USAID Kosovo Investment Promotion and Access to Finance Activity

Finance and Investment Constraints Analysis

SUBMITTED BY:
DT GLOBAL

SUBMITTED TO:
USAID MISSION IN KOSOVO

CONTRACT NO.:
72016723C00001

USAID ACTIVITY OFFICE:
ECONOMIC GROWTH OFFICE

USAID COR:
BESA ILAZI

SUBMISSION DATE:
JULY 6, 2023

REVISED SUBMISSION DATE:
AUGUST 12, 2023

FURTHER REVISION:
AUGUST 29, 2023

DISCLAIMER
The author’s views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.
# Table of Contents

- Executive Summary
- Introduction
- Methodology
- Finance and investment market system
- Objective 1: Attract Investment Opportunities
  - Context
  - Key constraints
  - Activities to address the key constraints
- Objective 2: Diversified Finance
  - Context
  - Key constraints
  - Activities to address the key constraints
- Annex 1: Related donor projects, by objective
- Annex 2: Summary of ongoing and potential policy, legal, and regulatory reforms
- Annex 3: Stakeholders consulted

---

USAID Kosovo Investment Promotion and Access to Finance Activity – Finance and Investment Constraints Analysis
Table of Figures

Figure 1: Current state of finance and investment ecosystem in Kosovo.................................................10
Figure 2: Assets under management, in € millions, April 2023 ................................................................11
Figure 3: Potential future state of finance and investment ecosystem in Kosovo....................................13
Figure 4: Trade balance of Kosovo, in €, millions..................................................................................14
Figure 5: FDI inflows in SEE countries, USD millions........................................................................16
Figure 6: SEE countries’ FDI net inflow (% of GDP) ............................................................................17
Figure 7: Account ownership, comparison with region, %.......................................................................36
Figure 8: Domestic credit provided to the private sector, % of GDP.......................................................37
Figure 9: Profitability of banks ...........................................................................................................38
Figure 10: Financial soundness indicators of banks (1) ..........................................................................38
Figure 11: Financial soundness indicators of banks (2) .......................................................................39
Figure 12: Annual growth rates for banks ...............................................................................................40
Figure 13: Bank loans by sector ............................................................................................................40
Figure 14: KPST investment portfolio ..................................................................................................41

List of Tables

Table 1: Destinations of Kosovo exports, 2018-2022...............................................................................15
Table 2: Kosovo net FDI inflows by sector, in € millions........................................................................17
Table 3: Kosovo net FDI inflows by country, millions of Euros.................................................................18
### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMIK</td>
<td>Association of Microfinance Institution of Kosovo</td>
</tr>
<tr>
<td>AMIK</td>
<td>Association of Microfinance Institutions of Kosovo</td>
</tr>
<tr>
<td>B2B</td>
<td>Business-to-Business</td>
</tr>
<tr>
<td>BAS</td>
<td>Business Advisory Service</td>
</tr>
<tr>
<td>BASP</td>
<td>Business Advisory Service Provider</td>
</tr>
<tr>
<td>BKT</td>
<td>Banka Kombetare Tregtare</td>
</tr>
<tr>
<td>BPO</td>
<td>Business Process Outsourcing</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kosovo</td>
</tr>
<tr>
<td>CDCS</td>
<td>Country Develop Cooperation Strategy</td>
</tr>
<tr>
<td>CEFTA</td>
<td>Central European Fee Trade Agreement</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>COSME</td>
<td>Competitiveness of Enterprises and Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance Institutions</td>
</tr>
<tr>
<td>DTT</td>
<td>Double Taxation Treaty</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>ECA</td>
<td>European Central Asia</td>
</tr>
<tr>
<td>EDIF</td>
<td>Enterprise Development and Innovation Facility</td>
</tr>
<tr>
<td>EIF</td>
<td>European Investment Fund</td>
</tr>
<tr>
<td>ERA</td>
<td>European Reform Agenda</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FICA</td>
<td>Finance and Investment Constraints Analysis</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIZ</td>
<td>German International Cooperation</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kosovo</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPAF</td>
<td>Investment Promotion and Access to Finance</td>
</tr>
<tr>
<td>IPEA</td>
<td>Investment Promotion and Export Agency</td>
</tr>
<tr>
<td>ITP</td>
<td>Innovation and Training Park</td>
</tr>
<tr>
<td>JSC</td>
<td>Joint Stock Companies</td>
</tr>
<tr>
<td>KAS</td>
<td>Kosovo Agency of Statistics</td>
</tr>
<tr>
<td>KBA</td>
<td>Kosovo Banking Association</td>
</tr>
<tr>
<td>KBRA</td>
<td>Kosovo Business Registration Agency</td>
</tr>
<tr>
<td>KCA</td>
<td>Kosovo Competition Authority</td>
</tr>
<tr>
<td>KCGF</td>
<td>Kosovo Credit Guarantee Fund</td>
</tr>
<tr>
<td>KCR</td>
<td>Kosovo Credit Registry</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>KEGA</td>
<td>Kosovo Economic Governance Activity</td>
</tr>
<tr>
<td>KIESA</td>
<td>Kosovo Investment and Enterprise Support Agency</td>
</tr>
<tr>
<td>KPST</td>
<td>Kosovo Pensions and Savings Trust</td>
</tr>
<tr>
<td>LLC</td>
<td>Limited Liability Company</td>
</tr>
<tr>
<td>LSI</td>
<td>Law on Strategic Investments</td>
</tr>
<tr>
<td>MAFRD</td>
<td>Ministry of Agriculture, Forestry and Rural Development</td>
</tr>
<tr>
<td>ME</td>
<td>Ministry of Economy</td>
</tr>
<tr>
<td>MESPI</td>
<td>Ministry of Environment, Spatial Planning, and Infrastructure</td>
</tr>
<tr>
<td>MFAD</td>
<td>Ministry of Foreign Affairs and Diaspora</td>
</tr>
<tr>
<td>MFI</td>
<td>Micro Finance Institutions</td>
</tr>
<tr>
<td>MFLT</td>
<td>Ministry of Finance, Labor and Transfer</td>
</tr>
<tr>
<td>MIET</td>
<td>Ministry of Industry, Entrepreneurship, and Trade</td>
</tr>
<tr>
<td>MJ</td>
<td>Ministry of Justice</td>
</tr>
<tr>
<td>MSCA</td>
<td>Market Systems Constraint Analysis</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-bank Financial Institutions</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organizations</td>
</tr>
<tr>
<td>NLB</td>
<td>Nova Ljubljanska Banka</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loans</td>
</tr>
<tr>
<td>OECD</td>
<td>The Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OPM</td>
<td>Office of the Prime Minister</td>
</tr>
<tr>
<td>OTC</td>
<td>Over-the-Counter</td>
</tr>
<tr>
<td>PSD2</td>
<td>Payment Services Directive Two</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAA</td>
<td>Stabilization and Association Agreement</td>
</tr>
<tr>
<td>SDC</td>
<td>Swiss Development Cooperation</td>
</tr>
<tr>
<td>SEE</td>
<td>Southeast Europe</td>
</tr>
<tr>
<td>SIDA</td>
<td>The Swedish International Development Cooperation Agency</td>
</tr>
<tr>
<td>SME</td>
<td>Small, and Medium Enterprises</td>
</tr>
<tr>
<td>TAK</td>
<td>Tax Administration of Kosovo</td>
</tr>
<tr>
<td>TEB</td>
<td>Türk Ekonomi Bankası</td>
</tr>
<tr>
<td>TPL</td>
<td>Third Party Liability</td>
</tr>
<tr>
<td>US GSP</td>
<td>US Generalized System of Preferences</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
</tr>
<tr>
<td>VNM</td>
<td>Value Network Mapping</td>
</tr>
<tr>
<td>WAIPA</td>
<td>World Association of Investment Promotion Agencies</td>
</tr>
<tr>
<td>WB</td>
<td>Western Balkans</td>
</tr>
<tr>
<td>WB6</td>
<td>Western Balkan 6</td>
</tr>
</tbody>
</table>
Executive Summary

Finance and investment play a critical role in enabling firms to grow their operations, employ more staff, and export to international markets. Kosovo’s finance and investment market system has significant constraints, which inhibit investment attraction and access to finance. The USAID Kosovo Investment Promotion and Access to Finance Activity (“Activity”) conducted a Finance and Investment Constraints Analysis (FICA) to rigorously analyze the most critical constraints facing both firms seeking capital and capital providers, as well as identify potential interventions to alleviate these constraints.

Attracting investment: Key constraints

Kosovo Investment and Enterprise Support Agency (KIESA) is widely perceived as highly ineffective and a key constraint on Kosovo’s capacity to attract investors. Its poor performance is caused by inadequate funding, as well as weak managerial and technical capacity. It also suffers from limited political attention. KIESA has very few staff with technical and language skills required to engage productively with potential investors. KIESA is not effective at building relationships with foreign investors and addressing investors' negative perceptions of Kosovo.

Overall, the Government of Kosovo (GOK) lacks a holistic and coordinated investment promotion and attraction strategy. Weak coordination between GOK institutions that are responsible for engaging with investors and attracting investment deters investment. Weak institutional capacity inhibits GOK institutions from developing and implementing policies to effectively attract investment.

Unlike many of its neighboring countries, Kosovo does not have a sovereign credit rating. For some potential foreign investors, the absence of a sovereign credit rating deters investment by reinforcing their pre-existing perceptions of Kosovo as a volatile and high-risk country.

Kosovo’s business environment deters investment in many ways. Investors seeking to set up operations in Kosovo have to obtain many licenses and permits from multiple GOK entities. There is no single and effective one-stop-shop entity for investors. At the same time, Kosovo’s bankruptcy processes are inefficient and underutilized by firms and resolving contractual disputes through the court system is very slow. Meanwhile, Kosovo Business Registration Agency and Kosovo Competition Authority do not have the required technical capacity to serve investors and regulate market activity.

Highlighted activities to increase investment attraction

The Activity has identified activities1 to alleviate the key constraints limiting investment attraction, including:

- Support the Office of the Prime Minister to develop and implement the new Investment Promotion and Export Agency.
- Support development of an investment fund and a pipeline of investible deals.
- Assess the viability of introducing incentives to attract investors to Kosovo’s economic zones.
- Facilitate the organization of investment fora and business-to-business exchanges, including with diaspora.
- Assist Ministry of Finance to work with a credit rating agency to obtain a sovereign credit rating.
- Strengthen the institutional capacity of Kosovo’s embassies to engage with foreign investors.
- Increase capacity of Kosovo Business Registration Agency to effectively serve investors.

1 Given the breadth and depth of the identified constraints, the identified activities are not solely for the Activity to address. The findings present a call-to-action for other donor organizations and partners to step in and collaborate.
Increasing access to finance: Key constraints

Kosovo’s financial system is dominated by its commercial banks, which face little competition and are highly profitable. As a consequence, the banks have little incentive to increase access to finance for SMEs or develop diversified financial instruments. Kosovo’s banks are highly risk averse and impose high and strict collateral requirements for almost all loans. Many firms cannot obtain a bank loan because they are unable or are unwilling to pledge sufficient assets to meet a bank’s collateral requirements. Few firms are able to obtain project financing or syndicated loans from the banks.

SMEs’ financing options outside of standard bank loans are very limited. Kosovo’s microfinance institutions face legal constraints that limits the services and financing that they can offer to firms. Alternative financial instruments, such as factoring and leasing, are not widely offered by banks or non-bank financial institutions. There is very limited availability and use of crowdfunding or other financial technology (fintech) products.

Except for government bonds, there are no active capital markets in Kosovo. Local firms do not issue debt or equity securities and there are no exchanges or platforms to trade these securities. There are also no investment funds based in Kosovo that enable investors to pool their capital, diversify their risk, and invest indirectly in a number of local firms. The development of capital markets is inhibited by multiple factors, including the small size of the Kosovo economy, the absence of an enabling legal and regulatory framework, and the restricted investment mandates of Kosovo’s pension funds and insurance companies.

SMEs’ limited capacity and informality is also a significant factor limiting access to finance. Weak corporate governance, inaccurate financing reporting, and poor business planning deters banks and investors from providing capital to SMEs. Kosovo does not have a vibrant network of business advisory service providers to strengthen the capacity of firms to complete financing transactions with capital providers.

Highlighted activities to increase access to finance

The Activity has identified activities to alleviate the key constraints limiting access to finance, including:

- Support banks to pilot diversified financial instruments, utilize more advanced risk assessment models, and develop lending policies that have more flexible collateral requirements.
- Build the capacity of banks’ lending officers to evaluate firms’ applications for project financing.
- Facilitate banks to offer syndicated loans to large firms to finance major projects.
- Support Ministry of Finance and Central Bank of Kosovo (CBK) to develop and implement legal and regulatory frameworks for capital markets and investment funds.
- Facilitate the issuance of corporate bonds by large Kosovar firms.
- Provide technical assistance to banks and non-bank financial institutions to develop and roll out diversified financial products, including factoring, leasing, and value chain financing.
- Assist Kosovo Credit Guarantee Fund to further de-risk lending to businesses.
- Support business advisory service providers to increase the capacity of firms to access finance.
Introduction

The USAID Kosovo Investment Promotion and Access to Finance Activity ("the Activity") is a 5-year Activity aimed at strengthening the private sector’s capacity to deliver sustainable economic growth through two mutually re-enforcing objectives:

- Objective 1: Attracting investment.
- Objective 2: Increasing access to and utilization of diversified finance.

By achieving these two objectives, the Activity will strengthen the resiliency of the private sector, create productive jobs, increase exports, and enable firms to adopt new technologies and business practices.

The Activity contributes to Development Objective 2 (Opportunities for inclusive democratic and economic participation increased) of the USAID Kosovo 2020-2025 Country Develop Cooperation Strategy (CDCS). Within Development Objective 2 (DO2), the Activity will support Intermediate Result 2.2 (Private sector competitiveness in target sectors increased) and Sub-Intermediate Result 2.2.3 (Environment for private investment enhanced).

The Activity conducted a Finance and Investment Constraints Analysis (FICA) to assess the key constraints limiting investment attraction and access to finance in Kosovo. This report summarizes the FICA’s key findings and outlines specific activities to help address and alleviate the key constraints. While the FICA serves as an important roadmap for the subsequent design of the Activity’s interventions, the sheer breadth and depth of the complexity involving the identified constraints effectively means that there is a clear need for various GOK partners, donors and the private sector actors to engage and collaborate closely.

Methodology

Starting point

The FICA has been modelled after the USAID Compete Activity’s ("Compete") Market Systems Constraints Analysis (MSCA), which utilized a methodology known as value network mapping (VNM) to understand and analyze systems dynamics among key actors and identify systemic constraints within the export-oriented sectors it supports. While similar to Compete’s approach, the FICA also provides additional value in several respects: a) it delves deeper and examines the root causes that fuel limited access to finance and investment in Kosovo; b) it studies access to finance constraints not limited to a particular sector, but for Kosovo in general; and c) it specifically analyzes constraints related to investment flows, which while complementary to Compete’s export-oriented approach, were not specifically and exhaustively considered within the scope of the MSCA.

Summary of the methodology

The development of the FICA reflects a combination of tools and methods used. Key informant interviews were held with 88 individuals from 60 entities. Secondary data was collected and analyzed, ranging from analysis of key available statistics under both objectives, to a review of the key published reports and analyses. A stylized and illustrative so-called value network map was developed to understand the flows and dynamics among key groups of actors in both access to finance and investment promotion. Finally, the main findings were presented to and validated with the main external stakeholders.

Value network mapping

The development of the FICA included compiling a visual mapping that displays the relationships and dependencies between key public and private sector actors and other important stakeholders. The FICA was developed, in part, based on the utilization of value network mapping. The VNM is a particularly useful tool in understanding dynamics within a particular system by looking at the key actors involved; their roles...
and functions within that system; and the flows or relationships among the key actors. The VNM approach departs from the one-way value chain analysis, and instead seeks to capture dynamic flows among actors. In turn, this approach yields analytical insights on how the dynamics among the actors gives rise to systemic-level constraints.

This methodology allowed the Activity to capture and analyze the main relationships among the key actors in both the finance and investment market systems. In building the value network map, the Activity made two decisions: 1) it wanted to develop a simple-to-understand map that primarily aims to illustrate the analytical approach the Activity used to identify the constraints; and 2) it integrated both finance and investment actors, and flows among them, into one single map. The VNM can be found in Section 3 of this report.

The first step in building the value network map for the FICA included the listing of all the main actors. Although the FICA assessment included a diverse set of actors who were interviewed and analyzed, for the purpose of building a simplified and stylized map, the actors were grouped into major categories, namely: capital suppliers, firms, government policymakers, regulators, business advisory service providers, business associations, accelerators and incubators, risk-sharing entities, and donors.

The second step in building the map included describing the primary roles of the actors in the system.

The third and final step in building the map was to describe the flows among the major actors in the market system of finance and investment. The Activity defined five types of flows to represent the key dynamics within the finance and investment market system:

- **Capital flows**, representing the investment and financing provided to firms.
- **Regulation flows**, representing the way both market systems are regulated.
- **Policy and legal flows**, representing the policies and laws in both market systems.
- **Guarantee flows**, representing risk-sharing facilities that lower the risk of capital suppliers and thus improve firms’ uptake of financing.
- **Services and information flows**, representing the roles that business chambers/associations and business service providers play.

The analysis of these flows among the noted groups of actors allowed the Activity team to identify and examine in greater detail the current dynamic among actors. This provided the analytical framework to subsequently conceptualize the main constraints. Finally, the Activity built a stylized map of a “future desired state” to show the types of changes needed in the market system for improving finance and investment flows in the future. This in turn can serve as an overall guide for building and strengthening the Activity’s interventions and for other partners to join forces.

**Survey tools**

The Activity designed two separate questionnaires for each of its objectives. The questionnaires were designed to ensure that rigorous and comprehensive information was collected during stakeholder consultations. Survey tools served as a general guide; more tailored questions were asked depending on the nature of the entity being interviewed and the prior knowledge the Activity team had about the interviewed actors. In short, the interviews were semi-structured and, in some cases, involved posing open-ended questions.

**Interviews**

The Activity team put together a dedicated team to interview a diverse set of stakeholders. A total of 60 entities were interviewed from April to June 2023. Interviewed entities included government actors, regulators, businesses, investors (including institutional investors), business chambers, donors, international financial institutions, financial risk-sharing entities, and others. The full list of interviewed actors can be found in Annex 3 below.
Secondary data collection

The Activity also collected available secondary data from various sources, including the Central Bank of Kosovo and Kosovo Agency of Statistics, and consulted international sources including the World Bank and Organization for Economic Cooperation and Development (OECD) – in addition to a host of published reports. Secondary data collection was undertaken with the purpose of providing contextual information under both objectives, and to establish the baseline of current performance in both areas.

Internal and external validation workshops

The report’s findings reflect the multi-pronged nature of the assessment, which is a combination of insights from stakeholders, available reports and data, team knowledge, and analytical information from the value network maps. Two internal team workshops were held in June 2023 to sift through the findings and begin structuring the identified constraints. During the workshop, the Activity also identified the main potential interventions needed to address the constraints.

Following the internal workshop, the Activity organized an external validation workshop with the main stakeholders on June 20, 2023. There, the Activity presented its main findings and received feedback from the main stakeholders, which has been reflected in the report.

Intervention selection

Clearly, the identified constraints provide a framework for intervention planning for the Activity. Tailored annual work plans will be developed by the Activity during its lifetime by using the FICA as a guiding framework. However, the Activity will exercise judgement in terms of the activities and interventions it selects to undertake, based on at least the following criteria:

- **Impact**: Potential finance and investment that will be catalyzed if the constraint is alleviated.
- **Cost-benefit analysis**: Impact of the activity relative to the cost of implementation.
- **Traction**: Likelihood that the constraint can be alleviated with Activity support.
- **Sustainability**: Interest and capability of local stakeholders to own, lead, and continue the intervention after the Activity ends.
- **Inclusion**: Impact on access to finance and investment for women, youth, minorities, and other disadvantaged groups.
Finance and investment market system

Kosovo's finance and investment ecosystem (current state)

Figure 1 below provides a stylized picture of the current status of Kosovo's finance and investment market system. The graphic provides a non-exhaustive summary of the key groups of actors (firms, capital suppliers, and enabling institutions), and highlights the interdependencies between actors by showing the primary movements and flows of capital, policies and laws, regulations, guarantees, and services and information.

![Figure 1: Current state of finance and investment ecosystem in Kosovo](image)

Firms and capital suppliers

Firms and capital suppliers are at the center of the finance and investment market system, representing the demand and supply for capital, respectively. Businesses in Kosovo (both domestic and foreign owned) require finance and investment in order to expand production capacity, develop new products, and serve international markets. However, firms have challenges in accessing financing, which is partly why only 34.2% of them use banks to finance investments, with 68.1% of investment needs financed internally, and only 10.7% of business investment financed by banks.³

The primary capital supplier in Kosovo is the commercial banking sector. Banks are the only source of financing for many businesses, and traditional bank loans are the dominant financial product.

---

² Source: Activity research and analysis.
There are 12 licensed banks in Kosovo, of which nine are foreign owned. In April 2023, the commercial banks’ total assets under management were €6.7 billion.

Kosovo has 31 microfinance institutions (MFIs) and non-bank financial institutions (NBFIs), of which 14 are foreign owned. The largest four MFIs have approximately 95% of the market share of the microfinance sector. MFIs are only permitted to loan up to €25,000. In April 2023, the total assets under management for MFIs and NBFIs were €432 million.

Banks and MFIs primarily provide capital to firms through traditional loans. Some banks and MFIs offer alternative financial instruments such as factoring and leasing but the utilization by firms of these products is very low.

Development finance institutions (DFIs) such as the European Bank for Reconstruction and Development (EBRD) provide direct financing to a small number of large firms. Commercial banks are very hesitant to provide unsecured financing for large projects. EBRD helps to address this need by financing a small number of projects each year. However, many Kosovo businesses, due to limited scale, require less financing than the minimum ticket size for most DFIs, thus limiting effective financing flows.

