

Ministry of Innovation and Entrepreneurship



NATIONAL STRATEGY FOR INNOVATION AND ENTREPRENEURSHIP (2019-2023)

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ABBREVIATIONS

| | |
|---------|---|
| ABRK | Agency for Business Registration Kosovo |
| AMIK | Association of Microfinancing Institutions in Kosovo |
| CEED | Centre for Entrepreneurship and Executive Development |
| COSME | Competitiveness of Enterprises and Small and Medium-sized Enterprises |
| EFSE | European Fund for Southeast Europe |
| ERP | Economic Reform Programme |
| GVA | Gross value added |
| GoK | Government of Republic of Kosovo |
| ICK | Innovation Centre Kosovo |
| IPA | Instrument for Pre-accession Assistance |
| ITP | Innovation and Technology Park |
| KCGF | Kosovo Credit Guarantee Fund |
| KIESA | Kosovo Investment and Enterprise Support Agency |
| MFI | Micro financing Institutions |
| MIE | Ministry of Innovation and Entrepreneurship |
| MED | Ministry of Economic Development |
| MTI | Ministry of Trade and Industry |
| NBFIS | Non-Bank financial institutions |
| NDS | National Development Strategy |
| RDI | Research, development and innovation |
| SSF | SECO Start-up Fund |
| S3 | Smart Specialisation Strategies |
| TA | Transformative Activities |
| USP | Unique Selling Proposition |
| WB EDIF | Western Balkans Enterprise Development & Innovation Facility |
| WB | World Bank |

EXECUTIVE SUMMARY

The Government of the Republic of Kosovo, in its long-term orientation, is determined to create a sustainable basis for sustainable economic development based on human resources and natural resources. Kosovo has for many years developed its own economic development in natural resources, enabling a solid economic growth. Global and regional development challenges for economic development are on the rise and the conventional economy is undergoing radical changes.

The development of industrial and information technology, automation of production and the development of service robotics have driven new generations to reorient their interests more in the application of information technology and the application of software to the benefit of economic development. The population of Kosovo, as the youngest population in Europe, has understood very well and has started to apply these developments to new enterprises that are being formed and are developing much faster than in the countries of the region. The digital economy even though later in the region is entering the daily life of Kosovar enterprises faster and becoming an important economic sector.

The service sector in the field of information technology is the only sector with a positive trade balance and a promising sector on which the concept of new economic thought can be developed in the country. Switching from the traditional economy to the digital economy requires the development of an ecosystem of innovation, legal infrastructure, clear fiscal policy and an effective education system from the primary to the university level.

The Strategy for Innovation and Entrepreneurship focuses on long-term development and systemic approaches to support innovation with economic impacts as a core value for successful economies and prosperous societies. The strategy enables the development of public policies, legal infrastructure, fiscal policies and the integral approach of the ecosystem of innovation and entrepreneurship.

The Government of the Republic of Kosovo, through the establishment of the Ministry of Innovation and Entrepreneurship (MIE), recognizes innovation as a key action for the social and economic development of the country. This fact is in correlation with recent global economic developments, with the European tendency for economic digitization, globalization of product markets, and the fourth industrial revolution.

The Innovation and Entrepreneurship Support Strategy sets out the strategic orientation of innovator identification, innovation development and innovative systems through vision, strategic goals and four thematic pillars that will be followed by objectives and action plans.

Consequently, the Strategy puts the basic strategic goal *“to increase the competitiveness of Kosovar enterprises and increasing social welfare is the result of investing in knowledge, creativity and innovation”* in the center of the proposed activities.

1. INTRODUCTION

In times of increasing technological convergence and digital transformation, innovation and entrepreneurship are becoming even more important than ever. Investments in innovation, research and development have proven to be key factors in overcoming the global economic and social challenges. Investments in these areas enable increased competitiveness in the private sector, improving public services and citizens' well-being.

The Government and MIE, consider innovation as an important area for entrepreneurship development and at the same time direct impact on Kosovo's economic and social development. Consequently, The National Innovation and Entrepreneurship Strategy aims to further stimulate innovation and entrepreneurship for the Republic of Kosovo for the period 2019-2023.

