

KOSOVO*

1. Introduction


Despite the competitive tax rate and tax system in place in Kosovo, several challenges such as access to finance for small and medium-sized enterprises (SMEs), the large trade deficit and sluggish growth in business registrations still need to be addressed.

The COVID-19 pandemic, combined with the policy decisions taken in response to it, badly affected Kosovo's economy. Both GDP¹ and total employment² dropped sharply in 2020 by an estimated 4.5% and 6.7% respectively. Value added in the 'non-financial business economy' fell by an estimated 4.1%³. The *wholesale and retail trade, transportation and storage and accommodation and food services* sectors were particularly affected, with value added declining by an estimated 16.2% in total. The *information and communication* sector, in contrast, performed strongly in 2020, with value added growing by an estimated 10.5%.

SMEs play a particularly important role in Kosovo's 'non-financial business economy'. In 2020, they generated 80.4% of employment, outperforming the EU average of 65.2%. SMEs in Kosovo employed an average of 6.0 people in 2016, significantly more than the EU average of 3.7 people⁴.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the International Court of Justice's Opinion on the Kosovo declaration of independence.

Figure 1: Number of enterprises, persons employed and value added in 2020



	Number of enterprises			Number of persons employed		
	Kosovo		EU-27	Kosovo		EU-27
	Number	Share	Share	Number	Share	Share
Micro	24 051	87.2%	93.3%	69 284	33.5%	29.6%
Small	3 081	11.2%	5.7%	57 660	27.9%	19.7%
Medium-sized	405	1.5%	0.9%	39 261	19.0%	15.8%
SMEs	27 537	99.8%	99.8%	166 205	80.4%	65.2%
Large	57	0.2%	0.2%	40 422	19.6%	34.8%
Total	27 594	100%	100%	206 627	100%	100%

Source: These data for 2020 are based on data provided by the OECD. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Competitive tax rates and relatively simple tax system

Overall, the tax compliance procedures and effective tax rates are more competitive in Kosovo than the EU average. Indeed, the tax system in Kosovo has comparatively few legal requirements for tax reporting compared to other EU countries. On average, Kosovo requires 10 tax payments per business per year, while the EU average is 10.3 tax payments per year (2019)^{5,6}. In addition, while EU countries require 174.5 hours of work per year for tax compliance purposes per business on average, Kosovo requires only 154 hours of work (2019)^{7,8}. Most significantly, Kosovo has much lower effective tax rates. Around 15.2% of businesses' profits went to combined personal income tax, pension deductions and corporate income tax in 2019, against the EU average of 39.7% of businesses' profits^{9,10}.

The government continues its efforts to create a competitive tax environment for businesses in Kosovo. In 2019, it implemented two tax reduction measures. The first measure aims to decrease VAT in the agriculture and food processing sectors¹¹. The second measure aims to support production companies in Kosovo by cutting VAT, customs and excise taxes¹².

3. Key challenges

Access to finance remains limited

Kosovo lags behind the EU average in providing 'access to finance for SMEs'¹³. As of Q2-2020, the commercial banks in Kosovo required a 200% collateral coverage ratio on average (immovable property). The average interest rate on loans for SMEs was 5.9%, while the average interest rate for the EU was below 3% for all loan categories. In addition, when looking at 'access to public financial support including guarantees', the percentage of companies that indicated a deterioration (in 2019) is higher in Kosovo (11.9%) compared to the EU average of 9.9%¹⁴. Moreover, investments from business angels, private equity and other non-traditional forms of financing are very limited and typically either support low value start-up investments or high value large corporate investments^{15,16}.

However, the government introduced several measures in 2020 to help SMEs access finance. It implemented new measures to support women entrepreneurs and to provide women-owned businesses with grants of up to EUR 30 000 and up to 50% of the total project value¹⁷. The government also introduced initiatives to ease access to finance for SMEs investing in energy efficiency and renewable energy by providing credit guarantees¹⁸. Kosovo also adopted several measures to soften the effects of the COVID-19 pandemic on SMEs. This includes the Economic Recovery Plan, which invested more than EUR 365 million in the economy¹⁹ and the Emergence Fiscal Package for COVID-19 to help SMEs cope with the immediate aftermath of the COVID-19 pandemic lockdown²⁰. While the total package came to around EUR 190 million, only EUR 30.4 million had been allotted as of 8 May 2020²¹, with another EUR 7.6 million paid out in October 2020 in the form of wage subsidies²². However, according to the Ministry of Finance and the government's transfer annual financial reports, 96.9% of the funds set aside for economic recovery had been spent in 2020²³.