Foreign and domestic investors provide capital to firms but investment is limited by a number of factors, including but not limited to the absence of investment funds and inadequate investment incentives.

Enabling institutions

The provision of capital from capital suppliers to firms is enabled by a number of entities, which provide policies, laws, regulations, guarantees, services, and information.

Government institutions develop and implement laws, policies, and regulations to set and enforce the rules of the market system. Key government policymakers and regulators within the finance and

---

6 Ibid.
7 Ibid.
8 Ibid.
investment market system include the Ministry of Finance, Labor and Transfers (MFLT), the Ministry of Industry, Trade and Entrepreneurship (MIET), Ministry of Economy (ME), and the Central Bank of Kosovo. A host of challenges, to be elaborated later in the report, face the policymakers and regulators, giving rise to missing legal infrastructure, inadequate laws, poorly designed policies, lack of implementation, and limited feedback loops in updating policies and legislation based on impact assessments.

Kosovo Investment and Enterprise Support Agency (KIESA) is currently the primary government institution for attracting foreign investment to Kosovo. It is responsible for providing services and information, primarily (but not exclusively) to investors. However, KIESA is poorly rated across the board for its inability to serve its core mission.

The Kosovo Credit Guarantee Fund (KCGF) and a limited number of DFIs, such as EBRD, enable greater access to credit by providing guarantees and other types of risk sharing facilities to financial institutions. While the KCGF has expanded its guarantee ceilings for some windows from €250,000 to €500,000, and has recently introduced a new guarantee window on exports (in partnership with the USAID Compete Activity), systemic constraints to finance for many businesses persist.

International donors, including USAID, EU, SDC, and GIZ, work with local organizations to provide firms and capital providers with a broad array of support, services, and information that can enable greater access to finance and investment. However, lack of donor coordination remains a significant challenge.

Business associations representing financial institutions provide services and information to enable banks, MFIs, and NBFIs to operate more effectively and profitably. The two primary associations supporting Kosovo’s financial sector are Kosovo Banking Association (KBA) and Association of Microfinance Institutions of Kosovo (AMIK). As with other business associations, their capacities and effectiveness remain limited.

Finally, business advisory service providers (BASPs) provide services and information to firms seeking to raise capital, as well as investors looking for investment opportunities. However, BASP services remain underdeveloped, and up-take by businesses remains low, owing mostly to underappreciated services and dependency on donors on subsidizing them. Incubators and accelerators deliver services and information to startups who are seeking capital to enable growth and expansion. However, Kosovo only has a few incubators of varying capacities, while a strong and effective accelerator entity is yet to emerge.

Kosovo's finance and investment ecosystem (potential future state)

Figure 3, below, provides a stylized summary of the potential future finance and investment ecosystem that can be developed with the support of the Activity, as well as other partners and donors with a similar mandate. Some of the key aspirational developments are highlighted in green text in Figure 3 below and are also elaborated as follows:

- In the enabling environment, the new Investment Promotion and Export Agency (IPEA), under the Office of the Prime Minister (OPM), will increase investment attraction by improving the delivery of services and information to potential investors. The Activity will work with GOK partners to support institution building efforts at IPEA based on international best practices.
- The supply of capital will be enhanced through the development of domestic investment funds and expanded access to and utilization of diversified financial products. The Activity will aim to deploy technical assistance, grant funding, and other support to support the emergence investment funds (including enabling greater equity investment in firms by supporting local actors to develop investment funds that can invest directly in local firms) and work with financial institutions to develop more diversified financial products.
- The Activity will work with banks, NBFIs, DFIs, and firms to increase the availability and utilization of diversified financial products, including factoring, leasing, debt and equity securities, crowdfunding, and blended finance. Some of these products are present in the current finance
and investment ecosystem. The Activity will work with both capital suppliers and firms to increases access to and utilization of these products. In doing so, it will aim to collaborate with and build on existing initiatives, including those being supported by other USAID activities.

- There are currently 12 insurance companies and two pension funds\(^9\)\(^10\) in Kosovo. These institutional investors do not directly or indirectly provide capital to Kosovar firms. Their domestic investments are limited to government bonds and term deposit accounts. There is a need to work with local actors to deliver reforms that enable institutional investors to invest directly or indirectly in securities issued by local firms.

- Significant legal and regulatory gaps exist on a host of investment and access to finance issues. The Activity will work with GOK to enhance the legal framework for the successful operation of IPEA, including possible development of investment attraction incentives. At the same time, the Activity will address a host of legal and regulatory gaps related to the possible establishment of a capital market in Kosovo, including pursuing options to encourage the emergence of a corporate bond market.

![Figure 3: Potential future state of finance and investment ecosystem in Kosovo](source)

---


10 Kosovo Pension Savings Trust (KPST) and the Slovenian-Kosovo Pension Fund (SKPF) are the two pension funds and have assets under management of €2.4 billion and €9 million, respectively.

11 Source: Activity research and analysis.
Objective 1: Attract Investment Opportunities

Context

Economic growth and trade

Since the 2008 financial crisis (except in 2020 due to the COVID-19 pandemic), Kosovo has experienced consistent positive economic growth, with an annual growth rate of 3.5% in 2022. Growth has largely been driven by domestic consumption, financed through remittances and exports. Imports continue to exceed exports by a large measure, resulting in a persistent trade deficit (see Figure 4). In 2022, exports and imports were equal to €920 million and €5.6 billion, respectively, resulting in a staggering trade deficit of €4.7 billion. Kosovo also has the lowest share of exports to GDP (22% in 2020), compared to Western Balkans average of 35% for the same year.

Figure 4: Trade balance of Kosovo, in €, millions

As of December 2022, Kosovo’s main trade partners are the EU countries (accounting for 42% of imports and 26% of exports), and its Western Balkans neighbors, with whom Kosovo trades tariff-free under the terms of the Central European Free Trade Agreement (CEFTA). CEFTA countries are the source of approximately 18% of imports and the destination for 41% of exports.

The structure of Kosovo goods exports is also revealing. The share of manufactured goods to total goods exports stood at 84% in 2020, compared to the WB6 average of 90%. In the last five years, the leading exports were base metals and articles, plastics, and rubber. In 2022, however, various manufacturing items were the top exporting sector. The leading destinations for exports to the EU are Germany, Italy, and

14 Source: Kosovo Agency of Statistics (KAS).
15 Source: World Development Indicators.
16 Source: Central Bank of Kosovo, 2023.
17 Source: Kosovo Agency of Statistics.
Netherlands, while the leading CEFTA export destinations are North Macedonia and Albania (see **Error! Reference source not found.**).

### Table 1: Destinations of Kosovo exports, 2018-2022\(^9\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Goods Exports, in € Millions</th>
<th>Exports to European Union (% of Total Exports)</th>
<th>Exports to CEFTA (% of Total Exports)</th>
<th>Other Countries (% of Total Exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>367</td>
<td>- Germany (6.8%), - Holland (4%), - Slovenia (3.7%), - United Kingdom (2.7%)</td>
<td>- Albania (18.6%), - Macedonia (11.9%), - Serbia (9.1%) and - Montenegro (5.3%)</td>
<td>- India (9.9%) and - Switzerland (7.8%),</td>
</tr>
<tr>
<td>2019</td>
<td>383</td>
<td>- Germany (8.1%), - Italy (5.9%), - Netherlands (4.3%), - United Kingdom (2.9%)</td>
<td>- Albania (17.6%), - Northern Macedonia (11.5%), - Serbia (7.1%), - Montenegro (5.1%)</td>
<td>- India (8.6%) - Switzerland (7.4%)</td>
</tr>
<tr>
<td>2020</td>
<td>474</td>
<td>- Germany (9.3%), - Italy (6%), - Netherlands (4.6%)</td>
<td>- Albania (23.2%), - Northern Macedonia (9.3%), - Serbia (6.4%), - Montenegro (3.9%)</td>
<td>- Switzerland (8.2%) - USA (5.0%)</td>
</tr>
<tr>
<td>2021</td>
<td>755</td>
<td>- Germany (8.2%), - Italy (8%), - Netherlands (2.7%)</td>
<td>- Albania (14.7%), - Macedonia (11.5%), - Serbia (5.9%), - Montenegro (3.3%)</td>
<td>- USA (16.3%) - Switzerland (7.4%)</td>
</tr>
<tr>
<td>2022</td>
<td>920</td>
<td>- Germany (9.2%), - Italy (4.5%), - Netherlands (3.2%)</td>
<td>- North Macedonia (16.6%), - Albania (13.4%), - Serbia (5.4%), - Montenegro (4.7%)</td>
<td>- USA (15.7%) - Switzerland (8.2%)</td>
</tr>
</tbody>
</table>

It is worth noting that Kosovo does much better in the export of services. Service exports climbed from €1.5 billion in 2018 to nearly €2 billion in 2021, while importing €870 million in services in 2021 - resulting in a significantly positive trade balance.\(^20\)

### Trade agreements and foreign relations

Since Kosovo’s independence, the GOK has taken steps to improve its business enabling environment and enable increased trade and investment. Kosovo has signed only a few **bilateral free trade agreements** (BFTAs), including with Albania, Macedonia, Bosnia, and Croatia, which were then replaced by the Central European Free Trade Agreement (CEFTA) agreement signed in 2007. Kosovo also signed a BFTA with Turkey in 2019, including trade partnership agreement with the UK in 2021. Limited bilateral trade integration can adversely affect trade flows.

In 2015, it ratified the Stabilization and Association Agreement (SAA) with the European Union. The SAA enabled Kosovo to liberalize trade and strengthen regional cooperation by aligning its political and economic preferences with EU member states. Kosovo also agreed to a European Reform Agenda (ERA), which prioritizes attracting FDI and improving the business environment. Kosovo’s new National Development Strategy 2030, released in 2022, includes promoting FDI among its policy objectives. In 2018,

---

\(^9\) Source: Kosovo Agency of Statistics.

\(^20\) Kosovo Agency of Statistics.
Kosovo also passed the Law of Strategic Investments (LSI), which while prioritizing attracting investments that increase the competitiveness of priority sectors, has been implemented to a very limited extent. Kosovo is also a signatory to the 2020 Common Regional Market action plan, which aims to attract investment and trade to the Western Balkans. Finally, Kosovo is also part of the US Generalized System of Preferences (GSP), allowing duty free exports to the US.

**Foreign direct investment (FDI)**

Kosovo competes with its neighboring countries in Southeast Europe (SEE) to attract investment. Figure 5 compares FDI in Kosovo and its neighboring countries from 2018 through 2022. While the absolute value of FDI in Kosovo has increased over the past five years, it is significantly less than the FDI of some of its neighbors. From 2018 to 2022, Serbia, Croatia, and Albania accounted for 34%, 31%, and 10% of the region’s FDI respectively, while Kosovo accounted for just 6%. While as a share of GDP Kosovo’s FDI inflows are less starkly different compared to the region, than in absolute terms, the fact remains that countries like Serbia and Croatia are being able to effectively outcompete Kosovo and the rest of the region in terms of the total value of FDI attracted (see Figure 6).

A 2022 EBRD report estimated Kosovo’s FDI stock per capita to be $2,800 in 2020, compared to the average of the rest of WB6 at $5,650. According to the World Bank, higher FDI in Serbia and North Macedonia is associated with their improved technology structure and skill-intensity of their exports. In other words, limited FDI inflows in Kosovo may help explain why Kosovo’s export structure continues to remain confined to low value-added products.

---

The World Bank\textsuperscript{25} further notes that from 2003 to 2019, an average of just five investment projects per year were announced in Kosovo, compared to an average of 29 projects a year for other countries in the region. World Bank\textsuperscript{26} also estimates that the average size of an investment transaction in Kosovo is much lower than in regional countries.

Most of Kosovo’s FDI is primarily directed to low-productivity sectors, such as the purchase of real estate, driven by Kosovo’s diaspora (see Table 2). In 2022, FDI inflows in the real estate sector were €524 million, constituting a staggering two-thirds of total FDI of €778 million, across all sectors. The energy, construction, and IT sectors are growing and have the potential to attract significantly greater FDI, while FDI in the manufacturing sector is very low (less than 2% of total inflows in 2022)\textsuperscript{27}. Limited FDI in productive sectors has reduced technology transfers and limited the integration of these sectors in regional, continental, and global value chains.

Kosovo’s diaspora is a principal source of FDI. Germany, which hosts the largest Kosovo diaspora in the world, is the leading source of FDI, followed by Switzerland and Turkey (see Table 3).

\begin{table}[h]
\centering
\begin{tabular}{lcccccc}
\hline
\textbf{Sector} & \textbf{2018} & \textbf{2019} & \textbf{2020} & \textbf{2021} & \textbf{2022} \\
\hline
Agriculture, forestry, and fishing & 0.1 & 1.5 & 2.8 & 1.1 & 0.7 \\
Mining and quarrying & -2.7 & -6.9 & 29.1 & 1.4 & 52.4 \\
Manufacturing & -17.7 & 14.2 & -4.6 & -0.4 & 14.3 \\
Electricity, gas, steam, and air conditioning supply & 12.1 & 13.5 & 30 & -38.8 & 44.9 \\
Construction & 24.8 & -17.1 & 11.4 & 16.7 & 26.7 \\
Wholesale and retail trade; repair of motor vehicles and motorcycles & 19.6 & -6.7 & -8.1 & -4 & 15.1 \\
Information and communication & -9.6 & 2.3 & 1.6 & 17.3 & 14 \\
Financial and insurance activities & 15.5 & 13.9 & 85.1 & 24.6 & 53.9 \\
Real estate activities & 205.2 & 223.8 & 201.1 & 384 & 523.7 \\
\hline
\end{tabular}
\caption{Kosovo net FDI inflows by sector, in € millions\textsuperscript{28}}
\end{table}

\textsuperscript{24} Source: World Bank.
\textsuperscript{26} Ibid.
\textsuperscript{27} EBRD (2022). Kosovo country diagnostic: private investment challenges and opportunities.
\textsuperscript{28} Source: Central Bank of Kosovo, 2023.
### Sector Analysis

<table>
<thead>
<tr>
<th>Sector</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional, scientific, and technical activities</td>
<td>5.2</td>
<td>3.4</td>
<td>3.6</td>
<td>5.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>4.7</td>
<td>3.7</td>
<td>0.8</td>
<td>1.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Education</td>
<td>0.7</td>
<td>1.3</td>
<td>1.3</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Not specified</td>
<td>2.0</td>
<td>7.6</td>
<td>3.6</td>
<td>2.6</td>
<td>12.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>272.1</td>
<td>254.6</td>
<td>345.7</td>
<td>420.7</td>
<td>778.2</td>
</tr>
</tbody>
</table>

**Table 3: Kosovo net FDI inflows by country, millions of Euros**

<table>
<thead>
<tr>
<th>Country</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>11.2</td>
<td>11.9</td>
<td>27.6</td>
<td>22.9</td>
<td>44.7</td>
</tr>
<tr>
<td>Germany</td>
<td>60.3</td>
<td>70.2</td>
<td>67.5</td>
<td>121.9</td>
<td>194.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>71.1</td>
<td>61.9</td>
<td>64.1</td>
<td>99.2</td>
<td>155.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>12.2</td>
<td>-31.9</td>
<td>14.6</td>
<td>-38</td>
<td>39</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-39.7</td>
<td>1.9</td>
<td>0.1</td>
<td>7.6</td>
<td>43.7</td>
</tr>
<tr>
<td>Albania</td>
<td>22.3</td>
<td>15.2</td>
<td>39.8</td>
<td>50.4</td>
<td>79.8</td>
</tr>
<tr>
<td>United States</td>
<td>35.5</td>
<td>22.8</td>
<td>29.6</td>
<td>63.7</td>
<td>93</td>
</tr>
<tr>
<td>France</td>
<td>5.6</td>
<td>3.4</td>
<td>3.7</td>
<td>10.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Italy</td>
<td>2.7</td>
<td>7.9</td>
<td>3.5</td>
<td>8.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.1</td>
<td>19.1</td>
<td>26.1</td>
<td>3.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Other</td>
<td>29.1</td>
<td>39.6</td>
<td>22.3</td>
<td>40.7</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>272.1</td>
<td>254.6</td>
<td>345.7</td>
<td>420.7</td>
<td>778.2</td>
</tr>
</tbody>
</table>

According to the World Bank\(^{30}\), Kosovo cannot aim to attract *market-seeking FDI* given the small size of its domestic economy. Instead, Kosovo should focus on attracting *export-oriented FDI* by marketing its relative strengths, including a young population, high internet access, low labor costs, and low tax rates. Kosovo’s proximity to the EU, the growing demand for near-shoring, and the reconfiguration of global value chains, are all factors that Kosovo can leverage to attract FDI to increase exports of complex and high value-added products\(^{31}\). However, currently, Kosovo is not taking advantage of these opportunities.

Kosovo has the potential to attract significant *vertical FDI*\(^{32}\) to enable foreign firms to reduce the cost of production and access foreign markets. Historically, foreign direct investments in Kosovo have primarily been structured as *joint venture investments* between foreign investors and Kosovar businesses to set up operations in Kosovo. Cases of fully independent FDI by outside investors are rare. In order to overcome the challenge of its small domestic market, Kosovo should focus on attracting investment to develop products and services that can become integrated into value chains that serve export markets.

**Enabling environment for investment**

Kosovo has many features that create an attractive environment for investment. Registering a business is relatively easy and very fast. Setting up bank accounts is also quick. Obtaining typical construction permits is much faster than in many European countries. Construction of facilities is very fast and cheaper than in

---

\(^{29}\) Source: Central Bank of Kosovo, 2023.


\(^{31}\) Ibid.

\(^{32}\) In a vertical FDI, a business acquires a complementary business in another country. Source: Investopedia.
most European economies. Recruitment, especially of unskilled workers, is fast and allows firms to rapidly hire new staff.

In the past, Kosovo has implemented a number of measures designed to attract greater investment, including introducing tax incentives and low rates, establishing economic zones, and adopting the Law on Strategic Investments. Tax policy reforms implemented include:

- Flat corporate tax rate of 10%, which is among the lowest in the region\textsuperscript{33}.
- Capital gains tax rate of 10%.
- Tax and capital losses can be carried forward for up to six successive tax periods.
- Double tax agreements with 20 countries.
- 0% tax on dividends, which benefits all investors, including investors from countries that do not have a double taxation treaty (DTT) with Kosovo, thus avoiding the need to create synthetic corporate structures to optimize tax liabilities.
- 0% import tariff on select raw materials, a range of capital and intermediary goods, and pharmaceutical products.
- 0% customs duty on the import and export of certain capital goods, technology equipment, raw materials, agricultural production inputs, and services, production lines and machinery, equipment and materials used for electronic and media.
- Special deduction of 10% of the productive asset acquisition price allowed in the first year when the asset is put into use.

Despite these reforms, many of Kosovo’s neighbors offer more generous, overall incentives to attract investment. Kosovo has based its FDI incentives approach on some fiscal relief measures and a tax friendly regime, including legislation protecting investor rights, but its overall incentives are far less robust than those offered by neighboring countries. While financial incentives are not available in Kosovo (excluding subsidies and grants offered to commercial farmers by Ministry of Agriculture, Forestry and Rural Development), countries like Serbia and Croatia offer a rich package of financial incentives including subsidies, employment, and research and development (R&D) incentives.

In Serbia, besides the provision of a "one-stop-shop” solution to investors and exemptions from income tax, a package targeting investors who employ more than 100 workers and invest more than €8.5 million, includes a tax exemption from corporate income tax for a period of 10 years. For large investments, government grants can reach up to 20% of the investment amount. For greenfield and brownfield investments in export, production, or R&D activities, government grants can reach €2,000 – €10,000 per employee. Incentives include grants of €4,000 - €10,000 for each new job created, conditional on a minimum amount of investment\textsuperscript{34,35}.

Croatia\textsuperscript{36}, which is second in the region in FDI attraction, offers an extensive incentives package for investors, which include zero income tax for up to 10 years and double tax agreements with 55 countries. Croatia offers incentives for capital expenditures in the form of cash grants of 10%-20% of the cost of specific investments and 25%-100% for labor-intensive investment projects (100-500 employees and above). Furthermore, incentives for employees include: a) subsidies from €3,000 - €9,000, or 10-30% coverage of employment costs; b) grants for innovation and technology development centers from €1,500

\textsuperscript{33} Corporate income tax rates for neighboring countries – Montenegro: 9%, Serbia: 15%, Albania: 15%, Croatia: 18%.
\textsuperscript{36} Source: \url{https://investcroatia.gov.hr/en/incentive-measures-for-investment-projects/}.
- €4,500; c) grants for strategic activities of €750 - €2,250 per employee; and d) training incentives (compensation for 25% - 45% of the cost of specific training and for 60% to 80% for the cost of general training).

Larger-sized and more independent FDI in Kosovo (direct and full investment by foreign investors) is likely to come only after a change in government policies including improving land, subsidies, other incentives. At the moment, most foreign investment comes in the form of joint ventures (JVs) with Kosovar partners or acquisitions of existing players.

**Economic zones**

There are three types of economic zones in Kosovo: business parks, technology parks, and free economic zones. Economic zones have already been established in the following cities:

- Business Park in Drenas
- Business Park in Mitrovica
- Technology Park in Shtime
- Industrial Park in Mitrovica
- Agro-Industrial Zone in Suhareka
- Industrial Park in Lipjan
- Industrial Park in Suhareka
- Industrial Park in Viti
- Industrial Park in Vushtrri
- Economic zone in Opterushë-Rahovec
- Innovation and Training Park (ITP) in Prizren.

Kosovo has an opportunity to attract greater investment by increasing the effectiveness of its economic zones. The business parks in Drenas and Mitrovica, the technology park in Shtime, and the industrial zone in Suhareka, are the most fully utilized economic zones. Some zones offer specific but limited fiscal incentives to attract investors. For example, the Technology Park in Shtime allows businesses to operate 1-2 years without having to pay municipal taxes. Municipalities like Obliq provide allowances in energy costs to businesses that invest and operate their facilities in the municipality.

