovo, several institutions, including the Statistical Office, the Kosovo Police, and local tourism information offices, are involved in **data collection** for tourism. They gather a range of supply and demand-side data, such as accommodation capacities, visitor numbers, and travel patterns. The statistical data collected adhere to international standards, specifically Eurostat standards, which ensures that the data are compatible with global practices. Efforts have been made to improve data collection and analysis effectiveness, including the introduction of standardised data collection methods and formats, collaboration

between public and private sector stakeholders, the use of technology, and training for private sector actors. However, several challenges hinder the implementation of an effective data collection system. These include insufficient human and financial resources, a low level of information provision by the private sector, and a lack of information obligations for private companies. Nevertheless, Kosovo's agency for statistics (Kosovo Agency Statistics, 2024[6]) has taken steps to modernise data collection, transitioning from physical questionnaires to electronic systems and establishing an online portal for tourism statistics. A collection and publication schedule has also been established, and monitoring and evaluation mechanisms are in place to ensure the quality and accuracy of collected data. To date, there is no evidence of implementation of Tourism Satellite Accounts (TSA) to support tourism statistics.

Box 16.1. Estonia's National Tourism Strategy 2022-25

Estonia's National Tourism Strategy 2022-25 has a goal for the country to become a sustainable tourism destination that offers visitors diverse and unique travel experiences in all seasons. Estonia's cross-cutting approach to sustainability is defined by three principles: valorisation of the local culture, the environment and the community; co-operation; and contribution to fulfilling the UN SDGs. Activities already set out by the Estonian Tourist Board for the period 2022-25 to enhance the sustainability and resilience of the Estonian tourism sector include:

- participating in the international Green Destinations programme, running the annual GreenEST summit and circular economy programmes
- recognising sustainable tourism operators and enhancing the application of eco-labels
- sharing information and best practices about green investment and resource-saving support options and the best sharing practices
- providing financial support for sustainable and inclusive tourism sector product development (EUR 14.1 million from REACT EU measures)
- supporting new business models
- developing thematic networks and routes.

The Strategy also sets out several measurable goals for the tourism sector to be achieved by 2025. These goals include increasing the average length of stay of international tourists to at least four nights, increasing participation in the network of sustainable tourism businesses to include at least 150 firms, and the achievement of at least six Estonian destinations receiving the Green Destinations Award.

Source: OECD (2022[7]).

Sub-dimension 15.2: Accessibility, tourism offer and human resources

Kosovo has taken some steps to improve its **connectivity framework** for tourism. For instance, the economy introduced measures to allow visa-free entry for certain nationalities in 2022, such as Ukrainian citizens. Additionally, the government is supportive of ecological means of transport for tourists, including trains, trams, and bikes. Various initiatives have been launched to encourage the use of sustainable, low-emission vehicles and public transport, along with promoting active transport modes like walking and cycling. These efforts aim to reduce tourism's contribution to air pollution, congestion, and climate change. However, there are still areas of stagnation and challenges in Kosovo's connectivity framework. No new visa-processing measures have been adopted, and systematic monitoring of visa requirements and processing adjustments is lacking. Moreover, there is no specific regional travel facilitation strategy to make border crossings easier for tourists. The Peaks of the Balkans trail operates through specific

mountain hiking points, outside regular border crossings, facilitated by a longstanding state agreement. Efforts are underway to establish a similar agreement with North Macedonia for hikers on the High Scardus Trail. Additionally, Kosovo has secured a co-operation agreement aimed at consolidating border crossing points. Cross-border tourist trails providing access to Kosovo face constraints in tourism connectivity due to limited initiatives for easing border crossings.