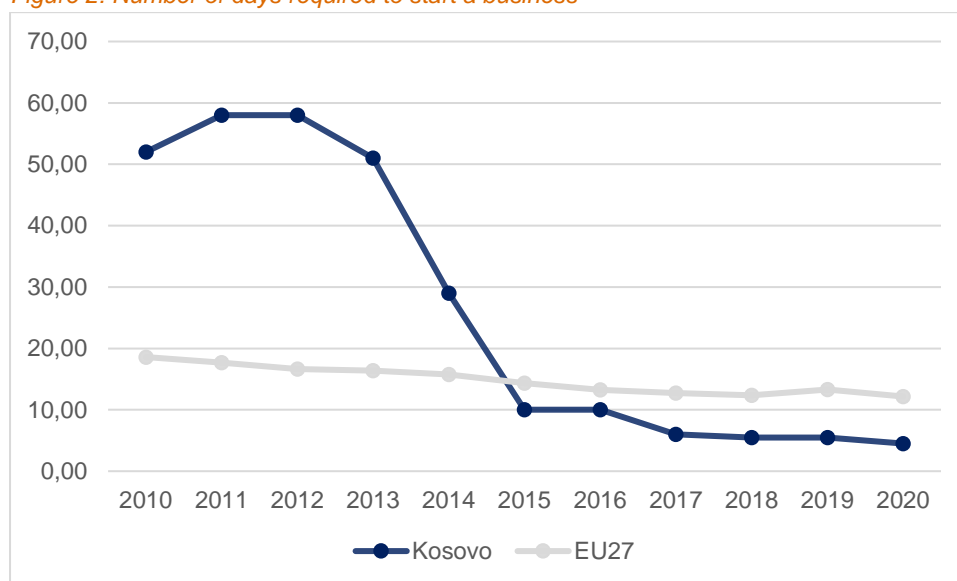
In addition, Kosovo signed a COSME agreement in 2019 (EU programme for the competitiveness of businesses and SMEs). This will have a positive impact on access to finance for companies, help open up markets, support entrepreneurs and improve business conditions in Kosovo²⁴.

Few new business registrations in the last 10 years

The trend in the number of new business registrations per year in Kosovo has remained flat in recent years, with some 2 400 new business registrations per quarter since 2013²⁵.

The government has largely streamlined the burden associated with business registration. The process has been simplified, with an average of 4.5 days' workload now needed to start a business at a cost of 1.6% of income per capita (2019). By comparison, business registration in the EU requires 11.9 working days on average at a cost of 3.1% of income per capita²⁶.

Figure 2: Number of days required to start a business



Source: World Bank Doing Business, 2020²⁷

Construction permits are still difficult to obtain and costly, and the procedures are complicated. On average, it takes 18 procedures and an estimated 237 workdays to build a warehouse in Kosovo. In addition, 5.2% of the total building costs must be paid to the government²⁸. By comparison, there are 13.7 procedures to follow on average in the EU, with 176.5 workdays and 1.9% of the total building costs paid to governments in the EU on average²⁹.

Kosovo underperforms all other regional and EU economies in terms of exports, with a EUR 2.82 billion trade deficit gap in 2020

Kosovo's export performance lags some way behind other economies – in 2020, it had EUR 475 million in exports compared to EUR 3.29 billion in imports. The number of exports has significantly increased compared to the previous year, recording an increase of almost 24%³⁰. The large discrepancy between imports and exports is a result of decades of pre- and post-war underfunding of industry and reliance on domestic imports from Yugoslavia. The government and donors are still focusing on stimulating import substitution and increasing exports. However, the task of increasing exports remains a challenge due to Kosovo's unresolved status, impossibility to join international trade and customs organisations and other non-tariff trade barriers. While exports have shown a general upward trend, the performance fluctuates year-on-year. In addition, imports are growing much faster than exports³¹.

In 2020, the government introduced a new measure to promote exports. It created an online database, acting as a one-stop shop, to provide information on trade in services, with the aim of boosting growth in exports and trade in services³².

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Due to the COVID-19 crisis, 95% of SMEs in Kosovo have seen a decline in revenue³³.

Only 1% of SMEs have started adapting their businesses and digitalising (e-commerce)³⁴.