This strategy has been drafted in accordance with article 3, appendix 20, according to the Regulation (QRK) no.15 / 2017 on amending and supplementing Regulation no. 02/2011 on the fields of administrative responsibility of the Office of the Prime Minister and ministries, as amended and supplemented by Regulation no. 07/2011 and Regulation No.14 / 2017, which states that the Ministry of Innovation and Entrepreneurship has the competence to draft, implement, coordinate and supervise policies, strategies and legislation in the field of innovation and entrepreneurship on behalf of the Government of the Republic of Kosovo, The Government Program and the Economic Reform Program and the recommendations from the International Evaluation Reports for the Republic of Kosovo for Innovation and Entrepreneurship, EU Regulatory and Strategy for these two areas.

The Strategy has been created using a variety of resources, including all local institutions such as line ministries, which are represented at the National Council for Innovation and Entrepreneurship and in working groups, then in research and scientific work at universities, colleges and universities scientific and research institutions, information and data from SMEs, start-ups, engagement businesses, non-governmental organizations that have the mission of developing innovative ideas and activities in the Republic of Kosovo, chambers of commerce, diaspora consultations and organizations international missions in Kosovo and the EU.

Dedicated attention has been given that the Strategy is well aligned with already existing Strategies or related documents, like the National Development Strategy 2016 - 2021¹ that make dedicated reference to cluster development and upgrading SMEs to activities with higher added values (all very relevant for the current Strategy) or like the Kosovo IT Strategy². All in all, the development of The National Innovation and Entrepreneurship Strategy strictly followed the

1 National Development Strategy 2016 - 2012, p. 30ff
http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf, accessed 1 December, 2018

2
Kosoco IT Strategy, http://www.kryeministri-ks.net/repository/docs/Kosovo_IT_Strategy.pdf, accessed in 28 November 2018

guidance given in the Manual for Planning, Developing and Monitoring Strategic Documents and their Action Plans³.

Furthermore, the Strategy has embedded the philosophy of the Smart Specialisation Strategy framework approach (Foray et al 2009), which plays a crucial role in European regional development and innovation policy. Article 2(3) of the Common Provisions Regulation for the European Structural and Investment Funds (EU, 2013) defines S3 as intended “to build competitive advantage by developing and matching research and innovation own strengths to business needs in order to address emerging opportunities and market developments in a coherent manner (p. 338).” As a practical matter, S3 are of fundamental importance for the thematic objective of “strengthening research, technological development and innovation” within the common strategic framework of the European structural and investment funds (ESI Funds) (EU, 2013, pp. 347 ff.). The challenge for the Republic of Kosovo in terms of Innovation and Entrepreneurship is to find the right balance between supporting all national industries that still suffer to become innovative and competitive and to use its limited resources to tap into opportunities for transformation to meet structural challenges by combining their existing capacities into unique innovative activities (smart specialisation, Foray et al 2018).

By means of the Thematic Pillar “*Promotion and treatment of innovations in sectors with economic development potential*” the National Innovation and Entrepreneurship Strategy bundles activities in domains of high economic importance that should translate into structural transformation within the economy of the Republic of Kosovo in an “accumulative process that links the present and future strengths of the Kosovan economy.

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Manual for Planning, Developing and Monitoring Strategic Documents and their Action Plans, 2018, provided by MIE

2 WHY A STRATEGY FOR INNOVATION AND ENTREPRENEURSHIP

2.1 The interplay between innovation and entrepreneurship

According to Schumpeter, innovation is the main strategic stimulus to economic development. The definition of innovation has various facets and ranges from research to final marketing, from supply to consumption including business and research actors as well as governmental and civil representatives. Moreover, innovation can be classified into different categories like product innovation, process innovation, marketing innovation and organisational innovation (Elliot 2017, OECD 2018).

Entrepreneurs take on the executive role in innovation by reallocating resources in order to create value and open up new areas of higher productivity in a process of creative destruction, which comprises time and effort as well as financial and social risks, and a reward at the end. (Tataj 2015, Hisrich et al. 2005).