As of 2021, the government of Kosovo has not taken any measures to facilitate investments in **accommodation capacity and quality**. However, the economy does have a consistent accommodation quality standard framework that follows internationally recognised accommodation quality standards. This framework includes guidelines prepared for the classification and categorisation of accommodation structures, which are harmonised with EU standards. While there is a register of accommodation facilities, categorisation of these facilities is not mandatory; accommodations are not obliged to apply for certification, as the application is voluntary. Accredited experts implement the categorisation assessment, with the commission responsible for this process consisting of several members from public officials in the Department of Tourism, tourist associations, and experts in the field of tourism and architecture. Unfortunately, there currently are no training courses available for accommodations regarding the categorisation process and quality standards. Furthermore, the Market Inspectorate under the MIET is tasked with inspecting quality standards; however, it encounters challenges stemming from a shortage of human resources. The government is in the process of developing a monitoring mechanism to ensure the implementation and efficiency of the accommodation quality standards framework, with adjustments made accordingly during the semi-annual monitoring process. While there is no evaluation of the accommodation facilitation framework in place, a sustainable labelling framework for tourist accommodations exists on a voluntary basis. This framework also includes requirements for the availability of accommodations for persons with disabilities, while plans are in place to include energy efficiency requirements in the legal basis being drafted. The government supports businesses in their efforts to improve energy efficiency through financial incentives and aligns with its broader Energy Strategy 2022-30. Some accommodation providers in Kosovo have received sustainable tourism certifications with the support of the project Promoting Private Sector Employment. In addition, there is an ongoing initiative in Kosovo called “Tourism for the Future”, which is specifically focussed on the Peja region. This project is dedicated to capacity building and certification of eco-labelled accommodation facilities. Furthermore, measures have been implemented to promote investment in the expansion or renovation of high-quality private housing. The Ministry of Agriculture, Forestry and Rural Development has approved a measure to facilitate the expansion and renovation of private housing in rural areas.

Kosovo does not have a separate strategy for human resources in tourism. However, the development of human resources is integrated into the broader tourism strategy, and is one of the strategic objectives. Kosovo demonstrates a proactive approach to opening up the labour market and allowing foreign workers into the tourism sector. The labour market conditions influence the economy’s openness to foreign workers, but it is generally open to all who are interested in working in the tourism sector. In some cases, Kosovo has seen the return of individuals from the diaspora who are directed toward employment in the tourism sector, contributing to the **availability of a qualified workforce**. Kosovo has made efforts to develop its vocational education and training (VET) framework for tourism, notable changes have been introduced since the last assessment, including the implementation of Dual Education for the profile of “Hotel Hospitality Assistant”. Practical training is a mandatory part of the VET and higher education framework, and curricula are updated in response to industry needs. Kosovo is also involved in regional skills partnerships and initiatives, such as the Education Reform Initiative of Southeastern Europe[4] project, which aims to develop common international professional standards for the technical profile of tourism in the Western Balkans. This collaboration involves tourism companies, education providers, trade unions, and other organizations committed to jointly agreed training targets for their workforce, showing a commitment to addressing the skills gap in the tourism industry.

Sub-dimension 15.3: Sustainable and competitive tourism

Kosovo has made strides in developing its tourism brand identity, and research and analysis have been conducted to support **tourism branding and marketing**. The Department of Tourism, with the support of the UNDP, has undertaken work to develop and maintain a national symbol of tourism, including the development of procedures for designing the brand symbol and slogan. Additionally, Kosovo has identified target markets and established a tourism marketing strategy, taking into consideration market segmentation, trends, brand perception, and image. However, while a draft tourism branding strategy was developed, it is currently used internally to provide guidelines for brand development but was never published. The Kosovo Investment and Enterprise Support Agency (KIESA) offers support for the presentation of tourism providers at international trade fairs in order to promote them. Regional initiatives are also under development aiming to establish common tourism branding, such as the Peaks of the Balkan trail and the Via Dinarica hiking trail extending from Albania to Slovenia. There are challenges in effectively implementing digital marketing strategies, including resistance to change among stakeholders and the potential cost associated with digital transformation initiatives. The Tourism Department of the MIET has set up the "Tourism Register", a system for registering all tourism services. Through this platform, tourism businesses can apply for permits, authorisations and various tourism certificates. The development of this digital platform was launched in 2023. In addition, the MIET is planning a call for tenders to support SMEs in the digitalisation of tourism in 2024, for which a budget of EUR 500 000 has been earmarked. Despite the progress, there is currently no formal or informal marketing co-ordination body in place, and monitoring and evaluation of the brand image and marketing strategy are lacking.