Economic zones are intended to provide investors and export-oriented businesses with low-cost land and robust infrastructure. However, during FICA stakeholder consultations, local and foreign investors noted that besides the provision of land, few other benefits or services are provided in these zones.

**Sectors with high potential to attract greater investment**

Kosovo has many attractive features for potential investors, including proximity to European markets, a trade agreement with the EU, a young labor force, relatively low labor costs, a high level of internet connectivity, few limits on capital flows, low corporate tax rates, macroeconomic stability and the use of Euro as domestic currency. According to stakeholders consulted for the FICA, the following sectors have the greatest potential to attract investment:

- ICT
- Business Process Outsourcing (BPO)
- Wood processing
- Metal processing
- Agriculture and food-processing
- Plastics
- Construction of modular prefab building and components for buildings (e.g., windows)
- Machinery (mechanical and electrical equipment)
• Renewable energy
• Mines and mineral processing
• Tourism

**Renewable energy**

Energy efficiency and renewable energy (RE) generation is a sector that has potential to attract significant investment and have a transformative impact on the Kosovar economy. Energy sector investments will reduce the cost of energy for firms and mitigate the risk of future electricity and gas price shocks. According to EBRD, renewable energy accounted for a mere 3% in electricity generation in 2022\(^{37}\). In 2021, Kosovo had a total renewable installed capacity of 137 MW in wind generation, 95 MW in renewable hydropower, and 10 MW in solar production. A 2017 USAID report\(^{38}\) found that Kosovo had the potential to supply nearly 600 MWs of solar energy production and nearly 500 MW in hydropower. Only recently, with the support of a USAID activity\(^{39}\), GOK started auctioning capacity for investing in solar energy capacity, paving the way for greater investments in the energy sector. However, currently investments remain limited in the RE sector.

**Manufacturing**

The manufacturing sector accounts for only a fifth of Kosovo’s GDP\(^{40}\). It is largely undiversified, focused primarily on low value-added production. The leading sub-sectors are food processing, wood processing, metals, and plastics. GOK recently developed its new Industrial Development Strategy, covering the period 2023 – 2030, emphasizing a set of actions with dedicated budget resources to elevate the competitiveness of the aforementioned sub-sectors. The noted industrial subsectors have seen indications in recent years of improving export competitiveness, in part due to private sector investment to expand capacity in response to external demand. Increased export competitiveness, especially in the furniture industry, has not only led to increased domestic investment to expand productive capacity, but also attracted foreign and diaspora investment, including in the export-oriented prefabricated building sector, which has potential for backward linkages (sourcing numerous parts from suppliers in Kosovo).

**Key constraints**

**Capacity of GOK to attract investment**

**KIESA**

KIESA is the government institution with primary responsibility for investment promotion and attraction. KIESA is widely perceived as **highly ineffective** and a major limitation on Kosovo’s capacity to attract investors. Its weak performance is in part caused by an inadequate budget. KIESA’s average annual budget during the period 2018 – 2021 stood at €5.1 million. It jumped to €10.5 million in 2022, considering a government decision to expand SME-related subsidies\(^{41}\). The World Association of Investment and Promotion Agencies (WAIPA) found that less than a third (27%) of IPAs worldwide had an annual budget of higher than $10 million, with over half of the world’s IPAs having an annual budget of less than $5 million\(^{42}\). A larger budget is positively associated with inflows of FDI\(^{43}\). When compared to the high-income

---

\(^{37}\) EBRD (2022), Kosovo country diagnostic: private investment challenges and opportunities.

\(^{38}\) USAID (2017), Kosovo – Climate Change Risk Profile.

\(^{39}\) USAID Energy Sustainability Activity.

\(^{40}\) EBRD (2022), Kosovo country diagnostic: private investment challenges and opportunities.


\(^{43}\) Ibid.
countries of the OECD, the average total IPA budget stood at $69 million, of which an average of $12.3 million was for investment promotion only\textsuperscript{44}.

KIESA low budget has implications for its staff resources. As an executive agency, KIESA is bound by public sector salaries and domestic procurement rules. It currently has only 22 employees, of which six are managerial positions and 16 are officers. The distribution of the main staff is as follows: the investment promotion unit is managed by the head of investment promotion unit and has only four officers. Similarly, both the export promotion unit and the economic zone development unit, each have a manager and four officers. Finally, the private sector development directorate is managed by a director and has three officers. The rest of the staff includes the KIESA director and support staff. Lack of private sector experience among staff is considered to be a serious impediment.

According to a latest survey by WAIPA and World Bank, investment promotion agencies have, on average, 161 employees, including 38 investment promotion staff\textsuperscript{45}. However, an average IPA has in total 87 employees and 26 professionals working on investment promotion only\textsuperscript{46}. From this perspective, it is evident that KIESA lacks the human resources to successfully carry out its broad and ambitious mandate, which comprises not just investment promotion, but also trade and tourism promotion, as well as SME and economic zone development.

KIESA has very few staff with the language and technical skills required to engage productively with potential investors. Reportedly, many KIESA officials cannot speak German or English, the two languages spoken by many of Kosovo’s potential foreign investors. Furthermore, KIESA officials do not have business or investment expertise or a sector-based understanding of Kosovo’s strongest industries and are subsequently unable to provide investors with the assistance or information that they require to decide to invest in Kosovo.

The Law on Public Officials appears to limit KIESA’s ability to recruit officials that speak English. The Law does not permit GOK institutions to select candidates based in part on their English language skills, as English is not an official language. However, the failure to recruit adequate staff at KIESA transcends issues of language requirements and is more structural.

For example, the low level of pay for public officials is a key deterrent from having high skilled people apply for roles at KIESA. As noted, KIESA is bound by the Law on Salaries of the Public Sector. Furthermore, there is a perception that staff are hired based on political affiliation, rather than merit. This perception is reinforced by the fact that the head of KIESA is typically a political appointee.

Finally, KIESA does not effectively manage its engagements and relationships with current and potential foreign investors. It does not utilize its existing customer relationship management (CRM) system or other tools to track and plan its interactions with investors. In addition, KIESA’s leadership does not have sufficient political clout to influence other government actors and ministries to address investor concerns regarding issues such as permits and workforce development.

**Crosscutting issues**

The Government of Kosovo lacks a holistic and coordinated investment promotion and attraction strategy. Although the newly GOK-approved Industrial Development Strategy 2030 lists a key set of priority economic sectors, there is as yet no clear strategy regarding which sectors need to be prioritized with respect to investment attraction or the types of investors that should be targeted. The World Bank\textsuperscript{47}

\textsuperscript{44} OECD (2018), Mapping of investment promotion agencies in OECD countries.


\textsuperscript{47} World Bank (2022), Kosovo Country Economic Memorandum.
argues that Kosovo lacks a clear FDI strategy to guide sector prioritization, identify niche investment opportunities that can generate exports, improve local sourcing, encourage technology transfer, and improve job creation. The absence of a clear FDI strategy curtails GOK’s ability to develop a coherent approach on how to, among others, use economic zones and industrial parks to attract and promote FDI (see the section on economic zones below). The absence of a clear FDI strategy also manifests itself through incoherent, and lack of proactive, investment-friendly incentives.

Weak coordination between institutions responsible for engaging with investors and attracting investment also deters investment. Kosovo Investment and Enterprise Support Agency (KIESA), an executive agency within the Ministry of Industry, Entrepreneurship, and Trade, the Ministry of Finance, Transfers and Labor, the Ministry of Environment and Spatial Planning (MESP), the Ministry of Foreign Affairs and Diaspora (MFAD), Kosovo’s embassies, and municipalities do not coordinate their policies or services aimed at attracting foreign capital, which creates unnecessary costs and frustration for investors. Prospective investors must meet with several institutions to obtain the many required permits and licenses to operate in Kosovo. FICA interviews evidenced the fact that KIESA fails to effectively help investors navigate these bureaucratic requirements, so investors have to seek the assistance of private sector entities such as business advisory service providers (BASPs) and law firms. Currently, there is no system in place that allows GOK agencies such as KIESA to provide a prequalified list of qualified BASPs who can assist foreign investors.

Weak institutional capacity and limited motivation inhibits GOK institutions from developing and implementing policies to effectively attract investment. One clear example of this is the low uptake of “strategic investor status” by interested investors, demonstrating GOK’s inability to implement the Law on Strategic Investment. In general, with the exception of a tax-friendly regime, Kosovo continues to lack an integrated package of fiscal and non-fiscal incentives, coupled with a proactive investor outreach, to make Kosovo an investor-friendly destination. Moreover, Ministry of Finance lacks the technical capacity to design cost-effective and impactful fiscal and non-fiscal policies to stimulate investment.

The legal framework underpinning investment in Kosovo is fraught with problematic provisions. The Law on Strategic Investments sets out criteria for strategic investments and outlines the administrative procedures for evaluation and selection of what qualifies as a strategic project. For example, the law envisages minimum investment thresholds and procedural requirements. For an investment to be considered “strategic,” the minimum investment threshold ranges from €10-30 million, depending on the sector/industry, a fact which is widely considered significantly high by potential investors. There is also a concern regarding significant administrative procedures and formalities applicable to interested strategic investors which aim to scrutinize investors and projects but end up raising barriers to market entry. This has, in turn, resulted in only two investors who are known to have received the strategic investor status—in part due to lack of capacity within GOK to adequately screen investment opportunities and conduct due diligence, as well as cases where investments initially deemed strategic were disqualified by subsequent governments, leading to uncertainty and disruptions. Disqualification of previously awarded strategic investments by successor governments raises issues of stability and consistency in the investment environment.

Moreover, as of the writing of the FICA, the new draft Law on Sustainable Investments envisages the creation of a new agency for promoting investments and exports at the Office of the Prime Minister. The draft law envisages the entity as an executive agency bound by respective laws on public sector salaries and local procurement rules. The current draft law will impair the ability of the new agency to recruit talented individuals at competitive rates and its operational agility will be undermined considering that it will not be able to contract out services with speed, as is needed in a dynamic investment landscape. There is a clear and pressing need to make the needed legal changes to the current draft law to enable the agency to be established as a new entity with the freedom to recruit top talent at competitive rates and capable of subcontracting services as needed.
The GOK is not effective at building relationships with foreign investors and addressing pressing investor concerns. The GOK has not helped businesses to solve logistics and transportation challenges. Businesses that import raw materials to Kosovo and then export their products have to rely on regional logistics and transportation companies, as Kosovo registered lorries have had difficulties obtaining international vehicle insurance since the country is not a member of the vehicle insurance green card system. Businesses also face challenges transporting goods through Serbia, due to political factors.

Potential foreign investors face difficulties in obtaining market information and data required to make investment decisions, as there is limited detailed and reliable information available. The lack of disaggregated market data and information on a number of important sectors deters investment in Kosovo. According to business advisory service providers consulted during the FICA, KIESA and other national institutions do not meet investors’ requests for statistics and information on specific sectors and the local labor market in general. Available sector information on KIESA website is limited and outdated. A decade ago, institutions in Kosovo dealing with statistics such as the Central Bank of Kosovo, the Agency of Statistics, and Kosovo Customs agreed standardized procedures for gathering and processing data. However, this initiative was only implemented partially and investors still face major challenges in obtaining essential data.

Regulatory burdens and licensing

Kosovo firms are saddled with the need to obtain many licenses and permits and according to EBRD, face “cumbersome administrative procedures, and frequent, uncoordinated and costly inspections”. The World Bank found that 32% of surveyed businesses in Kosovo cited business licensing and permits as a major constraint (compared to 10% of businesses in the Europe and Central Asia (ECA) average). The Law on Permit and License System has contributed to the consolidation of regulations around licensing and permits, but challenges remain in the process of obtaining permits and licenses. Each sector has its own regulations governing the types of licenses and permits and how they can be granted. There are an estimated 500 hundred licenses or permits currently issued by numerous GOK entities and there is limited coordination between the entities.

Following the new Law on Inspections adopted in 2021, Kosovo is also undergoing a general inspections reform aimed at reducing the number of duplicitous inspections. However, cutting red tape still remains an elusive target. According to EBRD, Kosovo businesses think public sector institutions act unfairly due to perceptions of “selective inspections, discretionary/unfair penalties by inspectors, potential conflicts of interest where government officials owning businesses, tax inspectors owning accounting firms, an overlap between local and central inspection authority supervision and a dearth of complaint mechanisms against enforcement authorities.”

Tax policy and tax administration

Kosovo has a very simple and low tax regime. It has a corporate tax rate of 10%, a progressive personal income tax rate of up to 10%, a capital gains tax of 10%, and applies a zero-tax rate on dividends.

Kosovo only has a limited number of double taxation treaties (DTTs) with other countries (20, as of June 2023). The absence of double tax agreements with some countries is a deterrent for some investors. An investor from a country without a double tax agreement with Kosovo (e.g., Romania) may be liable to pay taxes in Kosovo and the investor’s home country. The zero-tax rate on dividends alleviates the tax

51 Ibid.
concerns of some foreign investors. However, investors that have debt-based instruments or earn royalties can be liable for double taxation.

The Tax Administration of Kosovo (TAK) is responsible for negotiating double tax agreements on behalf of Ministry of Finance, but the administration has an **acute shortage of staff with the legal and technical expertise** required to negotiate new agreements.

TAK also lacks technical expertise in **transfer pricing** and therefore does not have the capacity to effectively monitor and enforce the compliance of multinational firms operating in Kosovo. Recently firms with foreign ownership have been subjected to unwarranted tax administration inspections on the application of transfer pricing rules. The risk of being subjected to a transfer pricing audit or inspection is a deterrent to foreign investors.

An inefficient **valued added tax (VAT)** refund system also discourages investment. TAK’s processing time for refund claims is often long, which creates working capital management challenges for Kosovar businesses. Requests for a VAT refund are usually accompanied by a Tax Administration inspection, which can lead to unwarranted fines and end up discouraging businesses from applying for VAT refunds that they are legally entitled to. However, in 2016 Kosovo implemented an online system to file and pay VAT and social security contributions, addressing a pressing complaint by local businesses.

High levels of **tax non-compliance** create a challenging competitive environment for investors that fully comply with their tax obligations. Many local firms elect to not comply with their legal tax obligations and TAK lacks the capacity to effectively enforce compliance. This adversely affects the competitiveness of compliant businesses and creates an atmosphere of distrust in the business environment. However, tax compliance has begun to improve in recent years due to low tax rates and improving enforcement by TAK.

The **absence of other tax incentives for foreign investments**, including tax breaks for investments in startups, discourages investments by venture capital investors. Many countries, including in the region, provide deductions and other tax incentives for investments in startups to encourage investment in the innovation ecosystem.

Finally, the World Bank Enterprise Survey in 2019 found that 38% of surveyed firms said **TAK was a major constraint**, compared to the ECA average of 15.8% for national tax administrations. It further found that 83% of firms either visited or were required to meet with tax officials, compared to the ECA average of 33%.

**Kosovo Business Registration Agency**

Kosovo Business Registration Agency (KBRA) is responsible for registering businesses and enabling businesses to formally change their corporate governance structure in line with the Law on Business Organizations. Many businesses and investors face challenges engaging effectively with KBRA due to the **limited capacity and expertise of its staff**. There is insufficient understanding by KBRA staff and its management on the wider legal context outside the Law on Business Organizations, which is the Law which regulates the KBRA activities.

KBRA officials have **little understanding** of corporate governance matters, customary corporate practices in other jurisdictions, or shareholder relations in different contexts. This lack of understanding often creates an obstacle for foreign investors, especially when they partner with Kosovo investors and want to utilize complex shareholder agreements. KBRA staff also have a very weak understanding of more

---

complex financial instruments such as *call options*\(^{53}\) and *put options*\(^{54}\). This requires businesses to find workarounds concerning disclosures to KBRA.

**KBRA provides very little online disclosure** on registered businesses. While the equivalent agencies in the region provide public information on registered businesses including the owners, founding documents, bylaws, decisions, and financial reports, the KBRA website only provides the names of companies, their unique business number, address, and ownership structure. There is no information on related parties, pledges on company's assets, formal decisions of corporate bodies, or financial statements and reports. In 2022, the KBRA briefly started publishing the financial statements of companies on its website, but this was abruptly stopped within weeks with no explanation. This lack of information presents a major obstacle for regulators, industry watchers, competitors, financial institutions including banks, and investors.

**Kosovo Competition Authority**

The Kosovo Competition Authority (KCA) is entrusted with enforcing the Law on Protection of Competition, and granting permissions for transactions, such as mergers and acquisitions. Any transaction leading to a concentration of market share must receive approval from the Authority before proceeding.

The Law on Protection of Competition, adopted in June 2022, represents a recent legislative development. This law is largely aligned with relevant legislation in the European Union (EU), but KCA faces challenges in effectively implementing the law. One notable challenge is the **KCA’s limited capacity, which leads to delays in approving businesses and investors’ proposed transactions**. The Authority lacks professional expertise, which hinders its ability to apply the provisions of the law effectively. The Authority’s limited capacity also has an adverse impact on business environment and consequently is a deterrent to both foreign and domestic investments in Kosovo.

**Kosovo embassies**

Kosovo’s embassies have the potential to play an important role in investment promotion and attraction. Embassy officials should develop relationships with foreign investors and strengthen their perception of Kosovo as an attractive investment destination. Unfortunately, many of Kosovo’s embassy officials do not have the necessary **skills, knowledge, or funding** to engage effectively with potential foreign investors. Limited to no training is provided to diplomats or embassy staff on commercial diplomacy or any specific investment promotion skills. The Diplomatic Academy, an internal entity within MFAD, does not provide training to diplomats on economic and commercial diplomacy. Further, no consolidated information material is provided to embassies on the Kosovo economy and the investment opportunities and advantages that Kosovo presents for investors. This is only done with the support of donor efforts, such as the USAID Compete Activity’s Export-Ready Companies catalogue. Until recently, Kosovo has only had two economic attachés in their embassies globally, which indicates the Ministry of Foreign Affairs’ lack of prioritization of investment promotion. Finally, there are no conscious efforts by the Ministry of Foreign Affairs to organize trips for Kosovo embassy personnel and ambassadors to visit Kosovo businesses to increase their understanding of businesses’ challenges and the investment they want to attract.

**Informality**

The enabling environment is also affected by the **persistence of high informality**. EBRD estimates the informal economy to make up as much as 40% of GDP. The World Bank\(^{55}\) found that a staggering 63% of firms identified practices of competitors in the informal sector as a major constraint, compared to an ECA

---

\(^{53}\) A “call option” is a contract that gives the option buyer the right to buy an underlying asset at a specified price within a specific time period. Source: Investopedia.

\(^{54}\) A “put option” is a contract that allow investors to sell a specific number of securities at a predetermined price within a specified timeframe. Source: Business Insider.

average of 20%. Anecdotal evidence supports this point. An investor from the EU, partnering with a local Kosovo firm to produce high-quality waste bags, for example, stated during a workshop organized by the Activity in June 2023, that unfair competition stemming from informal practices was a significant drag on his business located at the Drenas Business Park.

**Investment infrastructure and other incentives for investors**

The Law on Strategic Investments only allows high value investments to be considered as "strategic investment" and as such did not lead to major investments in, or by, businesses. Further, the complex documentation required, the lengthy assessment process, and a required final approval from an inter-ministerial committee was a deterrent to investors. Little due diligence was carried out by KIESA or other respective GOK entities on the applicants and the proposed projects, and several projects did not materialize despite the fact that they were approved by the inter-ministerial committee. In some instances, the government revoked the "strategic investor" status without giving a reason. The new draft Law on Sustainable Investments is intended to address these challenges.

**Industrial parks and economic zones**

There are 11 industrial parks in Kosovo ranging in size from four hectares to 162 hectares. Some of these parks are fully operational. A majority of the parks have only partially developed in terms of infrastructure and have only a few operational businesses. Other parks are at the inception phase and construction has not started yet. The Drenas Business Park is the only industrial park where parcels of land are fully allocated to businesses. Most of the existing parks house mixed business from various sectors and industries. A few are more specialized, such as the Prizren Innovation and Technology Park, which aims to attract technology and ICT businesses.

Kosovo’s economic zones were developed haphazardly without considering how to attract specific investors and businesses in particular sectors, including considerations related to how such zones might leverage existing value chains.

Many economic zones are multi-activity zones without a clear approach toward leveraging a particular competitive advantage. The lack of categorization of economic zones based on specific economic activities (i.e., specialization) limits their capacity to attract FDI and support economic growth. The German Economic Team\(^\text{56}\) noted that economic and industrial zones in Kosovo lacked a strategic focus, with too much emphasis placed on “the development of multi-activity industrial zones.” It also found that economic and industrial zones provided few benefits aside from basic infrastructure and low rents and noted there are no on-site management authorities. Its key recommendation was to shift away from multi-activity zones towards specialized industrial parks, technology and innovation parks, and use performance indicators to monitor and evaluate the parks’ effectiveness. Furthermore, the European Commission\(^\text{57}\) found that GOK financial support for the economic zones and industrial parks was being provided “without a clear plan or a transparent impact or gap analysis […] and] decision-making on the establishment of economic zones remained based on unclear criteria and lacked economic analysis.”

To enter an economic zone, businesses must enter a competitive process. Once selected, business entities conclude a lease agreement with the respective municipality to use the land for business purposes. The lease contract cannot be longer than 99 years. In certain economic zones, tenants are unable to mortgage the lease rights or the right of use. When unable to mortgage the lease rights, it acts as a constraint to attracting investors. Lease agreements entered with economic zones tenants and the Law on Obligational Relationships address the issue of land usage by the tenant; however, they do not properly address the full and free use of the land as needed for business development and access to finance.

\(^{56}\) German Economic Team (2022), Identifying reform options for economic zones in Kosovo.