According to a survey conducted by the World Bank among business associations in Kosovo, 39% of firms that responded closed completely due to the pandemic, 31% worked at a reduced capacity, and 14% reduced the number of working hours. The smallest firms – those with fewer than 10 employees – were even more affected, and were most likely to be closed completely. Among the firms with fewer than 10 employees, 54.4% of respondents mentioned that they closed completely, 29.2% reported a reduced workforce, while 0.4% reported an increase in staff³⁵.



GREEN TRANSITION OF SMES

There are currently limited possibilities to access loans for energy efficiency or other sustainability measures in Kosovo. Nevertheless, SMEs can benefit from programmes such as the Green Economy Financing Facility by the European Bank for Reconstruction and Development, the Green for Growth Fund Credit Line or the Kosovo Sustainable Energy Projects^{36,37}.



MARKET ACCESS

As Kosovo is not a member of the World Trade Organization³⁸, it is unable to benefit from trade facilitation services and procedures. It also does not have an ISO code or other international trade, internet domain and communication codes. This makes it more difficult to export services, particularly in terms of information and communications technology.



START-UP ENVIRONMENT

Government support to start-ups consists mainly of an annual grant for micro-, small and medium-sized enterprises issued by the Ministry for Trade and Industry³⁹.



DIGITALISATION OF SMES

Two main programmes – both funded by blended EU and World Bank initiatives – support the adoption of digital technologies by SMEs in Kosovo. The Kosovo Digital Economy Project financed by the World Bank aims to expand access to broadband, improve access to digital work opportunities for students and provide oversight and execution⁴⁰. The EU-funded ACCESS project focuses on improving the provision of digital services and digitalisation through grants⁴¹.