Kosovo has made some positive strides in its **natural and cultural heritage valorisation frameworks**, with the national tourism strategy recognising their importance and the government adopting dedicated strategies for their preservation. Private stakeholders, local communities, academia, and NGOs are actively involved in developing heritage strategies, including management plans for various sites like the National Park "Sharri." The government has approved spatial plans for national parks, such as Bjeshket and Nemuna, while donor-funded projects like NaturKosovo focus on sustainable tourism development, including grants for the Via Dinarica hiking trail. However, many strategies lack detailed implementation plans, budgets, and timelines, and are hindered further by a shortage of financial resources and qualified staff. Without adherence to wildlife management standards, Kosovo's potential for sustainable tourism development of its rich heritage remains limited. Despite this, economies in the region are showing promising initiatives, such as Albania's Integrated Management Plan for Butrint National Park 2020-30. (Box 16.2).

Kosovo is embracing **sustainable development and operations** by integrating specific Sustainable Development Goals (SDG) initiatives into its tourism strategy. The tourism sector recognises the importance of environmental measures aimed at protecting natural assets and managing tourism’s environmental impact. However, there is room for improvement in establishing a comprehensive policy framework for promoting sustainable tourism and ensuring sufficient budget allocation for its implementation. While some economic instruments are employed, such as infrastructure investments and education campaigns, there remains a need for enhanced co-ordination between the government and tourism enterprises to promote sustainability practices. There is also limited evidence of effective channels of communication between destination management structures and tourism enterprises to facilitate the promotion and support of sustainability efforts. A Sustainable Tourism Observatory, which would provide valuable data and insights to guide future sustainable tourism initiatives, is not in place or being established. This absence constrains efforts, ultimately hindering Kosovo's tourism sector's long-term sustainability.

Box 16.2. Integrated Management Plan for Butrint National Park (2020-30) in Albania

The Integrated Management Plan for Butrint National Park (2020-30), approved by DCM No. 538 on 22 July 2020, is a key document for the sustainable development of Butrint as an outstanding international tourist destination. Visitor management is of great importance. The balance between public access and the preservation of Butrint's archaeological and natural treasures is a challenge.

One of the outstanding features of the proposals for visitor management at Butrint is the creation of a state-of-the-art new visitor centre. This facility will act as a gateway to the park and provide visitors with important information about the cultural and environmental significance of the site. The centre will play a crucial role in educating visitors about the importance of responsible tourism and sustainable practices. In addition, the plan promotes environmentally sustainable transport within the park to minimise the ecological footprint of visitors and contribute to overall conservation efforts.

A pioneering initiative that is part of the visitor management strategy marks the implementation of the first carbon-free project in Butrint. As part of an ongoing process, this ambitious endeavour aims to make Butrint one of the first carbon-free parks in Albania. By utilising innovative technologies and sustainable practices, the administration aims to reduce the environmental impact of park operations and set a precedent for conservation efforts across the economy.

To enhance the visitor experience while preserving the integrity of the park, the plan calls for the creation of trails, including boardwalks, and informative signage in Butrint. These trails will guide visitors through the site and ensure that they have a meaningful and educational experience while minimising impact on the archaeological and natural features. The emphasis on comprehensive visitor management measures emphasises the commitment to preserving Butrint's status as a UNESCO World Heritage and Ramsar site for future generations.

Sources: Information based on responses to Tourism Questionnaires completed by national authorities; Albania Ministry of Culture (2020[8]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Progress on recommendations has been mixed: the economy has made strong advances in strengthening its strategic framework while moderate improvements have been made across all other areas particularly stagnating in domains such as promotion of sustainable development. Below, Table 16.3 shows the economy's progress in implementing past recommendations for developing the tourism sector.