TEXTBOX 1: CASE OF A EUROPEAN-KOSOVO JOINT VENTURE IN PLASTICS MANUFACTURING: PROBLEM WITH LIMITATIONS OF MORTGAGING LAND WITH THE RIGHT OF USE IN AN INDUSTRIAL PARK

Two companies in plastics manufacturing had agreed on a greenfield joint venture investment in a production facility in Kosovo. After considering the options, they applied for the right of use for a land parcel for 99 years in one of the larger economic zones in Kosovo. They were granted the land.

The partners were able to cover about 30% of the planned investments with an equity injection, however they needed to cover 70% of the project capital expenditure (Capex) with bank debt. The project itself was started with secured sales contracts for the entire production capacity of planned facility, with clients including some of the largest European municipalities and largest supermarket chains. In a normal setting, this would be a typical plain project finance deal, however not so in Kosovo. Banks required immovable collateral for providing debt, which was impossible for the Kosovo shareholder, as they had already committed all their assets to other projects and companies. For the European investor, the bank was not able to mortgage an available immovable property, citing the fact that this property is in another European country and the bank would not be able to mortgage and use as security.

The company tried to secure the right to mortgage the right of use (leasehold right) with the banks, however the authorities were not granting consent for this. As such, the two shareholders (a foreign investor and his Kosovo partner) were unable to secure the funding for the project for more than 18 months, with three banks refusing to provide funding due to the lack of security. Finally, the Kosovo partner found a bypass, whereby the company secured a piece of land from a friend, who agreed to mortgage his land against a corporate guarantee from the European partner and against an interest payment on the value of the land. This land was large enough and valuable and the fourth bank then approved the funding. Since then, the company has tripled its production capacities in Kosovo and is operating successfully.

An additional problem that the company faces today relates to the inability to expand its production facilities. The economic zone where they are based should provide for the possibility of expansion by providing additional land, but it is now not available as the lots have already been provided to other bidders. The selection process of benefiting companies in economic zones is considered haphazard, as there is no clear strategy from the conceptual design of the zone to its governance and selection of beneficiaries.
Infrastructure

Public investment in fixed assets in Kosovo, which includes investment in infrastructure as well as private investment in productive assets such as machinery, is significant. Gross Fixed Capital Formation was 30% of GDP in 2020, compared to 21% in Serbia and North Macedonia.58

Notwithstanding recent improvements in physical infrastructure such as road, rail, and air transport, Kosovo’s infrastructure remains significantly weak relative to European Union standards. With nearshoring and so-called friend-shoring opportunities emerging from the disruption of global supply chains (largely due to the COVID-19 pandemic and geopolitics), Kosovo has an opportunity to attract significantly greater investment if it can strengthen its transport infrastructure.

According to EBRD59, Kosovo had 20 fewer kilometers of highways per 1,000 square kilometers compared to the EU average—the largest gap among Western Balkans countries. Along with the need to further develop its cross-border road transport network, Kosovo’s railway sector also requires significant investment. An IMF report60 found Kosovo’s railway density gap to be the second highest in the Western Balkans. Finally, the World Bank found that 37% of businesses found transportation to be a major constraint, compared to the ECA average of 12.6%.61

Skilled labor

A World Bank analysis62 of total annual labor costs for varying skill levels, by type of activity, found that Kosovo has a marked labor cost advantage compared to all Western Balkans countries. For highly skilled production maintenance operators, Kosovo had an annual labor cost of €4,300, compared to €5,800 in Albania, €6,200 in Serbia, and €8,100 in Montenegro. Similarly, for skilled production assemblers and operators, total annual labor costs of €3,700 in Kosovo were competitive compared to €4,600 in Bosnia, €5,000 in Albania, €5,300 in Serbia, and €7,000 in Montenegro. In addition to the relative labor cost advantage, Kosovo benefits from a young population with strong foreign language skills, which is highly attractive to the investors in the business process outsourcing sector.

These labor market strengths are offset by the reality that businesses and investors find it hard to source employees with requisite technical skills and experience. 44.2% of firms surveyed by the World Bank63 stated an inadequately educated workforce as a major constraint. For manufacturing firms, the proportion of skilled workers among total production workers was 67% compared to the ECA average of 78.5%. Only 20% of Kosovo firms reported offering formal training to their employees. Skilled labor shortages have been exacerbated by significant emigration in recent years. Based on the 2011 population census, at least a third of Kosovo’s population has migrated.64

58 Source: World Development Indicators.
64 EBRD (2022). Kosovo country diagnostic: private investment challenges and opportunities.
Innovation

An EU-commissioned report\(^{65}\) found that **Kosovo spent just 0.1% of GDP on research and development (R&D)** in 2016. As a comparison, R&D spending in Slovenia for the same year was 2%. World Bank\(^{66}\) found that 27% of firms had recently introduced a new product or service, compared to the ECA average of 37%. At the same time, only 9.7% of firms reported introducing a process innovation (ECA average was 21.5%), while a mere 7.3% of local firms reported spending on R&D (ECA average was 20%). Kosovo has no policies to incentivize private sector investment in R&D, which inhibits joint venture investment opportunities between local firms and foreign investors.

**Investor disputes and contract enforcement**

The high **cost and time required to resolve contractual disputes** through the court system in Kosovo discourages potential investors. A World Bank survey\(^{67}\) found that nearly 43% of firms identified the courts system as a major constraint, compared to the ECA average of 11.5%. Foreign investors are afforded special rights and often experience a quicker resolution of cases. For instance, under the Law on Foreign Investments, an investor dispute case must be heard within 30 days, however this does not happen in practice. This is due to a large backlog of cases, coupled with limited capacity of judges and the court system to adjudicate on commercial and corporate disputes.

Kosovo currently has two **arbitration** centers: the American Chamber of Commerce Arbitration Center\(^{68}\) and the Kosovo Chamber of Commerce Arbitration Tribunal\(^{69}\). However, few firms utilize arbitration as a means to resolve disputes. Awareness of the availability and benefits of arbitration is low,

---

\(^{65}\) European Union Kosovo (2018). The situation of research in Kosovo.

\(^{66}\) World Bank Enterprise Survey (2019).

\(^{67}\) Ibid.

\(^{68}\) It hears on average only 1-2 cases per year.

\(^{69}\) It hears on average up to 10 cases per year.
the waiting time for a center to arbitrate a case is long, and the centers lack effective case management systems.

Foreign investors typically opt for arbitration as their preferred dispute resolution mechanism. However, they often prefer arbitration centers located outside of Kosovo, resulting in additional costs for their local counterparts. Foreign investors’ preference for external arbitration centers underscores the need to improve the effectiveness of the local arbitration system.

The Law on Arbitration which governs the rules and procedures of arbitration procedures has shortcomings. The issue is the overlap of powers to appoint arbitrators between the Arbitral Tribunal70 and regular courts. This often leads to delays in the resolution process. Another significant issue that hampers the efficient resolution of disputes is uncertainty surrounding the recognition and enforcement of domestic and foreign arbitration decisions.

Seeking resolution through the courts is also very difficult. Kosovo’s recently established Commercial Court has a backlog of around 10,000 unresolved cases, and businesses have to wait for years for a new dispute to be adjudicated. The backlog is due in part to insufficient funding; the court does not have enough judges and supporting officials to process cases in a timely fashion. The Commercial Court includes a division for disputes involving foreign investors. The judges responsible for adjudicating these disputes lack technical expertise in commercial and investment issues.

Foreign investors can seek legal remedies in courts outside Kosovo. Decisions made by foreign courts are enforceable in Kosovo. For disputes between investors and the Government, Kosovo is a member of international treaties and is bound to respect and enforce decisions made by international arbitration tribunals for investment disputes in Paris and Washington DC.

Collecting debts is also a major challenge for investors. Delays are caused when a debtor objects to orders issued by the private enforcement agents. The objection is referred to the courts and it can take several years to reach a final decision.

**Sovereign credit rating**

Unlike many of its neighboring countries in Eastern Europe, Kosovo does not have a sovereign credit rating. A sovereign credit rating is an independent assessment of the creditworthiness of a country or sovereign entity. Sovereign credit ratings provide important information to investors on the level of risk associated with investing in government bonds and the country’s investment climate. The lack of a sovereign credit rating for Kosovo is a deterrent to some potential foreign investors as it increases the perceived risk of investing in Kosovo. It also increases the cost of international capital for financial institutions in Kosovo (especially microfinance institutions), as international financiers (DFIs) charge a higher risk premium to reflect the absence of a sovereign credit rating.

**Bankruptcy and debt resolution**

Kosovo’s bankruptcy processes are inefficient and underutilized by local firms. Many firms do not have a strong understanding of bankruptcy and therefore do not think of bankruptcy as a business restructuring strategy option when they are facing insolvency. The Bankruptcy Law enacted in 2016 is a comprehensive law that enables businesses to reorganize their activities through courts. However, few firms in Kosovo have utilized this law to claim bankruptcy.

Kosovo’s court system has a shortage of skilled and experienced experts to serve as administrators of firms that enter bankruptcy protection. IFC is providing technical assistance to increase the capacity of insolvency judges, practitioners, and law enforcement bodies.

---

70 An arbitral tribunal is a panel of independent arbitrators appointed to resolve disputes between parties through arbitration.
IFC has also helped GOK to draft a new law on bankruptcy, expected to be approved in 2023. The draft law proposes several changes in the bankruptcy proceedings. While the current law requires at least two creditors to initiate bankruptcy proceedings against the debtor, the new law requires only one creditor. The seniority of creditors has changed by removing tax debts from the top of the list. The new draft law also proposes the establishment of a Chamber of Bankruptcy Administrators.

**Investors’ perceptions of Kosovo**

Many foreign investors perceive Kosovo as a volatile and high-risk country and as a result are reluctant to invest in the Kosovo market. Investors often prefer to invest in the neighboring countries in order to utilize the various incentives provided by these countries to foreign investors (as evidenced earlier in the Context section of the report). The perception of Kosovo as a high-risk investment environment is also partially driven by tensions between Kosovo and Serbia and the dearth of information about successful recent investments in Kosovo. Foreign audiences seem to have negative connotations of Kosovo as a post-war environment with an unresolved political status. However, several foreign investors who successfully located their operations in Kosovo reported during the FICA that they were positively surprised when they had a chance to visit Kosovo. This goes to show that there is a lack of a concerted public outreach strategy by GOK and other partners to try to influence perceptions about Kosovo, including through promoting success stories. The lack of an integrated economic and commercial diplomacy infrastructure adds to the problem.

**Notarial system**

Kosovo’s notarial system is based on the Swiss notary system and has played a key role in reducing the caseload of the courts. All administrative and proxy appointments related to the sale and purchase of real estate agreements were transferred to the notarial system, with independent notaries acting on behalf of the courts to create executive titles. Qualified notaries are appointed by the Ministry of Justice and are designated to serve specific municipalities. Despite its success, the notarial system can still be improved. Many small municipalities have only one notary, which slows down the notarization of agreements, especially real estate agreements. Many industrial or business designated zones are located in smaller municipalities, so the shortage of notaries directly impacts local investors. Notaries often do not have sufficient expertise on business, commercial, or governance issues to effectively deal with complex agreements involving sophisticated investors. A notary can also overstep its mandate or refuse to notarize an agreement. If this happens, the concerned parties have very limited ability to appeal. A party may lodge a complaint with the Chamber of Notaries, but this requires the notary to issue a written refusal to notarize an agreement, which the notary may decline to do. In addition, there is no centralized database of notarized agreements, including real estate agreements, which creates loopholes that can be exploited by malicious parties.

**Activities to address the key constraints**

**Prioritization**

The proposed activities listed below are a result of the identified constraints related to investment attraction. The list of proposed activities below is both significant and ambitious. The Activity will aim to design and implement key activities based on the following prioritization criteria:

- **Impact**: Potential finance and investment that will be catalyzed if the constraint is alleviated.
- **Cost-benefit analysis**: Impact of the activity relative to the cost of implementation
- **Traction**: Likelihood that the constraint can be alleviated with Activity support.
- **Sustainability**: Interest and capability of local stakeholders to own, lead, and continue the intervention after the Activity ends.
• **Inclusion**: Impact on access to finance and investment for women, youth, minorities, and other disadvantaged groups.

While the FICA serves as an important roadmap for the design of the Activity’s interventions, it also aims to serve as a call to action for other donors and partners to join forces. This is especially important as the constraints identified are broad in scope and complex in depth. *As asterisk is added to proposed activities considered a priority for the Activity.*

**Political economy considerations**

Many of activities proposed to attract investment will affect the power structures and influence of key actors in the private, financial, and public sectors. These activities are not purely technical in nature and will require the active support of senior officials in government institutions. The Activity will work with local actors to design and advocate for policy, legal, and regulatory reforms but cannot control whether government institutions and policymakers decide to ultimately implement proposed reforms.

**Capacity of GOK to attract investment**

**Investment Promotion and Export Agency**

**Support Office of Prime Minister to develop and implement the proposed new Investment Promotion and Export Agency (IPEA)***. A preliminary list of actions where the Activity can provide technical assistance may include:

- Advise OPM on **international best practices** for structuring and operating the IPEA.
- Support the development of the **requisite legal and regulatory infrastructure** for the IPEA.
- Support the development of **personnel hiring policies and processes** that enable the IPEA to recruit and retain staff with business and investment expertise, as well as foreign language skills. The Activity can also help to develop a pre-qualified and vetted listings of professional business advisory services to augment the capacity of the IPEA staff.
- Support the new IPEA to develop **investment attraction strategies for select priority sectors**. Each sectoral strategy should identify target types of investors, the target investors’ investment objectives and concerns, and potential fiscal and non-fiscal incentives to attract the investors to Kosovo.
- Build the capacity of the IPEA to **provide information, data, and statistics** that foreign investors need to evaluate investment opportunities in Kosovo.
- Support the IPEA to become a **one stop shop service** for investors. Under this service, select foreign investors would only have to deal with the IPEA to obtain all the licenses and permits required to operate in Kosovo.

**Kosovo Business Registration Agency**

**Increase capacity of KBRA to effectively serve investors.** There is a need to further build the institutional capacity of KBRA to help investors register new businesses and change the corporate structure of an existing business. Training can be provided to KBRA staff on the Law on Business Organizations and corporate structures utilized in other countries, corporate governance arrangements, shareholder relations, and complex financial instruments. There is also a need for KBRA to enhance its online business registration portal to show more information, including businesses’ annual financial statements and corporate decisions. Additional support can be provided to develop practical guides for KBRA civil servants on how they should exercise their legal authorities and responsibilities.

**Kosovo embassies**

**Support Ministry of Industry, Entrepreneurship, and Trade and Ministry of Foreign Affairs and Diaspora (MFAD) to work with the IPEA to strengthen the institutional capacity of embassies to attract investment***. Initiatives should be developed to help officials understand the
objectives and constraints facing potential investors, learn how to effectively promote Kosovo as an investment destination, and build relationships with foreign investors. The Activity can support MIET and MFAD to better coordinate with Ministry of Finance and TAK to increase embassy officials’ understanding of tax legislation, policies, and incentives, as well as Kosovo’s double tax treaties. The Activity can also support IPEA to develop relevant investment promotion materials that can be shared with Kosovo embassies. Finally, the Activity can also help IPEA and diplomats conduct familiarization trips to Kosovo businesses to see firsthand Kosovo’s business and investment potential. This particular activity will be coordinated closely with USAID Compete Activity.

**Policy, legal and regulatory environment**

**Economic zones**

**Assess the viability of introducing incentives to attract investors.** Kosovo has ten economic zones which aim to offer reliable and cost-effective infrastructure to investors. By attracting export-oriented investments, economic zones can support the integration of Kosovar firms into international value chains and markets. The Activity can seek to support GOK to design incentives to attract investors, which by extension, at GOK’s discretion can be applied to economic zones. The Activity can also work at the municipal level with a particular municipality to support its development of a menu of incentives for potential diaspora and foreign investors.

**Investment attraction for foreign and diaspora investors**

**Support the development of an investment fund and a pipeline of investible projects.** The Activity can play an important role in supporting an initiative that leads to the eventual establishment of an investment fund and related investment management structures, consequently creating a potential legacy institution. The investment fund would enable the attraction of a wide investor base, which through the setup of the investment fund management entity would operate independently and in a financially sustainable way, ensuring investments are channeled to a continuously developing investment pipeline of Kosovo companies which would be properly screened and identified as bankable and investible, ensuring a credible rate of return to the investors. The Activity can utilize its funding to help set up the potential investment fund and fund management structures and support these with the development of a pipeline of local companies that are assessed to have the capacity to attract investment.

**Support B2B investment linkages involving foreign, diaspora, and domestic businesses.** The Activity can engage diaspora businesses and their foreign partners to scope investment opportunities in Kosovo. It can facilitate the organization of investment forums abroad and in Kosovo, by supporting IPEA and other organizations to present priority investment opportunities. The Activity can also facilitate the visit of diaspora and foreign investors in Kosovo to scope for investment opportunities. This activity would be closely coordinated with USAID Compete Activity.

**Tax policy and tax administration**

**Assess viability of tax incentives for startup companies.** The Ministry of Finance can be supported to design preferential tax policies for investments in startup companies. There are many incentives used in Europe that can be adopted in Kosovo, including deductions on corporate income for corporations’ investments in start-ups.

**Support Tax Administration of Kosovo to reduce processing time for VAT and corporate tax refunds.** There is a need to provide technical assistance to simplify and digitalize the VAT and corporate tax refund process. However, the Activity will seek to identify a donor or partner that is able to provide support in addressing this constraint.
Property ownership

Support Ministry of Justice to implement reforms to facilitate foreign investors to own property. There is a need to assist Ministry of Justice to draft secondary legislation under the Law for Property Rights of Foreigners and make reciprocity determinations that clarify the circumstances under which foreign investors can own property. The Activity will determine if other donors or partners are better positioned to support this proposed activity and will decide its approach accordingly.

Investor disputes and contract enforcement

In coordination with the USAID Commercial Justice Activity, increase the capacity of the judiciary to resolve disputes involving foreign investors and contract enforcement cases in a timely manner*. The Activity can work with the USAID Commercial Justice Activity to increase the capacity of judges and support officials in the recently established Commercial Court’s Division for Foreign Investments, which is responsible for adjudicating cases involving foreign investors.

Increase the capacity of Kosovo’s arbitration centers to determine disputes faster. There is a need to provide trainings to arbitrators working at the American Chamber of Commerce Arbitration Center and the Kosovo Chamber of Commerce Arbitration Tribunal. Further support could also be provided to officials and enforcement agents to be able to enforce these decisions. The extent of the Activity’s involvement will require further discussions with key stakeholders.

Sovereign credit rating

Assist GOK to obtain a sovereign credit rating*. The Activity can provide technical assistance to the Ministry of Finance and Central Bank of Kosovo to obtain a sovereign credit rating from one of the three leading international credit rating agencies (Moody's, Standard & Poor’s, and Fitch).

Investors’ perception of Kosovo

Support local organizations to develop and disseminate investment success stories*. The German-Kosovar Business Association and other business chambers and associations have successfully supported many foreign investors to invest in Kosovo. The Activity can support local organizations (including business advisory service providers who have successfully supported the conclusion of foreign investment deals in Kosovo) to increase potential investors’ awareness of these success stories. Technical assistance and grants can be utilized to support organizations to develop and disseminate communications materials that describe foreign investors’ successful investment experiences in Kosovo.

Notarial system

There is a need to support the Ministry of Justice and the Chamber of Notaries to draft legal reforms to enable parties to select a notary, including in instances when there is only one authorized notary for a particular municipality. There is also a need to support the development of a system to enable parties to lodge a complaint when they are dissatisfied with a notary’s service, or a notary has refused to notarize an agreement. This could involve the establishment of a review mechanism in which a panel of senior notaries deals with agreements that have been challenged by a party or have been declined by a particular notary. In addition, there is a need to support the creation of a centralized database system that would house notarized agreements and include details such as property identifiers and the parties to the agreement. The Activity will evaluate which actors in the donor space are best placed to support the needed reforms.
Objective 2: Diversified Finance

Context

While Kosovo’s business environment has improved in recent years, access to finance remains a challenge for many firms. Barriers to financing limit firms’ capacity to innovate, grow, and access new markets. Kosovo’s banking system has become larger and maintained its soundness over the last 20 years, but many business owners find it difficult to access finance from banks and other sources. Only a third of Kosovo businesses reported using banks to finance their own investments, while only 10.7% of investment was reported by businesses to be financed by banks. Sixty-eight percent (68%) of private investment by businesses is internally financed by own company savings.

Banks have conservative lending policies and many firms lack transparent, audited financial statements. Diversified financial instruments by banks and non-bank financial institutions are either lacking altogether or not widely utilized for many reasons, including gaps in bank staff technical capacity, a lack of incentives for bank management to develop diversified financial products, and an underdeveloped legal and regulatory framework for the financial sector.

Financial sector inclusion and depth

Only 58% of the adult population in Kosovo has a bank account (see Figure 7), one of the lowest rates of financial inclusion in the region. The depth of the financial sector, measured by the level of domestic credit to the private sector, as a percentage of GDP, is moderate by regional standards (see Figure 8). On average, OECD countries’ credit to private sector, as a share of GDP, is three times greater than that of Kosovo.

![Figure 7: Account ownership, comparison with region, %](image_url)

---

71 According to the World Bank Enterprise Survey of 2019, 47% of surveyed Kosovo enterprises reported access to finance as a major constraint.
73 Ibid.
74 Ibid.
75 Source: OECD - Competitiveness in South-Eastern Europe 2021.
Banks

Total assets in Kosovo’s financial system reached €9.95 billion (111% of GDP) in March 2023, an annual increase of 10.7%. Banks hold 68.4% of total financial sector assets, followed by pension funds, microfinance institutions and insurance companies, which hold 24.5%, 4.1% and 3% of total assets, respectively.