-
- ¹ The GDP growth rate is based on forecasts produced by World Bank data.
(<http://pubdocs.worldbank.org/en/895531588784909780/Global-Economic-Prospect-2020-ECA-data.xlsx>)
- ² Total employment data are based on the Labour Force Surveys by the Kosovo Agency of Statistics for the first three quarters of 2020 and the 2019 Labour Force Survey.
<https://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/labour-force-survey-q3-2020>
- ³ The value added data for 2020 are provisional estimates produced by DIW Econ, based on data from the National Accounts Database (Eurostat). Due to data constraints, the estimates do not specifically refer to SMEs, but to firms of any size in the non-financial business economy. However, since SMEs account for the vast majority of value added generated in Kosovo, the estimates can also be considered representative of the performance of SMEs in 2020.
- ⁴ Data on the number of SMEs and SME employment in 2020 are based on data from the Kosovo Agency of Statistics.
- ⁵ *World Bank Doing Business Report for Kosovo* (2019), available at:
<https://www.doingbusiness.org/content/dam/doingBusiness/country/k/kosovo/KSV.pdf>
- ⁶ *World Bank Doing Business Report for the European Union* (2019), available at:
<https://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2020/EU.pdf>
- ⁷ See Note 5.
- ⁸ See Note 6.
- ⁹ See Note 5.
- ¹⁰ See Note 6.
- ¹¹ Ministria e Financave (2019), *Ministri Hamza nënshkruan vendimin për reduktimin e normave tatimore nga 18 % në 8 % për kafshët dhe shpendët e gjalla*, available at: <https://mf.rks-gov.net/Page.aspx?id=1,2,793>
- ¹² Ministria e Financave (2019), *Ministria e Financave ndihmon sektorin e prodhimit me 90 milion euro tatime deri tani të aprovuara në formë të lirimit*, available at: <https://mf.rks-gov.net/Page.aspx?id=1,2,761>
- ¹³ The World Bank (2019), *International development association – project appraisal document on a proposed credit in the amount of EUR 22.3 million (US\$ 25 million equivalent) to the Republic of Kosovo for a Kosovo financial sector strengthening project*, available at: <http://documents1.worldbank.org/curated/en/760711558144961259/pdf/Kosovo-Financial-Sector-Strengthening-Project.pdf>
- ¹⁴ European Commission (2019), *Survey on the Access to Finance of Enterprises*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
- ¹⁵ Central Bank of Kosovo (2020), *Financial Stability Report*, available at: https://bqk-kos.org/wp-content/uploads/2020/08/CBK_FSR_16.pdf
- ¹⁶ Central Bank of Kosovo (2020), *Quarterly Evaluation of Financial System*, available at: https://bqk-kos.org/wp-content/uploads/2020/10/BQK_SF_TM2-2020-4.pdf
- ¹⁷ Ministria e Tregtisë dhe Industrisë (2020), *MTI/KIESA thirrje publike për subvencionim të ndërmarrjeve të grave ndërmarrëse*, available at: <https://mti.rks-gov.net/Page.aspx?id=1,%203,1013>
- ¹⁸ Fondi Kosovë për Garanci Kreditore (2020), *MFK, FKKG dhe MF nënshkruajnë Letër Qëllimin*, available at: <https://fondikgk.org/mfk-fkgk-dhe-ministria-e-financave-nenshkruajne-leter-qellimi-per-fillimin-e-financimit-komercial/>
- ¹⁹ Ministria e Financave (2020), *Qeveria miraton Planin për zbatimin e rimëkëmbjes ekonomike*, available at: <https://mf.rks-gov.net/Page.aspx?id=1,2,958>
- ²⁰ Ministria e Financave (2020), *Pako Emergjente Fiskale E Qeverisë Së Republikës Së Kosovës*, available at: <https://mf.rks-gov.net/Page.aspx?id=1,2,851>
- ²¹ Kosovo Ministry of Finance and Transfers (2020), *100 day work report of the Ministry of Finance and Transfers*, available at <https://mf.rks-gov.net/desk/inc/media/69F09C4C-E93D-4991-8938-CC9BD56BA549.pdf>
- ²² Kosovo Ministry of Finance and Transfers of Kosovo (2020), *List of 50 businesses that benefited from the National Recovery Program*, available at <https://mf.rks-gov.net/Page.aspx?id=1,2,1054>
- ²³ Ministry of Finance and Transfers (2021), *Annual Financial Report – Kosovo Budget*, page 110–116, available at: <https://mf.rks-gov.net/desk/inc/media/04E85A56-B508-41C1-A6D6-427A0C091EF0.pdf>
- ²⁴ European External Action Service (2019), *EU Office in Kosovo promotes Entrepreneurship and SMEs: COSME Programme*, available at: https://eeas.europa.eu/headquarters/headquarters-homepage/63054/eu-office-kosovo-promotes-entrepreneurship-and-smes-cosme-programme_mk
- ²⁵ Kosovo Agency of Statistics (2020), *Enterprise Statistical Repertoire*, available at: <https://ask.rks-gov.net/media/5647/repertoari-statesikor-tm3-2020.pdf>
- ²⁶ See Note 6.
- ²⁷ *World Bank Doing Business* (2020), available at: <http://www.doingbusiness.org/>
- ²⁸ See Note 5.
- ²⁹ See Note 6.
- ³⁰ European Commission (2021), *Commission staff working document, economic reform programme of Kosovo*, available at: <https://data.consilium.europa.eu/doc/document/ST-8100-2021-INIT/en/pdf>
- ³¹ Kosovo Agency of Statistics (2020), *International Trade of Goods*, available at: <https://ask.rks-gov.net/media/5819/statistikat-e-tregtis%C3%AB-s%C3%AB-jashtme-stj-n%C3%ABntor-2020.pdf>
- ³² See Note 13.
- ³³ Access (2020), *Study on the impact of the COVID-19 crisis on SME digitalization efforts*, available at: https://eciks.com/publications/Study_COVID-19%20crisis%20on%20SME%20digitalization%20efforts.pdf
- ³⁴ Ibid.
- ³⁵ The World Bank Group (2020), *The Economic and Social Impact of COVID-19*, available at: <http://documents1.worldbank.org/curated/en/444031591289647448/pdf/The-Economic-and-Social-Impact-of-COVID-19-Private-Sector.pdf>
- ³⁶ Procredit Bank, available at: <https://www.procreditbank-kos.com/eng/business-clients/loans/small-and-medium-loans/>

³⁷ Green Economy Financing Facility, *EBRD celebrates energy efficiency in Kosovo*, available at: <https://ebrdgeff.com/new-ebrd-financing-to-turkeys-isbank-4-2-4/>

³⁸ *Current status of WTO accessions*, available at: https://www.wto.org/english/thewto_e/acc_e/acc_status_e.htm

³⁹ Ministry of Trade and Industry (2021), *Public call for financial subsidies for MSMEs*, available at: <https://mint.rks-gov.net/desk/inc/media/1331C0FC-6A45-4839-BEAE-113B6FFE4A04.docx>

⁴⁰ The World Bank, *Kosovo Digital Economy (KODE)*, available at: <https://projects.worldbank.org/en/projects-operations/project-detail/P164188>

⁴¹ ECIKS (2019), *Initiating the ACCESS project in Kosovo*, available at: <https://eciks.com/why-access-project-in-kosovo/>