Table 16.3. Kosovo's progress on past recommendations for tourism policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Finalise and adopt the new Tourism Development Strategy	A draft strategy for the development of tourism at the national level has been prepared and undergone public discussion procedures, but it has not yet been processed for approval by the government. The Action Plan 2023-25 of the Tourism Strategy 2023-30 has been finalised, including concrete measures, timelines, and budget allocations for the implementation of activities. A monitoring and evaluation framework is part of the tourism strategy to assess the impact of implemented measures on tourism development.	Strong
Include destination management organisations in the new Tourism	Kosovo's tourism governance with the Kosovo Tourism Council (KTK) encourages the participation of local communities and regional authorities in shaping the	Moderate

Development Strategy to empower municipalities/tourist destinations to manage tourism development	national tourism strategy. Destination management organisations (DMOs), such as DMO-West, are actively involved in tourism development at the local and regional levels. DMO-West is an NGO that organises tourism development in the western of Kosovo and involves local authorities, businesses, public agencies, civil society organisations, and other tourism actors.	
Introduce a framework for accommodation capacity and tourism quality to increase the quality of tourist products and services	Kosovo has adopted consistent accommodation quality standards that are in compliance with internationally recognised accommodation quality standards, particularly hotelstars.eu criteria. However, the categorisation of accommodation facilities is not mandatory; it is currently a voluntary process. A register of accommodation facilities has been established, providing a database of such establishments in Kosovo. The government plans to monitor the implementation and efficiency of the accommodation quality standards framework. Additionally, there are plans to include requirements for energy efficiency in the framework, and businesses are supported through financial incentives for energy efficiency.	Moderate
Establish an economy-wide tourist organisation that will take over tourism branding and marketing in the economy	Kosovo has made progress in establishing a tourism brand identity. Research and branding analysis have been conducted, with support from UNDP, and administrative instructions are being developed to regulate the use of the brand as a national symbol of tourism. A tourism marketing strategy and plan have been developed, identifying target markets and providing a framework for promotion. Digital marketing activities have been included in the overall tourism marketing strategy, recognising the growing importance of digital marketing in tourism promotion.	Limited
Develop a comprehensive framework for promoting sustainable development within the tourism sector	Principles of sustainable tourism development have been defined in the Tourism Strategy; some Sustainable Development Goal (SDG) initiatives have been included in the drafting of the tourism strategy. nvironmental measures aimed at protecting natural assets and controlling and managing the environmental impacts of tourism are included in the national environmental policy and/or the national tourism strategy. The government has implemented new economic instruments, including tradable permits to limit the impact of tourism on the environment, education and awareness campaigns to promote sustainable tourism practices, and investments in infrastructure to support sustainable tourism development.	Limited

The way forward for tourism policy

To ensure further successful development of tourism, policy makers should:

- **Allocate sufficient resources for national tourism strategy implementation.** Once approved by the government, the tourism strategy requires extensive support for its successful implementation. Kosovo's tourism strategy implementation faces challenges, including insufficient capacity, technical ability, financial resources, and human resources. It is crucial to allocate the necessary budget and human resources to facilitate the implementation of the strategy.
- **Establish a national tourism organisation responsible for the sustainable development and marketing of the destination, including the digital marketing of Kosovo.** To improve tourism marketing and branding, Kosovo should consider enhancing its destination marketing capabilities, engaging stakeholders, and establishing mechanisms for brand management and marketing evaluation. The legal establishment of a national tourism organisation with the provision of a sufficient budget and a team of qualified staff is a prerequisite for the successful launch and development of the economy-wide tourism organisation.
- **Establish destination management organisations to enable communities or destinations to manage tourism development.** Policy measures should include capacity - building programmes for local tourism organisations and sufficient funding should be provided for the start-up phase of development and operation of the organisations. Donor support could be valuable for the

development of destination management organisations as they can provide examples of best practice from advanced tourism economies.