Foreign banks own 84.9% of total banking sector assets. Market concentration in the banking sector is high but has decreased slightly in the last year. As of March 2023, the market share of the three largest banks stood at 52% compared to an average concentration ratio of 54% over the last two years.

The banking sector mainly provides loans to large enterprises. For most borrowers, banks are only willing to provide plain senior debt, with almost no flexibility to adjust to the financing needs of specific companies. Key informant interviews confirmed that banks are very reluctant to provide project financing or unsecured debt.

Financial health of banks

The banking sector in Kosovo exhibits strong stability and is highly profitable, as evidenced by its high return on assets and return on equity (Figure 9).

---

76 Source: OECD, Competitiveness in South-Eastern Europe, 2021.
77 Excluding Central Bank of Kosovo.
78 Senior debt is borrowed money that a company must repay first if it goes out of business. Source: Investopedia.
79 Project financing is a loan structure that relies primarily on the project’s cash flow for repayment, with the project’s assets, rights, and interests held as secondary collateral. Source: Investopedia.
80 Unsecured debt refers to loans that are not backed by collateral. Source: Investopedia.
Non-performing loans (NPLs) as a percentage of total loans decreased to 2% in 2022, the lowest level in the last ten years (Figure 10). NPLs remain well covered by loan-loss provisions with a ratio of 149.7% — a slight increase over an average of 145.9% over the last two years.

The banking sector is well-capitalized with a capital adequacy ratio (CAR) of 14.8% at the end of 2022 (Figure 11), which is well above the minimum regulatory requirement of 12%.

---

81 Source: Staff calculations using CBK data.
82 Source: CBK time series.
The liquidity of the banking sector has decreased slightly over the last couple of years. Liquid assets to short-term liabilities stood at 34% in 2022, compared to an average of 39% in 2021 and 2020 (Figure 11). The loan to deposit ratio increased slightly from 76.5% in 2021 to 78.3% in 2022, due to loans growing faster than deposits (see Figure 11).

Figure 11: Financial soundness indicators of banks (2)

Lending activity and growth

Bank lending grew at a double-digit growth rate in every year for the last seven years, except for 2020, which was impacted by COVID-19 (Figure 12). As of March 2023, total bank loans reached €4.5 billion, 17% higher than in March 2022. Loans to businesses, which account for 61.8% of total gross loans, reached €2.8 billion in March 2023, 15.7% higher than in March 2022. Loans to households grew 16.7%, reaching €1.7 billion in March 2023. Loan growth has been facilitated by relatively low interest rates, increases in deposits, improving contract enforcement, and increased guarantees extended by the Kosovo Credit Guarantee Fund for loans to micro, small and medium-size enterprises.

---

83 Source: CBK time series.
Credit provided by MFIs has also grown strongly in recent years. MFIs’ total loans and leases reached €378 million in March 2023, 20% higher than in March 2022.

The wholesale and retail trade sector account for almost half of all bank loans, although the sector’s share has declined from above 50% in 2017 to just over 44% in 2020 (Figure 13). Sectors that have seen an increase in their share of bank loans include production (an increase from 12% to 13.5% from 2017 to 2020); construction (from 8.3% in 2017 to 11.1% in 2020); and other services (from 12.5% in 2017 to 16.6% in 2020).

Source: CBK time series.

---

84 Source: CBK time series.
85 Source: CBK time series.
Deposits
Deposits have grown strongly in recent years, reaching €5.55 billion in March 2023, an annual increase of 17.1%. Household deposits, which represent the largest category of deposits (65.7% of total deposits), grew by 11.8%, to reach €3.74 billion in March 2023. The average growth rate over the past two years was 13.4%. While the slower growth of household deposits in 2023 was influenced by slower growth in remittances and travel-related service exports, business deposits grew considerably due to higher business activity and KPST increasing its asset allocation to bank deposits. Business deposits grew by 22.3% from March 2022 to March 2023, an increase over the 18.9% average annual growth rate from 2020 to 2022.

Interest rates
The average interest rate on loans to businesses stood at 6.5% in March 2023, an increase over the rate of 5.7% in March 2022. The average interest rate on deposits for businesses was 1.9 in March 2023 a slight decrease from 1.95% in March 2022.

Other financial sector stakeholders
Pension funds
Kosovo has two pension funds: the public Kosovo Pensions and Savings Trust and the private Slovenian-Kosovar Pensions Fund, which makes placements outside Kosovo. KPST manages €2.4 billion in retirement savings, with most invested abroad through open-ended vehicles (mutual funds). KPST’s domestic investments are confined to government bonds (over €500 million as of end of 2022) and interest-bearing term deposit accounts in commercial banks (including nearly €40 million at BKT; €35 million at Procredit Bank; and €27 million at NLB, as of the end of 2022) (see Figure 14).

Figure 14: KPST investment portfolio

**KCGF and deposit insurance**

Two public institutions provide essential products and services to enable the financial sector to function effectively. The Kosovo Credit Guarantee Fund provides credit guarantees to banks and MFIs to enable greater lending to MSMEs. KCGF operates a number of guarantee windows, ranging from the standard window that provides guarantees to all sectors, to the recently-established export window targeting export-oriented companies, to the energy-related GROW window, which seeks to de-risk lending for energy efficiency projects. For most windows, KCGF offers guarantees of up to 50% of the loan principal, although the guarantee share is higher for the most recent windows targeting women in business and startups. As of March 2023, KCGF had guaranteed 12,651 loans in the amount of €285 million approved guarantees for 9,154 MSMEs, with an approximate of €652 million turnover and 21,350 new jobs created.

The Deposit Insurance Fund of Kosovo (DIFK) provides a deposit insurance scheme for deposits held at Kosovo banks. The deposit insurance system provides limited insurance coverage as a best practice. Typical deposit products of the banks that are insured by DIFK are demand deposits (current accounts), savings deposits, and time deposits. Currently, depositors are insured, per member bank, up to €5,000. Eleven banks are members of the DIFK. DIFK has a narrow mandate to insure deposits of natural and legal persons in each member institution and will compensate insured deposits within thirty (30) days in case of a bank failure, as per insurance limits and criteria defined in the Laws on Deposit Insurance. Total insured deposits at the end of 2021 reached €1.06 billion. The ratio of insured deposits to total deposits of member banks was 21.9%. The number of insured depositors who benefited from the deposit insurance scheme, as a percentage of the total number of member bank depositors, was 99.2% at the end of 2021.

**Development finance institutions**

Development finance institutions provide financing to the private sector in specific circumstances. The European Bank for Reconstruction and Development is the DFI that provides the most financing to Kosovar firms. EBRD provides financing to large companies; it does not finance transactions less than €1 million. EBRD uses a range of financial instruments (senior debt, quasi-equity, and equity) to finance projects in the agribusiness, financial services, natural resources, and energy sectors. Out of the total placements in the market, 44% (approximately €222 million) represent the total financing provided by the EBRD to the private sector in Kosovo.

EBRD has demonstrated that sufficient financing and tailored financial instruments can enable Kosovar firms to increase their growth and competitiveness. However, EBRD is not a viable capital supplier for most SMEs given its minimum investment threshold. Financing provided by EBRD is very small relative to total lending by Kosovo’s commercial banks.

EBRD, the European Investment Bank (EIB), and the EU also provide financing for growth stage SMEs and startups through the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) and Enterprise Innovation Fund (ENIF), respectively.

KFW is present in Kosovo but does not provide direct financing to firms, while IFC does only to a limited extent. Both KFW and IFC provide credit lines for commercial banks and microfinance institutions, and funding for the KCGF. IFC’s portfolio includes investments in manufacturing and finance. IFC’s advisory services in Kosovo aim to improve the investment climate, boost small-company performance, and increase private sector participation in infrastructure projects. Meanwhile, the KFW has been supporting Kosovo in the following fields: (i) sustainable urban development (mobility, circular economy, and waste management); (ii) climate and energy; and (iii) sustainable economic development, training, and employment.

---

87 Source: KCGF.
Equity investments

Equity finance is almost nonexistent in Kosovo. There are no regulated equity investment funds, due in part to the absence of a legal and regulatory framework to govern the activities of investment funds.

Direct investments from foreign investors in Kosovo firms are constrained by the transaction size. Many growing SMEs are seeking financing between €500,000 and €3 million, which is below the minimum ticket size for many investors. The cost of conducting due diligence and executing a transaction deter investors from engaging in small transactions.

Startups

Financing for startups is also very limited. Most banks require borrowers to have at least six months to two years of financial statements. A loan to a startup is only considered if the startup has a relationship with an established commercial entity with the capacity to serve as a guarantor for the loan. Incubators, including Innovation Center of Kosovo (ICK) and Gjirafa, a leading tech company, offer technical assistance, office space, licenses, and limited grant funding support to startups.

Grants and subsidies

Government of Kosovo has grants and subsidy programs for select SMEs, but funding is limited due to budget constraints and other policy priorities. One of the largest GOK programs is the Rural Development Grant Program, which is intended to increase the productivity of agricultural enterprises by improving agricultural production infrastructure. Grant funding for firms in non-agriculture sectors is limited. KIESA and the Ministry of Industry, Entrepreneurship and Trade occasionally provide limited production expansion grants for MSMEs and innovation grants for startups.

Multilateral and bilateral donors have financed and continue to finance Kosovo-focused grant schemes for SMEs. Prior USAID projects engaged in private sector development provided grants to manufacturing sector and agribusiness companies, while EU projects have also provided similar support, both for the manufacturing and agricultural sectors. In addition, local firms can apply for regional-focused grant programs sponsored by donors.

There are several donor-funded grant programs that provide advisory services to SMEs. EBRD has a number of initiatives, including its Small Business Support Program and Women in Business project, which helps firms strengthen their management and production capabilities and gain access to finance.

Insurance

The penetration of the insurance sector in Kosovo is very low. Few businesses choose to purchase voluntary insurance policies to insure their properties, machinery, business risk, or professional liability. Penetration is low due to businesses' limited awareness and understanding of the benefits of insurance. IFC is supporting insurance companies to develop insurance products for agricultural crops, although so far there has been limited uptake by farmers and agribusinesses. Additionally, there are no collaborations between insurance companies and banks to develop insurance products that can be utilized to reduce a borrower’s credit risk and consequently enable a bank to provide a larger loan to the borrower. Moreover, in light of regulatory restrictions imposed by CBK, insurance companies are unable to channel some of their funds to finance companies via the purchase of business-issued securities. As of December 31, 2022, two life and ten non-life insurance companies were operating in the insurance market in Kosovo. In terms of the origin of their shareholders, three of the insurers are foreign- and mixed-owned (Austria and Albania), six are domestically owned, two are funded by Slovenian capital, and one is funded by Albanian capital. The total assets of the insurance market in Kosovo amounted to €267.52 million in 2022, marking an annual growth of 11.21%. By the end of 2022, about 51.2% of the assets in non-life sector were foreign owned, whereas 48.8% were domestic owned. Life insurance companies are foreign owned as well.
The total amount of gross written premiums in the insurance market in Kosovo, as of December 2022, reached €134 million, representing an increase of 14.1% compared to the same period of the previous year (2021: €117.4 million). The gross written premiums in life insurance by the end of December 2022 amounted to €6.4 million, marking an increase of approximately €1.53 million (31.4%) compared to the previous period of 2021. About 95.2% of total gross premiums written as of December 31, 2022, consist of non-life (2021: 95.9%) whereas 4.8% are life insurance (2021: 4.1%). Around 58.9% of the total gross premium written by the end of December 2022 in the non-life sector consists of motor third party liability (2021: 62.43%), an increase of 7.1%, whereas the other voluntary insurance products comprise 41.01% (2021: 37.57) of the portfolio of gross written premiums. The total amount of voluntary insurance products in 2022 increased by 23.7% compared to the previous year (December 31, 2021).

**Key constraints**

**Commercial banks**

**Lack of competition**

Kosovo’s commercial banks face little competition and are highly profitable. Many banks are earning an average return on equity of around 21%. Given their strong competitive and financial positions, banks have few incentives to increase lending to SMEs or introduce new diversified financial products. The small size of the Kosovo economy also discourages the entry of more international banks to enter the market, thus limiting competition with existing banks.

Banks are well capitalized and have the financial capacity to increase the provision of credit to SMEs but are not motivated to do so, as they are comfortable with their profit margins, and in part because they can *earn almost-risk free profits by investing in government bonds*. In April 2023, the yield on a five-year government bond was approximately 4%. Banks pay close to 0% on many deposit accounts, whereas weighted interest rates on new deposits are 2%, so banks can earn a 2-4% net interest margin by investing in low-risk government bonds. Moreover, banks also generate significant revenues through bank fees and commissions: it is estimated that such revenue has increased by 16% from year 2020 to 2022.

The primary objective of the Central Bank of Kosovo is to foster and maintain a stable financial system, including a safe, sound, and efficient payment system, in order to achieve and maintain domestic price stability. This primary concern of CBK with maintaining financial stability comes at a cost: it limits attention toward the introduction of reforms that would encourage the banking sector to develop diversified financial instruments.

**Risk assessment, lending policies, and collateral requirements**

Commercial banks are highly risk averse and have high and strict collateral requirements for loans issued to SMEs. The banking sector’s non-performing loan (NPL) ratio of 2% in 2022 is evidence of banks’ excessive risk aversion. The NPL levels in Kosovo remain the lowest compared to the region (4.1%), EU (2.1%) and OECD (2.2%).

The four largest banks in Kosovo (ProCredit Bank, Raiffeisen Bank, NLB Bank and TEB Bank) are all subsidiaries of foreign parent banks that are bound by strict credit risk policies approved at the level of the parent bank. Foreign parent banks impose strict lending policies, including high collateral requirements, on their subsidiaries in Kosovo.

---

88 CBK, 2022.
90 The nonperforming loans ratio is the ratio of the value of nonperforming loans to the value of total loans. A nonperforming loan is a loan that is in default due to the fact that the borrower has not made the scheduled payments for a specified period.
Many firms cannot obtain loans because they are **unable or unwilling to pledge sufficient assets** to meet banks’ collateral requirements. The value of the required collateral is often greater than 250% of the loan principal. Compounding the problem is the still-high rate of illegal construction, making significant chunks of property ineligible to be pledged as a collateral. Meanwhile, startups typically do not receive debt funding from banks as a matter of policy by the latter, since they are constrained in posting immovable collateral, unless they have a separate corporate sponsor.

The **CBK does not mandate banks to impose strict collateral requirements** on borrowers. The banks have autonomy to determine their own collateral requirements, although parent banks’ strict credit risk policies have a bearing on their subsidiaries. Banks will generally only accept **immovable assets** that have identifiable serial numbers as collateral. Movable assets and financial assets such as receivables are for the most part not accepted as collateral, and even if they are, they are taken at a heavy discount (around 10% of the value). It is important to note, however, that banks very rarely have to actually seize the collateral due to historically low NPLs and much lower actual net losses. Banks require immovable assets with serial numbers as they are easier to identify and seize if the firm defaults on its loan.

Challenges relating to the valuation of property, where banks apply major haircuts, exacerbate banks’ inclination to charge high collateral requirements. Banks are legally required to use property valuations conducted by third parties, but **few entities have the capacity to accurately value property**, which increases banks’ risk aversion and collateral requirements.

Many recently constructed residential and commercial **buildings do not have property titles**. Based on a 2015 inventory carried out by Kosovo municipalities, it was estimated that around 350,000 residential and commercial properties are without a property title. In the meantime, with support from USAID Kosovo Economic Governance Activity and other efforts, 10,000 have received a property title thus far, with another 20,000 in process. Not having a property title prevents owners of units in the buildings from registering their ownership with municipal cadastral offices and obtaining a property certificate. Banks will not accept property without a property title as collateral.

---

91 This information is also validated by the World Bank 2019 Enterprise Survey.
92 A haircut refers to the lower-than-market value placed on an asset being used as collateral for a loan. Source: Investopedia.
Inadequate financial products and instruments

The financial products offered by banks to finance business are generally limited to loans only. When analyzing maturities for loans made available to enterprises, maturities have increased in recent years. Loans with medium-term maturity (maturity of one to five years) dominate the structure of total loans to enterprises with a share of 46%, whereas business loans with long-term maturity (maturity above five years) account for 37% of total outstanding loans. In addition, the absolute majority of issued loans are senior debt with monthly payments, which are not viable for many SMEs outside of the trading sector. Only recently have banks started to introduce features like grace periods usually covering 3-6 months, but this is insufficient to meet the needs of the manufacturing sector companies or to support project financing. This has meant that only companies operating in the trading industry, especially in fast moving consumer goods sector, could access higher levels of financing. Rarely have banks financed investment projects requiring longer payback periods, which has meant that companies operating in production and agriculture have had limited access to finance.

**TEXTBOX 3: LACK OF ACCESS TO FINANCE: CASE OF BELGIAN-KOSOVO JOINT VENTURE**

A Kosovan plastics producer (carry bags and related) had grown organically to become one of the largest suppliers of plastic bags (t-bags) in Kosovo. It had done so with private equity investments and bank debt. The company was looking to grow and expand into the European markets, however due to its indebtedness, full pledge of mortgages, and other collateral with a commercial bank, it was unable to secure funding within Kosovo.

While visiting an industry fair in Europe, the owner of the company met with a potential Belgian investor. The Belgian investor was also in the industry and was looking at opportunities to diversify its supply sources. The investor was interested in producing in a lower cost country to make up for the lack of production capacity in Belgium and to replace suppliers from Turkey and Bulgaria. Securing funding for the first phase of a €1.8 million Capex investment became a real challenge for the following reasons:

- The total investment was €1.8 million.
- Partners were willing to put in 30% in equity.
- Sales contracts were secured for the next 7 years – full capacity utilization from day 1 (the parties to the sales contracts were credit worthy buyers such as the Municipality of Brussels, Municipality of Maastricht, LIDL supermarket chain, ALDI supermarket chain).
- Kosovo partner had a separate successful business but was leveraged with all the immovable assets mortgaged by banks.
- 3 Kosovo banks refused the case outright; 1 bank was not able to provide financing because of a lack of mortgage.
- Investors were not able to utilize either land and buildings available from the Belgium partner, as they were not able to mortgage land in Belgium.

A 5th Kosovo bank initially refused financing due to a lack of a mortgage, and a solution was found through a supporter in Kosovo who provided the land against a corporate guarantee from Belgium (notarized), and an interest rate of 1.5% per annum on the land valuation by the bank. This case study illustrates financing challenges for joint venture investments in Kosovo.
The types of financial instruments provided by banks for financing are very limited: senior debt, short-term financing in the form of overdrafts or credit lines, and non-cash trade finance instruments. The lack of a variety of financial instruments means that banks apply a one-size-fits-all approach and do not support SMEs with customized, financial instruments and structures suited to a particular sector, company, or investment opportunity. There are very few cases of structured debt provided. Most banks do not provide typical project finance, which is a constraint for growing SMEs that need investment to build export focused businesses.

Banks provide very little contract-based financing and only in circumstances where they know and already work with the contract buyer. This is prohibitive to both establishing new commercial relations between entities in Kosovo, in addition to disabling the possibility of generating further financing based on these relations. These challenges are amplified when the buyers are entities based in export destinations where Kosovo banks do not have a direct business presence. This problem is further exacerbated by the fact that, based on CBK regulations, accounts receivables generally have a risk weighting of 100%, and banks are unwilling to treat accounts receivables as collateral due to the challenge of seizing these assets.

Legal constraints also impede banks and financial institutions from innovating and offering a broader range of products and services. The current Law on Banks, Microfinance Institutions, and Non-Banking Financial Institutions imposes constraints on the permissible activities of financial institutions and limits the range of products and services they can offer.

After providing a loan, banks do not make a serious effort to follow the performance of their client. The required collateral is so high that banks do not need to monitor performance indicators of their borrowers. Further, banks are rigid and once a loan is disbursed, there is little chance that they would consider supporting the company to finance a potential second investment project. If additional financing is provided, it is coupled with a restructuring of the payment schedule of the original loan, which is treated as a loan restructuring, warranting a downgrading of the credit classification of the company and undermining their ability to receive further financing in the near future from banks.

Professional capacity of the workforce in the financial services sector

A clearly observed obstacle in access to finance is the limited professional and technical capacity of financial institutions’ personnel. This inhibits opportunities to move beyond simple established credit products into diversified financial instruments. Only two banks have in-house training programs for their staff, while the rest rely on established lending products and invest little in staff capacity building and development. This results in limited new product development and product customization in the banking industry.

Digitalization

Despite deepening banking digitalization trends abroad, Kosovo banks still offer limited digital services. Firms must still visit a bank branch for loan approvals and account openings. To initiate access to most bank products and services, businesses are required to make in-person visits to banks. While banks are digitalizing some of their services, the need for in-person presence at bank branches creates additional costs for firms and consequently reduces access to finance. Part of what prevents further digitalization is the digital signature law. Although it was approved in 2022, along with secondary laws, there is no certified local provider of digital certificates, yet which would issue banks and businesses with digital certificates, thus enabling access to various products remotely through an end-to-end process. Additionally, the current law on banks needs to be aligned with international banking standards and practices. This includes incorporating provisions related to digital banking and open banking, including fintech innovations.

More fundamentally, the inadequate legal framework keeps the digital payments systems, platforms, and tools in the banking sector underdeveloped, including with respect to mobile banking and e-commerce, and other innovative solutions such as mobile wallets, peer-to-peer payment
platforms, and contactless payments. This is due to the inadequacies in the Law on Payment System, which requires revisions to address the evolving landscape of financial transactions. The revised law should prioritize interoperability, security, and efficiency in payments systems, allowing businesses and individuals to access and utilize modern payment solutions seamlessly.

**Microfinance institutions (MFIs)**

MFIs in Kosovo are **required by law to operate as non-governmental organizations (NGOs)**. Many MFIs would like to become corporate entities but are legally required to remain as NGOs. MFIs do not issue loans greater than €25,000, although a Constitutional Court decision annulled the respective provision in the law on banks with respect to the upper limit. Nevertheless, the MFI industry has maintained the same practice. This effective restriction limits access to finance for firms that require financing in excess of this maximum value but cannot obtain a loan from a bank because they do not have sufficient assets to meet the bank’s collateral requirements. MFIs are not permitted to offer any other financial products to firms. They are also not allowed to offer deposit accounts and are therefore dependent on funding from DFIs. Commercial banks have not provided debt to MFIs in Kosovo, despite the fact that the non-performing loans ratio for MFIs is even lower than it is for banks.

**The legal constraints on the activities and products offered by MFIs limit their capacity to effectively compete with the banking sector.** Greater competition would reduce the cost of finance for firms and therefore increase access to finance. International donors, including the World Bank, have supported the Association of Microfinance Institutions of Kosovo (AMIK) to advocate for legal reforms to enable MFIs to become joint stock companies (JSCs), raise capital from shareholders, increase funding through deposit accounts, and offer a more diverse set of financial products to firms.

The regulation of MFIs currently falls under the purview of Law on Banks, Microfinance Institutions, and Non-Banking Financial Institutions, along with secondary legislations adopted by the Central Bank. However, **a gap has emerged in the existing legal framework** due to a constitutional court decision that found certain articles of the law unconstitutional. These articles specifically pertain to the transformation of microfinance institutions from non-governmental organizations into corporate entities. IFC has been working with the GOK on the new draft law on MFIs, providing options based on best practices to address the issue of MFIs’ NGO status.

**Enabling institutions**

**Kosovo Credit Guarantee Fund**

KCGF was established in 2016 with support from USAID and is funded by GOK and international donors. It provides portfolio credit guarantees to commercial banks, microfinance institutions, and a non-bank financial institution engaged in leasing. The guarantees are intended to catalyze private sector financing by reducing financial institutions’ risk of lending to local firms.

The KCGF offers several products, referred to as windows. The standard guarantee window, which is open to all participating banks and other partner NBFI, is dedicated to MSMEs in all sectors and guarantees up to 50% of the loan for a maximum tenor of 10 years. The Agro Window offers similar conditions for agribusiness loans. The COSME window, offered in cooperation with the European Investment Fund (EIF), is a one-time window with a subscription-basis targeted at small investments of up to €150,000 with a maximum 50% guarantee.

The most recently launched products are the Export Window, and Women in Business and Start-up windows, which focus on supporting lending to exporting SMEs, women entrepreneurs, and newly established enterprises, respectively. Despite the targeted design of the Export Window, the risk policies of KCGF have not allowed for a guarantee level higher than €500,000, which is low for the capital investment needs of larger-sized export businesses. Some export-oriented businesses need financing of at least €3 million. KCGF is currently pursuing a re-guarantee instrument from the Swedish National Debt
Agency. The re-guarantee fees are anticipated to be subsidized by the Swedish Development Agency. The re-guarantee will enable KCGF to guarantee additional loans using its existing capital.

The trade sector accounts for 40% of KCGF guarantees issued. The proportion of KCGF guarantees on loans to services (26%), production (17%) and agribusiness (9%) companies is disproportionately higher than banks’ exposures to these sectors.

**There are several constraints related to KCGF.** KCGF’s standard window will provide guarantee amounts up to €500,000. Therefore, KCGF cannot support large loans to increase the production capacity of existing or potential exporters. This is due to the conservative nature of the institution, as well as its legal mandate to support MSMEs, rather than large companies. The limitation in the eligibility of businesses to go beyond the maximum loan amount at €3 million (€1 million for leasing) and discarding companies who have more than €5 million in total debt exposure, also significantly limits the use of KCGF guarantee products for supporting lending to exporting businesses, as these businesses typically have larger total exposures than this set limit.

The **fee structure** implemented by KCGF has been criticized by market players on several grounds. According to banks, the current guarantee fee level of 2% is too high, especially considering that average interest rates on loans have declined and the spread between the interest rates on loans and banks’ cost of capital has decreased. In addition, banks have different risk profiles in their lending portfolios, as well as different credit approval processes and risk management practices. The flat guarantee fee of 2% applied to all guarantees (with the exception of the Agro Window) does not account for each bank’s individual risk. Several large banks have noted that this is a significant barrier to their use of KCGF guarantees. As many banks pass on the fees to borrowers, the fees become a constraint on firms’ access to bank loans.

By its legal mandate, KCGF’s role as a risk-sharing institution is confined to supporting the growth of access to finance for MSMEs. Although there are clear metrics attesting to KCGF’s success in this regard, KCGF’s potential role in de-risking financing for corporations is an issue to be considered in the future. According to the World Bank, although corporations account for a very small share of the business population in Kosovo, they are disproportionately responsible for job growth, as well as leveraging their economies of scale to improve export competitiveness.

**Other risk sharing facilities**

Besides the KCGF credit guarantees provided to the market, several banks have also entered into credit guarantee arrangements with the European Investment Fund and EBRD. The guarantees provide varying levels of coverage, a fee structure and loss coverage for specific target groups. The most recent such program is the EBRD-ProCredit Bank Risk Sharing Facility (RSF) framework. Under the RSF, EBRD shares the risk of providing loans by local financial institutions to local companies, with the EBRD’s risk participation possible both on a funded basis similar to a syndicated loan, or an unfunded basis similar to a guarantee depending on the needs of the partner financial institution. Under either approach, EBRD’s risk participation is an unconditional and irrevocable obligation designed to allow the partner financial institution to achieve capital relief, fully consistent with the rules of the Basel Capital Accord. Eligible loans are denominated in local currency or foreign exchange, with EBRD’s risk participation capped at €25 million. Maximum tenor can go up to 10 years for corporate loans and 15 years for project finance.

**Financial technology (fintech)**

Fintech startups and organizations do not have strong advocacy power and therefore cannot effectively lobby for legal and regulatory reforms to enable the growth of fintech. There is no business association to represent the fintech sector in communications with CBK and GOK institutions. As an example, there is a new proposed payments law, known as PSD2, which would create opportunities for
fintech startups by increasing their access to the payment system infrastructure. The Ministry of Finance is responsible for drafting the law but has made little progress in the past three years.

Capital markets, securities, investment funds, and institutional investors

Securities and capital markets

With the exception of government bonds, there are no active capital markets in Kosovo. Firms in Kosovo do not issue debt securities (i.e., corporate bonds) to raise capital from investors, except in a limited number of cases, owing to three main factors. First, businesses are not aware of the various financial instruments (including bonds). Second, there is no regulated intermediary market for financial instruments (except for insurance policies). And lastly, corporate bonds, as per the Law on Business Organizations, are limited to only Joint Stock Companies (JSCs) and are not allowed for Limited Liability Companies (LLCs).

When Kosovo firms get funding through equity injections, this is typically limited to the founding shareholders. It is rare for firms to issue equity to new shareholders. There are no secondary markets where investors can buy and sell securities.

Given the absence of capital market regulations and mechanisms for trading securities issued by local firms, individual investors, including diaspora investors, primarily invest in real estate. Some individual investors make investments in local firms. These investments are sourced through investors’ personal relationships with firms. There are no investment funds based in Kosovo that enable investors to pool their capital and invest indirectly in a diverse set of firms. The absence of a legal framework deters potential investors as it creates uncertainty about how investors and investment funds will be regulated and taxed, how securities could be traded, and the protections afforded to investors in funds. Additionally, there is very limited experience in the country in setting up and managing investment funds, as well as limited understanding from businesses about how equity investments will impact their business, financial structure, governance, and management.

There is interest within the Office of Prime Minister, the Ministry of Finance, and the Central Bank of Kosovo to develop a legal and regulatory framework for securities and capital markets. However, officials do not have the required experience or technical expertise to draft the necessary laws and regulations.

The small size of the Kosovo economy is a constraint on the development of an active securities market, as potential volumes would be very limited. When it comes to attracting investments from institutional investors, development financial institutions, and private equity funds, there are not many firms in Kosovo that want to raise sufficient capital to meet investors’ minimum transaction size. As an illustration, EBRD, which has invested in 99 projects in Kosovo (51% within the private sector), has a minimum ticket size of €1 million. As such, in the private sector, EBRD has funded a limited number of pure private sector tickets directly with firms, whereas the rest has been funding provided to financial institutions (banks) through the provision of credit lines for on-lending to firms. EBRD has done only three equity deals in the last 20 years, with the rest being either senior debt or structured debt/mezzanine type financing. The International Finance Corporation has done a much smaller number of deals in Kosovo, none to date directly with Kosovo firms. The IFC has a minimum ticket size of €5 million for its equity and debt investments. Few Kosovar firms are willing or able to seek equity or debt financing of at least €5 million. The same is true for many private equity funds looking at investment prospects in Kosovo, or indeed any international funding vehicles looking to make investments in the region. The small size of the market and low investment activity levels are also a deterrent, as this limits the potential exit options for investors.

---

93 Mezzanine financing is a way for companies to raise funds for specific projects or to aid with an acquisition through a hybrid of debt and equity financing. Source: Investopedia.
There is a very limited secondary market activity for government bonds. Additionally, the interest from investors has been very limited due to the fact that the bonds provide a low yield and do not provide an attractive investment option when considering the risk of the public debt and the inactive secondary market.

**Corporate bonds**

The absence of a capital market regulatory framework and secondary markets, or over-the-counter (OTC) clearing companies, deters large firms from potentially issuing corporate bonds. Further, there are no regulations in place and there are no brokers or intermediaries who offer these instruments to the market and investors, further deterring interest from potential investors. However, a corporate bond market in Kosovo is feasible given the fact that certain businesses could issue bonds at lower rates than bank loans, while at the same time providing better yields than bank deposits to potential investors, including retail investors.

**Institutional investors**

Kosovo has two major segments of institutional investors: pension funds and insurance companies, which do not provide direct capital to the private sector. The absence of capital market regulations prohibits institutional investors (such as KPST) from potentially providing equity or debt capital to local firms.

KPST is Kosovo’s main pension fund. It is responsible for investing mandatory pension contributions from employers and employees. KPST has an investment committee which determines the types of assets that KPST can invest in. KPST is permitted to invest in publicly-traded assets issued in Kosovo or any OECD country. KPST is not currently permitted to directly invest in any equity or debt securities issued by Kosovar firms. It can only invest in Kosovo government bonds and term deposits with Kosovar commercial banks. If a firm was to issue shares or a corporate bond, KPST would only be able to invest in these securities indirectly through an investment fund or vehicle. Legal reforms would be required to enable KPST to invest directly or indirectly in securities issued by local firms.

**Insurance companies are not permitted to purchase securities issued by local firms.** Central Bank of Kosovo’s regulations only allow insurance companies to invest in government bonds and term deposit accounts offered by commercial banks.

Kosovo’s pension funds and insurance companies could potentially invest a small share of their assets in local investment funds that invest in local firms, however this is currently prohibited by legislation and regulations. As such, these institutions invest their capital in international markets, Kosovo banks through term deposits, and Kosovo government bonds. KPST has about €2.5 billion of assets under management, of which 22.8% are held in Kosovo government treasuries and 4.2% in bank deposits with three commercial banks in Kosovo. The insurance sector has assets reaching €270 million, 63.7% of which are held either in bank deposits (46.8%), or government bonds (16.9%). If a portion of the assets of KPST and insurance companies was reallocated to finance domestic private sector growth, it could have a significant growth and development impact.

---

94 *Over-the-counter* is a way of trading securities via a broker-dealer network as opposed to on a centralized exchange like the New York Stock Exchange. Source: Investopedia.
Alternative financial instruments

Factoring

There is very little factoring and accounts receivable financing available in Kosovo. A few banks and one NBFI currently offer factoring products to firms – mainly reverse factoring. This is a significant constraint for many local producers, who rely on the willingness of the local supermarkets, retail chains, and other buyers to pay on time. Particularly in the food processing sector, delayed payments to the agribusiness suppliers are well-documented and a pressing concern of the industry. There is no export factoring available at all, which creates working capital challenges for exporters.

Leasing

Leasing is also very underutilized in Kosovo. As with factoring, financial institutions and firms have a limited understanding of the benefits of leasing. There are a few leasing NBFI s and several banks that offer leasing products. The smaller leasing operations are limited by low capital availability and low leasing limits, whereas leasing products offered by banks are provided with the same constraints and risk management policies and procedures as bank loans. Further, most of the leasing operations focus on passenger vehicle leasing, with only a few cases of fleet or machinery lease financing.

There have been recent trends, facilitated by USAID Compete Activity working with an NBFI and local machinery vendors, to extend equipment lease financing to both the wood processing and food processing sectors. However, one of the constraints fueling the still-limited uptake of equipment lease financing is the persistence of informality among companies seeking finance, as well as the missing secondary market to trade used equipment, which would reduce the credit risk of NBFI s and banks. The USAID Compete Activity is also working with the sectors to consider options to develop a regional secondary market for used equipment.

Insurance

Insurance enables a business to reduce various operating risks, which in turn reduces a financial institution’s risk of providing credit to the business and therefore enables increased lending. With the development of the insurance sector, non-legally prescribed insurance policies (voluntary insurance) are increasingly being offered by insurance companies, including business interruption insurance. However, the market is still dominated by the mandatory TPL motor vehicle insurance, comprising 91.6% of the assets of the sector.

Banks are playing a supportive role in this regard, as more banks require that businesses purchase insurance policies as part of their lending process. Nevertheless, there is limited understanding by many SMEs of the benefits of insurance products that would justify their cost. The penetration of insurance products in the market is facilitated by licensed insurance brokers, but this is a very slow-moving process.

Agricultural insurance is the least developed insurance product currently available to businesses and is in its infancy in Kosovo. Agricultural insurance enables farmers to remain solvent and able to make loan repayments when weather-related shocks disrupt production. IFC is working with the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and a few insurance companies to develop agriculture insurance products for 12 crops in Kosovo. The uptake of these products is limited by farmers’ weak understanding of the benefits of insurance. Demand for insurance is also distorted by past payments from MAFRD to farmers when adverse weather events have destroyed crops.

95 Factoring enables SMEs to generate cash by selling their accounts receivables (e.g., invoices) to a third party.
96 Reverse factoring is a type of supplier finance product that companies can use to offer early payments to their suppliers based on approved invoices.
Part of the challenge in developing the insurance market in Kosovo relates to legal constraints. The Law on Insurances requires revisions in order to adapt to the evolving landscape of the insurance sector and accommodate emerging insurance products and services. The rapid advancement of technology and the emergence of the so-called insurtech\(^{97}\) have brought forth innovative approaches to insurance, such as usage-based coverage and peer-to-peer insurance. Currently, the law does not provide a conducive environment for innovation, nor clear guidelines for implementation. The revised law should facilitate the entry of new insurance providers, including insurtech startups and specialized insurers. Encouraging competition and diversity in the insurance market can lead to more affordable and tailored insurance options for consumers. By streamlining the licensing and regulatory processes, the revised law can attract new players to the market and promote innovation and product differentiation.

**Crowdfunding**

There is very limited availability of crowdfunding and other fintech solutions in Kosovo. The development of crowdfunding is constrained by the absence of an enabling legal and regulatory framework. Further, the absence of a legal and regulatory framework inhibits the establishment and operation of crowdfunding platforms in Kosovo. As such, two Kosovo-centric crowdfunding platforms operate out of Switzerland, with many ensuing limitations. In contrast to Kosovo, Albania and North Macedonia permit equity-based crowdfunding.

**Capacity of firms to access finance**

Another barrier to SME access to finance is the insufficient level of firm management sophistication. This includes lack of skills and practice in areas such as standardized financial recordkeeping and reporting, as well as proper financing management and planning, business planning, corporate governance and management structures, lack of proper formalized policies and processes, inadequate firm growth management, and for family-owned businesses, issues with improperly managed generational transition processes in terms of ownership structure.

Banks and financial institutions are often deemed responsible for the limited provision of finance, but firms have an important role to play in improving access to finance. Banks have a responsibility to manage their risk and not lend to poorly managed and non-transparent businesses that typically have a higher likelihood of defaulting on their loans. Therefore, businesses need to reassure banks that they represent a low credit risk by exhibiting strong corporate governance and presenting high quality business plans and transparent and accurate financial statements.

Many businesses in Kosovo have weak corporate governance. Medium-sized firms often maintain the legal and management structures of small family-owned businesses, and owners delegate very little responsibility to managers. Weak corporate governance deters all capital providers from providing capital, including banks and potential equity investors. Issues related to corporate governance often become stumbling blocks to company growth and end with businesses being dissolved into several smaller businesses with separated ownership between different family members. As a consequence, the bankability of these businesses and their competitive position in the market decreases, decreasing their scale and capability of competing in export markets. However, as families go through generational change and businesses grow, the issue of corporate governance is gaining prevalence. Most of these businesses do not really understand corporate governance principles and it is a learning process.

Many donor initiatives, including USAID Compete Activity and the IFC, have supported trainings to firms provided through local Kosovar advisors over the past few years. However, the impact is still limited as companies are yet to recognize their value and do not want to pay for advisory services.

---

\(^{97}\) Insurtech refers to technological innovations that are created and implemented to improve the efficiency of the insurance industry.
Reliable and trustworthy financial reporting is a key issue due to the large informal economy that still prevails. Many companies still keep two sets of financial reporting books for management and tax reporting, which adds to their risk from the standpoint of banks. Many firms only report their profit and loss and their balance sheet and do not provide cash flow statements. Additionally, most firms do not distinguish between accounting and financial reporting and the function of proper financial management. Typically, a firm’s chief financial officer (CFO) is only charged with the accounting and record keeping functions and is not involved with financial management and planning. The situation is now changing with an increasing level of requirements for standardized financial reporting.

Independently audited financial statements are required for all medium and large businesses, using either Kosovo Financial Reporting Standards or international financial reporting standards (IFRS) for larger firms. Often firms do not do any financial forecasting and when they do so, they only look at the profit and loss statements. There is a disregard for forecasting the firm’s financial position and cash flows, which is a major element in banks’ assessment of financial needs and moving towards cash flow financing. The CBK-reported figure of total lending value-to-revenues of 42.5% shows the low influence of companies’ financial performance on banks’ loan approval decisions.

Very few businesses have a business strategy that they follow. Most businesses do not have a formal business plan and those that do fail to regularly update it. Business plans are often prepared in a simplistic way and only when requested by a bank. Plans tend to be overblown and too optimistic, making them inadequate documents for banks to use to make lending decisions.

Due to a low level of management delegation to lower levels, firms do not often invest in staff capacity building and training. This is often coupled with a high turnover of employees at different levels and creates issues with a firm’s internal knowledge transfer. Ultimately, firms end up depending on the owner, who typically ends up micromanaging the business, including its operations, ultimately leading to insufficient capacities and overall underperformance of the firm, and consequently limited access to finance.

Simply introducing new financial products into the market does not guarantee increased SME financing; small business owners are naturally cautious about utilizing new diversified finance solutions. Many businesses in Kosovo, including some large firms, have a limited understanding of how diversified financial instruments work and how they can benefit from different financial instruments based on their need for financing or stage of development.

Finally, Kosovo does not have a strong network of business advisory service providers who can help firms to strengthen their internal firm management systems, corporate governance, business planning and financial reporting, and consequently attract financing. Support is particularly limited for the startup sector. There are a small number of incubators and accelerators, such as Innovation Center Kosovo, but Kosovo’s startup ecosystem is relatively weak in comparison to other countries in the region.

Activities to address the key constraints

Prioritization

The proposed activities listed below are a result of the identified constraints related to access to finance. The list of proposed activities below is both significant and ambitious. The Activity will aim to design and implement key activities based on the following prioritization criteria:

- **Impact**: Potential finance and investment that will be catalyzed if the constraint is alleviated.
- **Cost-benefit analysis**: Impact of the activity relative to the cost of implementation.
- **Traction**: Likelihood that the constraint can be alleviated with Activity support.
- **Sustainability**: Interest and capability of local stakeholders to own, lead, and continue the intervention after the Activity ends.
• **Inclusion**: Impact on access to finance and investment for women, youth, minorities, and other disadvantaged groups.

While the FICA serves as an important roadmap for the design of the Activity’s interventions, it also aims to serve as a call to action for other donors and partners to join forces. This is especially important as the constraints identified are broad in scope and complex in depth. *As asterisk is added to proposed activities considered a priority for the Activity.*

**Political economy considerations**

Many of activities proposed to increase access to finance will affect the power structures and influence of key actors in the private sector, financial sector, and public sector. These activities are not purely technical in nature and will require the active support of senior officials in government institutions as well as other key enablers, including the donor community. The proposed reforms that are critical in access to finance will inevitably affect pre-existing structures and ways of doing things; embarking on reforms will therefore likely generate some level of resistance, or at best a hesitancy to engage. The Activity will work with local actors to design and advocate for policy, legal, and regulatory reforms but cannot control whether government institutions and policymakers decide to ultimately implement proposed reforms.

**Commercial banks**

**New financial instruments**

Support banks to develop and pilot diversified financial instruments*. The Activity can provide technical assistance to support banks that are interested in developing diversified financial instruments but lack the technical expertise on how to structure or market a new instrument.

**Risk assessment, lending policies, and collateral requirements**

Assist banks to develop and use more advanced risk assessment models*. Utilization of advanced risk assessment models will enable banks to produce more accurate assessments of the credit risk of firms, and in turn reduce collateral requirements and offer credit to more firms. Models can be developed that include additional pertinent risk factors, such as a firm’s cash flow projections and insurance coverage.

Support banks to develop lending policies that have more flexible collateral requirements*. The Activity can help banks to develop lending policies that allow firms to pledge movable assets and financial assets such as receivables as collateral. Technical assistance can be provided to build the capacity of lending officers to evaluate the quality of firms’ movable assets and financial assets.

Collaborate with Kosovo Business Registration Agency (Pledge Registry) and Kosovo Banking Association to reform the secured transactions framework for collateral*99. Currently, the uncertainty involving the execution process of secured transactions is limiting banks from accepting movable assets as collateral. Therefore, there is a pressing need to work with KBA as the representative body of the banking industry and the Pledge Registry to reform the secured transactions framework.