- **Develop a comprehensive tourist information system.** Kosovo should focus on establishing a comprehensive tourist information system to provide accurate and convenient information about its attractions to visitors. This system should be complemented by monitoring and evaluation mechanisms for information quality, ensuring that tourists have access to reliable information.
- **Establish mechanisms for sustainability in tourism.** To promote sustainability, Kosovo should develop a comprehensive policy framework based on the Global Sustainable Tourism Council's criteria (Global Sustainable Tourism Council, 2024[9]), with clear measures and budget allocations for sustainable tourism. The government should also establish Implementation of certification schemes, monitoring of visitor satisfaction, and evaluating the impact of sustainability measures by an independent body. These will further enhance the effectiveness of Kosovo's efforts in promoting sustainable development and operations within the tourism sector.

References

Albania Ministry of Culture (2020), *Parku Kombëtar i Butrintit Plani i Menaxhimit të Integruar (2020-2030)*, https://kultura.gov.al/wp-content/uploads/2022/05/PMI-i-Parkut-Kombetar-te-Butrintit-2020.pdf (accessed on 30 May 2024). [8]

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (2019), *Destination Management in Developing and Emerging Countries. Handbook and Guidelines for Building Sustainable Destination Management Organizations*, https://mia.giz.de/qlink/ID=245633000. [5]

Global Sustainable Tourism Council (2024), *Global Sustainable Tourism Council: GSTC Destination Criteria*, http://www.gstcouncil.org (accessed on 12 June 2024). [9]

Government of the Republic of Kosovo (2024), *Online Platform for Public Consultations is launched*, http://Platform for Public Consultations (rks-gov.net) (accessed on 30 May 2024). [3]

Kosovo Agency of Statistics (2023), *Publications*, https://ask.rks-gov.net/Publication (accessed on 12 June 2024). [1]

Kosovo Agency of Statistics (2023), *Tourism in Kosovo*, https://ask.rks-gov.net/Themes/Tourism (accessed on 30 May 2024). [2]

Kosovo Agency Statistics (2024), *Welcome to KAS*, https://ask.rks-gov.net/ (accessed on 12 June 2024). [6]

Ministry of Agriculture, Forestry and Rural Development (2023), *National Program for Agriculture and Rural Development*, https://www.mbpzhr-ks.net/repository/docs/NATIONAL_PROGRAM_FOR_AGRICULTURE_AND_RURAL_DEVELOPMENT_20232027.pdf. [4]

OECD (2022), *OECD Tourism Trends and Policies*, OECD Publishing, https://doi.org/10.1787/a8dd3019-en. [7]

Notes

[1] This new law is line with Directive (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on package travel and linked travel arrangements, amending Regulation (EC) No 2006/2004 and Directive 2011/83/EU of the European Parliament and of the Council and repealing Council Directive 90/314/EEC. https://gzk.rks-gov.net/ActDetail.aspx?ActID=59633.

[2] The programme highlights the development of tourism infrastructure, investments in equipment, environmental protection, development of activities and attractive areas (focus on mountainous areas), and interweaving renewable energies with rural tourism.

[3] The Via Dinarica hiking trail in the Western Balkans spans 1 200 miles and eight economies – Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, Serbia, and Slovenia. https://www.viadinarica.com and https://trail.viadinarica.com.

[4] For more information: https://www.erisee.org

Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Kosovo

Inclusive and sustainable economic growth in the six Western Balkan (WB6) economies depends on greater economic competitiveness. Although the gap is closing gradually, the standards of living in WB6 are well below those of the OECD and EU. Accelerating the rate of socio-economic convergence will require a holistic and growth oriented approach to policy making.

This is the fourth study of the region (formerly under the title 'Competitiveness in South East Europe') and it comprehensively assesses policy reforms in the WB6 economies across 15 policy areas key to strengthening their competitiveness. It enables WB6 economies to compare economic performance against regional peers, as well as EU-OECD good practices and standards, and to design future policies based on rich evidence and actionable policy recommendations.

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence of the WB6 by fostering regional co-operation: business environment, skills, infrastructure and connectivity, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous 2021 study's recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.

PRINT ISBN 978-92-64-81151-5
PDF ISBN 978-92-64-53698-2