Work with banks to reform banks’ policies on risk weights and depreciation calculated on movable assets pledged, including pledged receivables and similar assets*. These reforms should include the development of valuation methods to accurately assess the value of movable assets, and banks’ risk weighting frameworks that assign appropriate risk weights to different types of movable assets. These frameworks help determine the capital requirements for accepting movable assets as collateral and could provide an opportunity for the Central Bank of Kosovo to review the current risk

---

99 An effective secured transactions framework for collateral would regulate the process of creation, registration and enforcement of security interests in movable property that is used as collateral for a loan/financing.
weighting regulatory requirements. The use of movable assets as collateral would provide a flexible and quick solution to address firm’ short-term funding needs without requiring them to take on additional debt.

**Work with Ministry of Environment and Spatial Planning, Cadastral Agency and municipalities to reform property titling procedures.** Reforms would enable businesses that are provided a right of use of publicly owned properties to obtain a mortgageable title for these properties, and consequently pledge the property as collateral. The Activity will coordinate closely with the other USAID projects and other donors on this initiative.

**Project financing and syndicated lending**

Provide technical assistance to build the capacity of banks' lending officers to evaluate the applications for project financing*. Assistance will focus on developing lending officers’ financial analysis skills, including analyzing financial statement and cash flow projections.

Facilitate banks to cooperate to offer syndicated loans to large firms to finance major projects*. Syndicated lending would enable firms to access larger loans and therefore finance bigger projects. Banks in Albania have successfully introduced and expanded the provision of syndicated loans in recent years, which suggests syndicated loans could be a viable hybrid financial instrument in Kosovo. The Activity can provide technical assistance to banks that have an interest in offering syndicated loans. It can also facilitate learning events with Albanian banks that are engaged in syndicated lending.

**Value chain financing**

Coordinate with IFC to support banks and non-bank financial institutions to develop value chain financing products. IFC is assisting ProCredit Kosovo to design a value chain finance product and discussing similar support with BKT. In collaboration with local business organizations, the Activity can increase the private sector’s awareness of new value chain finance products that are developed by ProCredit Kosovo and BKT. If these products gain traction, the Activity can provide technical assistance to other banks to develop their own value chain finance products.

**Agriculture crops receipts financing**

Support the development of agriculture receipts financing, in coordination with IFC. IFC is helping GOK to increase access to finance in the agriculture sector by developing a crop receipt financing law and warehouse receipt financing law. These laws would enable wholesalers and warehouses to sign forward agreements with farmers, in which farmers commit to supplying a given quantity of crops on a specific date and at a pre-determined price. Farmers can then use these agreements as collateral to access finance from banks and other financial institutions. The Activity can coordinate with IFC to continue support for agriculture receipts financing, as IFC’s support will end in October 2023.

**Digitalization**

Support banks and MFIs to implement the recently passed law on Electronic Identification and Trust Services in Electronic Transactions. The approval of the law and secondary legislation in Kosovo is a positive step towards using digital signatures and enhancing digitalization to enable access to finance. There is an opportunity to support the Ministry of Economy to implement the new law and banks to introduce digital signature functionality into their services, which will streamline business processes, increase security, and improve customer satisfaction.

**Capital markets, securities, investment funds, and institutional investors**

**Securities and capital markets**

Support Ministry of Finance, Labor and Transfers and CBK to develop and implement a legal and regulatory framework for capital markets*. The Activity will initially support the formation of
a working group to develop legislation to govern the issuance and trading of equity and debt securities issued by firms. After a legal framework is established, the Activity can provide technical assistance to increase the capacity of CBK to develop regulations and provide oversight of firms, investors, and other actors in capital markets.

**Equity financing and investment funds**

The development of equity financing and investment funds in Kosovo requires multiple inputs: an enabling legal framework, a diversified pool of potential investment deals, a sufficient number of investors who are willing and able to invest in Kosovar firms, and the presence of key service providers. The Activity can work with local actors to advance the development of these inputs.

**Support Ministry of Finance, Labor and Transfers and CBK to develop and implement a legal and regulatory framework to enable and oversee investment funds**. The Activity can support assist MFLT to draft legislation and policies that will provide investors with certainty regarding the legal treatment of investment funds, including taxation. Once laws and regulations are enacted, the Activity can build the capacity of CBK to regulate investment funds, an area in which it has no expertise or prior experience.

**Support investors to establish investment funds**. The Activity can provide technical assistance to Kosovar and diaspora investors who desire to launch investment funds but lack the know-how to design or implement a fund. Given the small size of Kosovo’s economy and limited number of large firms with the capacity to raise significant investment capital, the Activity can help local or diaspora investors that want to establish a regional investment fund (i.e., a fund that invests in Kosovo but also other countries in the Western Balkans given the small size of Kosovo’s economy).

**Facilitate connections between existing investment funds and local firms seeking alternative financing**. Investment funds that target the Western Balkans and Eastern Europe more broadly often focus on finding investment opportunities in neighboring countries, due to their larger economies. The Activity can help to match these funds with high performing Kosovar companies that are seeking funding for any stage of their development, including seed funding, working capital, growth capital, joint ventures, and partial or full trade sales to other investors or companies.

**Corporate bonds**

**Support Ministry of Finance, Labor and Transfers and Ministry of Industry, Entrepreneurship, and Trade to develop legislation to govern the issuance and trading of corporate bonds**. The legislation would enable corporations to issue bonds through direct public offerings or through various intermediaries or brokers. Corporate bond issuance is not currently prohibited by law, but the existing legislation does not prescribe how a bond should be issued or marketed. The absence of a legal framework is a deterrent to both potential bond issuers (i.e., large firms) and investors. The Activity can provide technical assistance to support MFLT and MIET to develop a comprehensive legal framework.

**There is a significant opportunity to initiate a corporate bond market in Kosovo**. The only domestic securities currently issued are government bonds. Corporate bonds would enable investors to earn a higher rate of return, while also diversifying their investment portfolio. The Activity can work with financial intermediaries and businesses (banks, NBFIs, businesses, and others) to pilot a number of corporate bond issues under the current existing legislation.

**Institutional investors**

**Develop legal regulatory reforms to enable insurance companies to invest in debt and equity securities issued by firms in Kosovo**. Among others, insurance companies would be potential investors in corporate bonds if they were legally permitted to do so. Leading insurance companies
informed the Activity that it is effectively compelled to buy government bonds, place funds in term deposits with commercial banks, or distribute its capital to its shareholders, as there is no regulation allowing it to invest in other securities. There is an opportunity to support CBK to introduce reforms that would enable insurance companies to allocate a small portion of their portfolio in securities issued by local firms. These investments could be made through special purpose vehicles, which would be managed by licensed intermediaries, once the legal framework is in place.

**Alternative financial instruments**

**Factoring**

**Provide technical assistance to banks and non-bank financial institutions to develop and roll out new factoring products.** Two banks—TEB, and NLB—and Zvilo, a non-bank financial institution, are developing new factoring products, while Raiffeisen Bank already offers its clients a reverse factoring product. The Activity can provide technical assistance to banks and NBFIs to further develop financial products and support financial institutions to effectively market factoring to firms, including exporters, as an attractive financing solution.

**Increase firms’ awareness of factoring as an alternative financing option.** The Activity can coordinate with the USAID Kosovo Compete Activity to organize workshops, roundtables, and other events to increase firms’ understanding of how factoring can be a useful financing solution.

**Leasing**

The Activity will coordinate with the USAID Kosovo Compete Activity, which is facilitating partnerships between equipment vendors and leasing companies that enable wood and food processing SMEs to obtain essential equipment. Compete is also helping to promote leasing as a potential financing option to SMEs, women-owned businesses, and minority-owned businesses.

The Activity could assess the types of equipment used for different sectors (i.e., construction, medical, production, processing) in order to estimate market demand. Support can then be provided to financial institutions to identify opportunities for offering leasing for different types of equipment in various sectors. There is strong potential to expand leasing for equipment to support sustainable production and renewable energy generation.

Informality has been identified as one of the major barriers to conducting equipment leasing. The Activity can aim to alleviate this constraint by supporting BASPs to help firms strengthen financial reporting, business planning, and meet tax compliance requirements.

**Crowdfunding**

Support Ministry of Finance and Central Bank of Kosovo to develop a legal and regulatory framework for crowdfunding*. The Activity can provide technical assistance to policymakers and regulators, drawing on lessons learned from recently developed crowdfunding legal frameworks in neighboring countries (i.e., Serbia and Albania).

Assist CBK to provide environments such as regulatory sandboxes⁹⁹ to enable startups to develop fintech solutions. Regulatory sandboxes enable firms to test their products and services with real consumers in a controlled space, while the regulator (i.e., CBK) provides support and supervision.

---

⁹⁹ Regulatory sandboxes provide for live testing of new products or services in a controlled and time-bound manner. Sandboxes provide a more structured approach to innovation, allowing for controlled experimentation and providing regulators with the means to monitor the risks associated with innovative new products.
Microfinance institutions (MFIs)\textsuperscript{100}

**Assist MFIs to develop new products if enabling legislation is passed.** Legislation to enable MFIs to become joint stock companies (JSCs) has been discussed and proposed but not yet passed. The IFC is providing support to Association of Microfinance Institutions in Kosovo (AMIK) to advance the legislation. If this legislation is passed, there is an opportunity to provide technical assistance to support MFIs to design and offer diversified financial instruments to firms. Additionally, in collaboration with IFC and CBK, there is scope to provide technical assistance to draft secondary legislation as needed.

**Support the development of pilot partnerships between banks and MFIs to serve “missing middle” SMEs.** A partnership could create a new revenue stream for MFIs and provide banks with new customers. An MFI would refer one of its client firms to a partner commercial bank when the MFI is no longer able to provide the financing required to sustain the firm’s growth. The commercial bank would pay the MFI a referral fee and extend credit to the firm. The bank would lower its standard collateral requirement to reflect the firm’s positive credit history with the MFI. This model will enable a commercial bank to gain a new, low-risk client. The client firm’s credit history and positive referral from the MFI may also enable the bank to streamline its normal due diligence process, and in turn lower its customer acquisition cost. In short, there is scope to provide technical assistance to help banks and MFIs pilot this partnership model.

**Enabling institutions**

**KCGF**

**Assess the viability of higher KCGF guarantees for large loans to select segments of firms.** Higher guarantees could be used to enable banks to finance projects that are deemed strategically important without imposing high collateral requirements. The Activity can support KCGF to assess the donor and IFI landscape to identify a partner to provide the required capital to support a higher guarantee window or complementary re-guarantees. It can also facilitate discussions with GOK for potential further capital infusions. These efforts would be complementary to those underway by USAID Compete Activity, as the MSME financing needs are broad and deep.

**Support KCGF to evaluate a new potential guarantee window for alternative financial products, such as receivables-based financing.** KCGF could partner with relevant NBFIs to implement such a window. The Activity can provide technical assistance to KCGF and its partner institutions to develop and implement the new window.

**Assist KCGF to secure additional re-guarantees provided by third parties.** Re-guarantees allow KCGF to guarantee additional loan portfolios without raising more capital. The Activity can explore opportunities to obtain additional re-guarantees from development finance institutions and domestic and international insurance companies. These efforts will be complementary to current USAID Compete Activity efforts, given the large financing needs of the private sector.

**Expand the availability of guarantees for leasing.** KCGF partners with one leasing provider: Raiffeisen Leasing. The Activity can support the development of additional partnerships between new leasing providers and KCGF. It would do so in close collaboration with USAID Compete Activity.

**Assist KCGF to increase utilization of new guarantees to support startups and women owned businesses.** KCGF launched two new credit guarantee windows for startups and women entrepreneurs in April 2023. There are three partner banks for this window. The Activity can support

\textsuperscript{100} The activities involving Microfinance Institutions are proposed herein solely in response to the identified constraints regarding this sector. The FICA is a broad roadmap document that can provide scope for other actors to consider stepping in to address the identified constraints.
these three banks to work with business organizations to market their lending products to startups and women entrepreneurs.

**Assess the viability of a future initiative to provide equity guarantees.** KCGF is only permitted to provide guarantees on loans and other credit transactions. It is not permitted to provide a guarantee for equity investments. Therefore, Government of Kosovo would likely need to create a new entity to offer equity guarantees. Dependent on GOK interest and buy-in, the Activity can further assess the political and technical viability of an equity guarantee scheme.

**Insurance providers**

**Work with banks and the CBK to support the growth of voluntary business insurance.** Insurance reduces the risks that a business faces, which in turn reduces the risk for an investor or financial institution of providing capital to the business. The Activity can work with business organizations to increase their awareness of the benefits of insurance products. In parallel, the Activity can increase banks' risk management departments’ understanding of insurance and how it can mitigate the banks’ risk of providing capital to a business. The Activity can assist banks to strengthen their credit risk assessment and loan evaluation processes by integrating an assessment of a firm's insurance coverage. The Activity can also work with CBK to reduce the regulatory risk weightings of loans to insured businesses, which will enable and encourage banks to increase lending to businesses with insurance.

**In coordination with the IFC, provide technical assistance to insurance companies to expand and diversify the supply of agricultural insurance products.** The Activity can support banks and insurance companies to develop bank loan and insurance bundled products for farmers.

**Work with the Ministry of Agriculture, Forestry, and Rural Development (MAFRD) to introduce policy reforms to increase demand for insurance.** For example, MAFRD could require farmers to purchase agriculture insurance in order to be eligible for any grant provided by MAFRD.

**Increase farmers’ understanding of the benefits of agriculture insurance.** The Activity can collaborate with agriculture sector business associations to increase farmers’ awareness of the benefits of insurance.

**Credit Registry of Kosovo**

**Support Kosovo Credit Registry (KCR) to provide a credit scoring service to banks and NBFIs.** KCR is a public credit registry established and run by the CBK. All banks and NBFIs report to KCR. Credit scores provided by KCR will enable banks and NBFIs to assess the credit risk of potential borrowers more accurately and in turn increase lending.

**Fintech and startups**

**Utilize grants to support ICT startups to develop new digital finance products.** The Activity can utilize grants to support the development of new fintech solutions. For example, a grant could be utilized to help an ICT firm develop a web-based platform to enable borrowers to compare the interest rates and fees charged by banks and MFIs.

**Support the creation of a fintech business association.** An association would increase the capacity of firms to effectively advocate to policymakers for enabling environment reforms to facilitate the development and utilization of digital financial products.

**Utilize grants to support a fintech company or business organization to host a regional fintech summit.** The summit would cover the Western Balkans region and be modelled after the Africa Fintech Summit, which is convened each year. A summit would enable local ICT firms to develop connections with regional investors and secure financing to develop new digital financial products.
Capacity of SMEs to access finance

Financial reporting

Utilize grants to local organizations to strengthen financial reporting. The Activity can competitively award grants to local technology firms to pilot fintech tools to improve small firms’ financial reporting. A grant could also be used to enable a business association or other local organization to create a database for investors of companies with verified financial statements and are seeking capital. Firms would be incentivized to strengthen their financial reporting in order to be included in the database. Cost-sharing grants can also be awarded to enable local consulting and accounting firms assist SMEs to adopt IFRS.

Firms’ awareness of access to finance opportunities

Establish an SME Financing Forum*. Building on the Leasing Partnership Forum (convened by USAID Compete Activity to promote the uptake of leasing instruments), the Activity can establish an SME Financing Forum to facilitate information sharing between banks and non-bank financial institutions, business associations, and SMEs. The Forum would provide a venue for ongoing dialogue, gradually building SMEs’ trust in new financial products as they engage with financial institutions, get their questions answered, and hear peer success stories. This activity would be carried out in close collaboration with USAID Compete Activity.

Communications to increase awareness of financing options. The Activity can utilize grants to work with business associations to create strategic communication initiatives that increase SMEs’ knowledge of diversified finance. Promotional campaigns will reach businesses across Kosovo, including areas with high numbers of minority-owned businesses. Beyond simply raising awareness of new instruments, campaigns will highlight success stories of SMEs that have leveraged such instruments to expand production capacity and access new international markets.

BAS providers

Support the development a referral program between banks and BAS providers*. The Activity can facilitate a mutually beneficial referral program between partner commercial banks and BAS providers. Banks can refer firms with strong financial performance but weak corporate governance to BAS providers as potential clients. Once the BAS providers help the firms improve their corporate governance, firms can return to the bank to seek financing. In addition, BAS providers can help businesses to present clear business plans and cash flow projections to banks, which increases the willingness of lenders to provide credit to the firms.

Startups101

Utilize grants to enable startups to raise capital from angel investors. There is an opportunity to support local accelerators and incubators, such as Innovation Center Kosovo and the new Kosovo Plug and Play innovation platform, to strengthen the capacity of startups to access seed capital from angel investors. There is scope to support programs to help startups create business plans and pitch decks and negotiate and structure investment transactions with investors.

101 Activities on startups are formulated in response to the constraints identified. The Activity will further analyze the supportive actors engaged in startup financing and determine its potential value-added and the need and scope of its potential involvement.
# Annex 1: Related donor projects, by objective

## Objective 1: Attracting investment.

<table>
<thead>
<tr>
<th>No.</th>
<th>Donor/IFI</th>
<th>Project</th>
<th>Description / Main goal</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>World Bank</td>
<td>Competitiveness and Export Readiness Project</td>
<td>Support product certification for export markets, strengthen the capacity of export-oriented firms and reduce the cost of business inspections.</td>
<td>2017 - 2023</td>
</tr>
<tr>
<td>2</td>
<td>IFC</td>
<td>Investment Climate Project</td>
<td>Improve the country’s investment climate by reducing administrative barriers for investors and reducing the burden for businesses at the central and local levels.</td>
<td>2013 - 2023</td>
</tr>
<tr>
<td>3</td>
<td>IFC/SDC</td>
<td>Kosovo Investment Climate Acceleration Project</td>
<td>Improve Kosovo’s economic performance by reducing regulatory red tape, boosting the country’s competitiveness at large, and facilitating private investment activities (continuation of the IFC Investment Climate Project).</td>
<td>2023 - 2024</td>
</tr>
<tr>
<td>4</td>
<td>IFC/SECO</td>
<td>Debt Resolution Project</td>
<td>Improve local bankruptcy procedures and boost the efficiency of the debt resolution system in Kosovo.</td>
<td>2017 - 2024</td>
</tr>
<tr>
<td>5</td>
<td>GIZ</td>
<td>Economic Strengthening of the Prizren Region</td>
<td>Develop the Innovation Training Park (ITP) Prizren’s organizational and operational structures, its management system and the advisory services required for businesses and training service providers.</td>
<td>2019 - ongoing</td>
</tr>
<tr>
<td>6</td>
<td>GIZ</td>
<td>Economic Development for the Stabilization of the Labor Market in Kosovo</td>
<td>Consolidate support structures for the private sector by improving the activities and management of business membership organizations in different sectors and improving and further advancing the business development services offered to MSMEs by business membership organizations.</td>
<td>2021 - 2024</td>
</tr>
<tr>
<td>7</td>
<td>USAID</td>
<td>Compete Activity</td>
<td>Promote resilient, self-sustaining market systems and improve the private sector’s competitiveness in local, regional and global markets in three key export-oriented sectors of wood processing, food processing, and ICT.</td>
<td>2020 - 2025</td>
</tr>
<tr>
<td>8</td>
<td>USAID</td>
<td>Energy Sustainability Activity</td>
<td>Help GOK throughout the process of preparing zoning maps and updating Kosovo’s geo-portal, with an emphasis on the identification and categorization of all public lands and maps areas that could potentially be used for the development of utility-scale renewable energy.</td>
<td>2021 - 2026</td>
</tr>
<tr>
<td>9</td>
<td>MCC</td>
<td>Kosovo Compact Program</td>
<td>Support investments in energy sector (one project, among three approved).</td>
<td>2020 - ongoing</td>
</tr>
<tr>
<td>No.</td>
<td>Donor/IFi</td>
<td>Project</td>
<td>Description / Main goal</td>
<td>Timeframe</td>
</tr>
<tr>
<td>-----</td>
<td>-----------</td>
<td>---------</td>
<td>-------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>10</td>
<td>KFW</td>
<td>Regional and Kosovo Challenge Funds</td>
<td>Finance facilities designed to increase youth employability and boost competitiveness of enterprises in WB6 region and Kosovo by funding investments in equipment and infrastructure for selected cooperative training projects that are implemented through partnership between vocational training institutes and the enterprises.</td>
<td>2022 - 2025</td>
</tr>
<tr>
<td>11</td>
<td>SDC</td>
<td>Kosovo Investment Council Project</td>
<td>Establish a functional, transparent and fact-based dialogue between government and private sector that will contribute in building the trust among key stakeholders in the economic domain and contribute to formulation of conducive growth policies.</td>
<td>2023 - 2026</td>
</tr>
</tbody>
</table>

**Objective 2: Diversifying finance.**

<table>
<thead>
<tr>
<th>No.</th>
<th>Donor/IFi</th>
<th>Project</th>
<th>Description / Main goal</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EBRD</td>
<td>Assistance to CBK on Corporate Governance for Financial Institutions</td>
<td>Develop secondary legal framework to improve division of roles and responsibilities between key corporate bodies of financial institutions, effective oversight and internal control mechanisms and appropriate transparency and disclosure for all licensed financial institutions.</td>
<td>2020 - 2023</td>
</tr>
<tr>
<td>2</td>
<td>EBRD</td>
<td>Assistance to CBK on Transposing Local Legal Framework with EU Bank Recovery and Resolution Directive</td>
<td>Review and identify weaknesses in the Kosovo bank resolution legal framework, with focus on aligning it with the international best practices in general and the European Parliament’s and Council’s Directive 2014/59/EU.</td>
<td>2019 - 2023</td>
</tr>
<tr>
<td>3</td>
<td>KFW</td>
<td>Support to Kosovo Credit Guarantee Fund</td>
<td>Provide guarantee capital to KCGF to promote MSMEs growth and employment though different windows.</td>
<td>2016 -2025</td>
</tr>
<tr>
<td>4</td>
<td>IFC</td>
<td>Micro-Finance Sector Reform</td>
<td>Provide technical assistance to Ministry of Finance and other relevant institutions to draft the legal framework for reforming the microfinance sector.</td>
<td>2021 - 2024</td>
</tr>
<tr>
<td>5</td>
<td>IFC</td>
<td>Kosovo Agri-Finance Project</td>
<td>Increase access to finance for farmers, employ digital tools, and mitigate weather risks with climate smart agriculture finance.</td>
<td>2021 - 2023</td>
</tr>
<tr>
<td>6</td>
<td>SDC</td>
<td>Promoting Investment through Integrated Environmental, Social and Governance (ESG) Standards</td>
<td>Promote sustainable investment through a programmatic approach targeting ESG in both the financial and real sectors.</td>
<td>2019 - 2024</td>
</tr>
<tr>
<td></td>
<td>European Fund for Southeast Europe</td>
<td>Development Facility Project</td>
<td>Provides technical assistance, training, and other non-financial support to institutions and individuals in the area of ESG and sustainable finance.</td>
<td>2007 - Ongoing</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------</td>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>8</td>
<td>USAID</td>
<td>Kosovo Economic Governance Activity</td>
<td>Strengthen the transparency, efficiency, accountability, and implementation of the regulatory requirements applied to businesses at national and sub-national levels. It includes inter alia support on legalization of property and strengthening public financial management.</td>
<td>2019 - 2024</td>
</tr>
</tbody>
</table>
# Annex 2: Summary of ongoing and potential policy, legal, and regulatory reforms

## Ongoing legal and regulatory reforms

<table>
<thead>
<tr>
<th>No.</th>
<th>Legal Act</th>
<th>Responsible Institution</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Draft Law on Sustainable Investments</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Under review by the Parliament</td>
</tr>
<tr>
<td>2</td>
<td>Draft Law on Crypto Currencies</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>3</td>
<td>Draft Law on Banks</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>4</td>
<td>Draft Law on Business Organizations</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>5</td>
<td>Draft Law on MFIs</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Inception</td>
</tr>
<tr>
<td>6</td>
<td>Draft Law on Bankruptcy</td>
<td>Ministry of Justice</td>
<td>Pending approval by GOK</td>
</tr>
<tr>
<td>7</td>
<td>Draft Law on Payment System</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>8</td>
<td>Draft Law on the Sovereign Fund of Kosovo</td>
<td>Office of the Prime Minister</td>
<td>Approved by GOK</td>
</tr>
<tr>
<td>9</td>
<td>Draft Law on Industrial and Technological Parks</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Under review by the Parliament</td>
</tr>
<tr>
<td>10</td>
<td>Draft Law on amending and supplementing the Law no. 04/L-139 on Enforcement Procedure</td>
<td>Ministry of Justice</td>
<td>Under review by the Parliament</td>
</tr>
<tr>
<td>11</td>
<td>Draft Law on Innovation and Entrepreneurship</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Under review by the Parliament</td>
</tr>
<tr>
<td>12</td>
<td>Draft Law on Labor</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Inception</td>
</tr>
</tbody>
</table>

---

Information on the status was obtained through GOK’s Legislative Program for 2023 and the portal konsultimet.rks-gov.net. Status updates may occur by the time this report is published.
<table>
<thead>
<tr>
<th>No.</th>
<th>Legal Act</th>
<th>Responsible Institution</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Draft Law on Safety and Health at Work</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Inception</td>
</tr>
<tr>
<td>14</td>
<td>Draft Law on Representation of State Institutions in Judicial and Arbitration Procedures</td>
<td>Ministry of Justice</td>
<td>Inception</td>
</tr>
<tr>
<td>15</td>
<td>Draft Law on Foreigners</td>
<td>Ministry of Internal Affairs</td>
<td>Inception</td>
</tr>
<tr>
<td>16</td>
<td>Draft Law on Energy</td>
<td>Ministry of Economy</td>
<td>Inception</td>
</tr>
<tr>
<td>17</td>
<td>Draft Law on Electricity</td>
<td>Ministry of Economy</td>
<td>Inception</td>
</tr>
<tr>
<td>18</td>
<td>Draft Law on Energy Regulator</td>
<td>Ministry of Economy</td>
<td>Inception</td>
</tr>
<tr>
<td>19</td>
<td>Draft Law on Energy Efficiency</td>
<td>Ministry of Economy</td>
<td>Inception</td>
</tr>
<tr>
<td>20</td>
<td>Concept Document on the Kosovo Chamber of Commerce</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Inception</td>
</tr>
<tr>
<td>21</td>
<td>Draft Law an Amending and Supplementing the Laws Containing Special Administrative Procedures and Their Harmonization with Law No. 04/L-202 On Permit and License System</td>
<td>Office of the Prime Minister</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>21</td>
<td>Draft Law on Public Private Partnership</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Drafting stage</td>
</tr>
<tr>
<td>22</td>
<td>Draft Law on Amending and Supplementing the Law no. 02/L-123 on Business Organizations</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Pending Approval by the GOK</td>
</tr>
</tbody>
</table>

**Potential legal and regulatory reforms**

<table>
<thead>
<tr>
<th>No.</th>
<th>Legal Act</th>
<th>Responsible Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Law no. 02/L-75 on Arbitration</td>
<td>Ministry of Justice</td>
</tr>
<tr>
<td>2</td>
<td>Law no. 05/L-057 on the Kosovo Credit Guarantee Fund</td>
<td>Ministry of Finance, Labor and Transfers</td>
</tr>
<tr>
<td>3</td>
<td>Law no. 05/L-045 on Insurances</td>
<td>Ministry of Finance, Labor and Transfers</td>
</tr>
<tr>
<td>No.</td>
<td>Law</td>
<td>Period covered</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>1</td>
<td>National Development Strategy</td>
<td>2023-2023</td>
</tr>
<tr>
<td>2</td>
<td>Economic Reform Program</td>
<td>2023-2025</td>
</tr>
<tr>
<td>3</td>
<td>The Strategy for Industrial Development and Business Support</td>
<td>2023-2030</td>
</tr>
<tr>
<td>4</td>
<td>Kosovo Mining Strategy</td>
<td>2012-2025</td>
</tr>
<tr>
<td>5</td>
<td>Kosovo Energy Strategy</td>
<td>2022-2031</td>
</tr>
<tr>
<td></td>
<td>and Combating of the Informal Economy, Money Laundering, Financing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of Terrorism and Financial Crimes</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Rule of Law Strategy</td>
<td>2021-2026</td>
</tr>
<tr>
<td>8</td>
<td>National Strategy for Low Value Payments in Kosovo</td>
<td>2021-2026</td>
</tr>
<tr>
<td>9</td>
<td>Strategic Plan of the Central Bank</td>
<td>2022-2024</td>
</tr>
</tbody>
</table>
## Annex 3: Stakeholders consulted

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of entity</th>
<th>Type of entity</th>
<th>Contact name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amcham</td>
<td>Business chamber</td>
<td>Arian Zeka</td>
<td>CEO</td>
</tr>
<tr>
<td>2</td>
<td>AMIK MFI Association</td>
<td>NGO</td>
<td>Shpresim Vranoci</td>
<td>CEO</td>
</tr>
<tr>
<td>3</td>
<td>Association of Kosovo Municipalities</td>
<td>Association</td>
<td>Sazan Ibrahim</td>
<td>CEO</td>
</tr>
<tr>
<td>4</td>
<td>BKT</td>
<td>Bank</td>
<td>Suad Bakkal</td>
<td>CEO</td>
</tr>
<tr>
<td>5</td>
<td>BKT</td>
<td>Bank</td>
<td>Albion Mulaku</td>
<td>Deputy CEO</td>
</tr>
<tr>
<td>6</td>
<td>BPB</td>
<td>Bank</td>
<td>Mimoza Godanci</td>
<td>CEO</td>
</tr>
<tr>
<td>7</td>
<td>BPB</td>
<td>Bank</td>
<td>Argjira Kadrijaj</td>
<td>Digital Banking Manager</td>
</tr>
<tr>
<td>8</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Nexhat Kryeziu</td>
<td>Vice Governor</td>
</tr>
<tr>
<td>9</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Dardan Fusha</td>
<td>Director, Payments</td>
</tr>
<tr>
<td>10</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Nora Latifi</td>
<td>Acting Vice Governor</td>
</tr>
<tr>
<td>11</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Bashkim Nurboja</td>
<td>Acting Governor</td>
</tr>
<tr>
<td>12</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Blerim Terziqi</td>
<td>Advisor to the Governor</td>
</tr>
<tr>
<td>13</td>
<td>Central Bank of Kosovo</td>
<td>Regulator</td>
<td>Zyber Qadraku</td>
<td>Head of Legal and Regulatory</td>
</tr>
<tr>
<td>14</td>
<td>Commercial Court</td>
<td>Judiciary</td>
<td>Mahir Tutuli</td>
<td>President</td>
</tr>
<tr>
<td>15</td>
<td>De-Sede-ag</td>
<td>Investor diaspora</td>
<td>Arben Mehmeti</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>16</td>
<td>Deloitte</td>
<td>BSP</td>
<td>Gezim Gjikolli</td>
<td>CEO</td>
</tr>
<tr>
<td>17</td>
<td>Economic Bank</td>
<td>Bank</td>
<td>Valon Lluka</td>
<td>Chair of the Board</td>
</tr>
<tr>
<td>18</td>
<td>Economic Bank</td>
<td>Bank</td>
<td>Shpend Luzha</td>
<td>CEO</td>
</tr>
<tr>
<td>19</td>
<td>EFSE-Finance in Motion</td>
<td>Investment fund</td>
<td>Venera Hoxha</td>
<td>CEO</td>
</tr>
<tr>
<td>20</td>
<td>EFSE-Finance in Motion</td>
<td>Investment fund</td>
<td>Arben Morina</td>
<td>Senior Officer</td>
</tr>
<tr>
<td>21</td>
<td>European Bank for Reconstruction and Development</td>
<td>IFI</td>
<td>Arianit Blakaj</td>
<td>Principal Banker</td>
</tr>
<tr>
<td>22</td>
<td>Former government official</td>
<td>Individual</td>
<td>Besian Mustafa</td>
<td>Former KIESA CEO</td>
</tr>
<tr>
<td>23</td>
<td>German-Kosovo Chamber of Commerce</td>
<td>Business chamber</td>
<td>Nora Hasani</td>
<td>CEO</td>
</tr>
<tr>
<td>24</td>
<td>GG Group</td>
<td>Investor-diaspora</td>
<td>Adem Gashi</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>25</td>
<td>Golden Eagle &amp; Frutex</td>
<td>Business</td>
<td>Shaqir Palushi</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>26</td>
<td>IBAS</td>
<td>Fintech</td>
<td>Gazmend Selmani</td>
<td>CEO</td>
</tr>
<tr>
<td>27</td>
<td>International Finance Corporation</td>
<td>IFI</td>
<td>Suad Lushtaku</td>
<td>Senior Officer</td>
</tr>
<tr>
<td>No.</td>
<td>Name of entity</td>
<td>Type of entity</td>
<td>Contact name</td>
<td>Position</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------</td>
<td>----------------</td>
<td>----------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>28</td>
<td>International Finance Corporation</td>
<td>IFI</td>
<td>Syzana Dautaj</td>
<td>Manager</td>
</tr>
<tr>
<td>29</td>
<td>International Monetary Fund</td>
<td>IFI</td>
<td>Selim Thaci</td>
<td>Economist</td>
</tr>
<tr>
<td>30</td>
<td>Illyria Life</td>
<td>Insurance</td>
<td>Albin Podvorica</td>
<td>CEO</td>
</tr>
<tr>
<td>31</td>
<td>ITP Prizren</td>
<td>Tech park</td>
<td>Muhamed Rexhepi</td>
<td>Manager</td>
</tr>
<tr>
<td>32</td>
<td>Keiretsu Angel Investment</td>
<td>Non-bank</td>
<td>Ardian Hoxha</td>
<td>Director</td>
</tr>
<tr>
<td>33</td>
<td>KEP Trust</td>
<td>Microfinance</td>
<td>Shpend Nura</td>
<td>CEO</td>
</tr>
<tr>
<td>34</td>
<td>KFW</td>
<td>Development bank</td>
<td>Bahrije Dibra</td>
<td>Sector Specialist</td>
</tr>
<tr>
<td>35</td>
<td>KIESA</td>
<td>Central government</td>
<td>Zef Dedaj</td>
<td>CEO</td>
</tr>
<tr>
<td>36</td>
<td>KIVO Kosovo</td>
<td>Private investor</td>
<td>Visar Ramajli</td>
<td>CEO</td>
</tr>
<tr>
<td>37</td>
<td>KIVO Netherlands</td>
<td>Investor-foreign</td>
<td>Robert Kwakman</td>
<td>KIVO Netherlands</td>
</tr>
<tr>
<td>38</td>
<td>Kosovo Banking Association</td>
<td>NGO</td>
<td>Petrit Balija</td>
<td>CEO</td>
</tr>
<tr>
<td>39</td>
<td>Kosovo Chamber of Commerce</td>
<td>Business chamber</td>
<td>Lulzim Rafuna</td>
<td>President</td>
</tr>
<tr>
<td>40</td>
<td>Kosovo Credit Guarantee Fund</td>
<td>Public entity</td>
<td>Besnik Berisha</td>
<td>CEO</td>
</tr>
<tr>
<td>41</td>
<td>Kosovo Manufacturing Club</td>
<td>Business chamber</td>
<td>Astrit Panxha</td>
<td>CEO</td>
</tr>
<tr>
<td>42</td>
<td>Kosovo Pension Savings Trust</td>
<td>Pension fund</td>
<td>Adrian Zalli</td>
<td>CEO</td>
</tr>
<tr>
<td>43</td>
<td>Kosovo Tax Administration</td>
<td>Central government</td>
<td>Ilir Murtezaj</td>
<td>CEO</td>
</tr>
<tr>
<td>44</td>
<td>Millennium Challenge Corporation</td>
<td>Donor</td>
<td>Rinor Gjonbalaj</td>
<td>CEO</td>
</tr>
<tr>
<td>45</td>
<td>Ministry of Agriculture, Forestry and Rural Development</td>
<td>Central government</td>
<td>Shqipe Dema</td>
<td>Official</td>
</tr>
<tr>
<td>46</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Central government</td>
<td>Anila Abazi</td>
<td>Chief of Cabinet</td>
</tr>
<tr>
<td>47</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Central government</td>
<td>Klit Shala</td>
<td>Acting Head of Legal</td>
</tr>
<tr>
<td>48</td>
<td>Ministry of Finance, Labor and Transfers</td>
<td>Central government</td>
<td>Antoneta Azemi</td>
<td>Advisor to the Minister</td>
</tr>
<tr>
<td>49</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Central government</td>
<td>Rexhep Bllaca</td>
<td>Head of Legal Department</td>
</tr>
<tr>
<td>No.</td>
<td>Name of entity</td>
<td>Type of entity</td>
<td>Contact name</td>
<td>Position</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------</td>
<td>-----------------------</td>
<td>----------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>50</td>
<td>Ministry of Industry, Entrepreneurship and Trade</td>
<td>Central government</td>
<td>Laura Perjuci Zherka</td>
<td>Director of Department of Innovation</td>
</tr>
<tr>
<td>51</td>
<td>NLB</td>
<td>Bank</td>
<td>Gazmend Kadriu</td>
<td>CEO</td>
</tr>
<tr>
<td>52</td>
<td>Office of Prime Minister</td>
<td>Central government</td>
<td>Luan Dalipi</td>
<td>Chief of Staff</td>
</tr>
<tr>
<td>53</td>
<td>Office of Prime Minister</td>
<td>Central government</td>
<td>Tea Blakaj</td>
<td>Legal Advisor</td>
</tr>
<tr>
<td>54</td>
<td>Office of Prime Minister</td>
<td>Central government</td>
<td>Lulzon Jagxhiu</td>
<td>Chief Tech Officer</td>
</tr>
<tr>
<td>55</td>
<td>OneFor</td>
<td>Fintech</td>
<td>Yll Dushi</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>56</td>
<td>OneFor</td>
<td>Fintech</td>
<td>Ilir Aliu</td>
<td>CEO</td>
</tr>
<tr>
<td>57</td>
<td>Paysera</td>
<td>Fintech</td>
<td>Valon Budima</td>
<td>Board Member</td>
</tr>
<tr>
<td>58</td>
<td>Paysera</td>
<td>Fintech</td>
<td>Bashkimi Zeqiri</td>
<td>Vice President</td>
</tr>
<tr>
<td>59</td>
<td>Plug and Play</td>
<td>Innovation platform</td>
<td>Uranik Begu</td>
<td>Director</td>
</tr>
<tr>
<td>60</td>
<td>Powerpack</td>
<td>Business</td>
<td>Kujtim Gjevori</td>
<td>CEO</td>
</tr>
<tr>
<td>61</td>
<td>Powerpack</td>
<td>Investor-foreign</td>
<td>William Vandenbergh</td>
<td>Founder and CEO in Belgium</td>
</tr>
<tr>
<td>62</td>
<td>PricewaterhouseCoopers</td>
<td>BSP</td>
<td>Gresa Rexhepi</td>
<td>CEO</td>
</tr>
<tr>
<td>63</td>
<td>ProCredit Bank</td>
<td>Bank</td>
<td>Eriola Bibolli</td>
<td>CEO</td>
</tr>
<tr>
<td>64</td>
<td>Proex Lifecycle</td>
<td>Investment fund</td>
<td>Ylber Kuraja</td>
<td>CEO</td>
</tr>
<tr>
<td>65</td>
<td>Raiffeisen Bank</td>
<td>Bank</td>
<td>Ilirjana Toci</td>
<td>Member of Management Board</td>
</tr>
<tr>
<td>66</td>
<td>Raiffeisen Bank</td>
<td>Bank</td>
<td>Agron Gashi</td>
<td>Head of SME Department</td>
</tr>
<tr>
<td>67</td>
<td>Raiffeisen Leasing</td>
<td>Bank/Leasing</td>
<td>Gjon Gjonlleshaj</td>
<td>CEO</td>
</tr>
<tr>
<td>68</td>
<td>Reks Netherlands</td>
<td>Investor-foreign</td>
<td>Ben Kras</td>
<td>CEO</td>
</tr>
<tr>
<td>69</td>
<td>Scardian</td>
<td>Insurance</td>
<td>Hekuran Neziri</td>
<td>CEO</td>
</tr>
<tr>
<td>70</td>
<td>SIDA</td>
<td>Donor</td>
<td>Fatos Mulla</td>
<td>Program Manager</td>
</tr>
<tr>
<td>71</td>
<td>Sovereign Fund of Kosovo</td>
<td>Public entity</td>
<td>Emanuel Bajra</td>
<td>Member of Working Group</td>
</tr>
<tr>
<td>72</td>
<td>Spaxel LLC</td>
<td>Investor</td>
<td>Granit Gjonbalaj</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>73</td>
<td>Spaxel LLC</td>
<td>Investor</td>
<td>Abedin Matoshi</td>
<td>CFO</td>
</tr>
<tr>
<td>No.</td>
<td>Name of entity</td>
<td>Type of entity</td>
<td>Contact name</td>
<td>Position</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------</td>
<td>------------------</td>
<td>-----------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>74</td>
<td>Speeex</td>
<td>Business</td>
<td>Fikret Murati</td>
<td>CEO</td>
</tr>
<tr>
<td>75</td>
<td>TEB Bank</td>
<td>Bank</td>
<td>Orcun Ezdemir</td>
<td>CEO</td>
</tr>
<tr>
<td>76</td>
<td>TEB Bank</td>
<td>Bank</td>
<td>Serhan Ozarslan</td>
<td>Deputy CEO</td>
</tr>
<tr>
<td>77</td>
<td>TEB Bank</td>
<td>Bank</td>
<td>Dren Krypa</td>
<td>Deputy CEO</td>
</tr>
<tr>
<td>78</td>
<td>The-Bener</td>
<td>Investor-diaspora</td>
<td>Fadil Lika</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>79</td>
<td>USAID Commercial Justice Activity</td>
<td>Donor</td>
<td>Chris Thompson</td>
<td>Chief of Party</td>
</tr>
<tr>
<td>80</td>
<td>World Bank</td>
<td>Development bank</td>
<td>Blerta Qerimi</td>
<td>Private Sector Specialist</td>
</tr>
<tr>
<td>81</td>
<td>Zvilo</td>
<td>NBFI</td>
<td>Admir Imami</td>
<td>CEO</td>
</tr>
<tr>
<td>82</td>
<td>Zvilo</td>
<td>NBFI</td>
<td>Admir Morina</td>
<td>Deputy CEO</td>
</tr>
<tr>
<td>83</td>
<td>Zvilo</td>
<td>NBFI</td>
<td>Edona Xhamazi</td>
<td>Project Officer</td>
</tr>
<tr>
<td>84</td>
<td>Ministry of Economy</td>
<td>Central government</td>
<td>Besiana Qorraj</td>
<td>Senior Officer</td>
</tr>
<tr>
<td>85</td>
<td>Numarics</td>
<td>Fintech</td>
<td>Kristian Kabashi</td>
<td>CEO</td>
</tr>
<tr>
<td>86</td>
<td>Numarics</td>
<td>Fintech</td>
<td>Gent Shala</td>
<td>Advisor to the CEO</td>
</tr>
<tr>
<td>87</td>
<td>Chamber of Private Enforcement Agents</td>
<td>Association</td>
<td>Arben Gashi</td>
<td>President</td>
</tr>
<tr>
<td>88</td>
<td>Sejdiu and Qerkini Law Firm</td>
<td>Business-law</td>
<td>Korab Sejdiu</td>
<td>Partner</td>
</tr>
</tbody>
</table>