Thus, entrepreneurship is the necessary impetus to launch processes and also stimulate exchange in the innovation network. As a catalyst, it drives towards growth and higher quality of outputs and impact. It can constitute a project in the form of a business idea to grow or a new governmental institution improving the innovativeness of a country. Also, it can change academic institutions into entrepreneurially thinking and acting universities.

Whether in the conventional form of a start-up or in a broader context, entrepreneurship is always accompanied by risk-taking activities when being creative and transform new knowledge or new meanings into innovation. In the European Knowledge Economy, entrepreneurship has been defined as the core of the Knowledge Triangle, with education, research and innovation interacting with each other (see Figure 1). The key question is how to anchor entrepreneurship as integral component. Entrepreneurship is to be understood as the ability to purposefully combine the different parts, from creativity to innovation and the market. To benefit from this ability and activate the flows within the Knowledge Triangle, policies need to set priorities. For example, a government focuses on human capital by investing in education and research in order to strengthen economic competitiveness in the long term. Since there is a direct linkage between creativity, innovation and competitiveness, one can assume following coherent cycle: creativity, innovation, entrepreneurship, competitiveness, productivity (Tataj 2015).

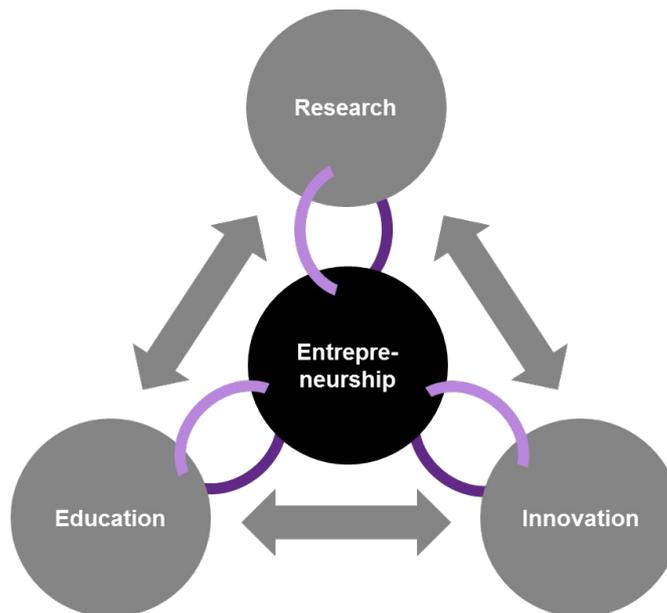


Figure 1: Entrepreneurship and Knowledge Triangle (Own representation based on Tataj 2015: 254)

2.2 Transformation and the chance to innovate

Technological convergence and digital transformation reshape economic structures and value chains in regions worldwide. The increasingly dynamic process of change leads to a radical drift of previously successful industries into insignificance and simultaneously effects an emergence of new industries through cross-sectoral innovation. The economy of the Republic of Kosovo has primarily been characterized by the utilization of natural resources. Now, data shows a decline of mining within the industry sector, for example, whereas processing industry is growing (BQK 2016). Information technology, automation and intelligent production more and more replace traditional industrial structures. As a consequence, national and regional policies need to improve framework conditions to facilitate such transformative processes and encourage industry and academia to jointly innovate in such a way. Non-technical innovations, incl. service innovations and new business models, are key drivers in this regard.

Recent studies and discussion about the further development of the Smart Specialisation approach have stressed the topic of transformative activities. Recently, the concept of transformative activities has been more solidly grounded and is now recurrently referred to in the academic literature transformative activities shall be understood as a “collection of innovation capacities and actions, that have been extracted from an existing structure or several structures, to which can be added extra regional capacities and that is oriented towards a certain structural change” (Foray et al 2018).

Yet, the preconditions to manage the necessary transformation (incl. transformative activities) are not favourable in Kosovo. Among others, lack of awareness in industry, combined with institutional deficits, improvable conditions for education and infrastructural insufficiencies can be seen as key barriers. Moreover, high unemployment, especially among young people, low productivity,

low export rates, limited FDI and little participation of women in the labour market are further hampering a positive economic development.

The previous remittances from abroad effected a marginal growth development, however, they are about to decrease. For example, the UNDP's (2012) Kosovo Remittance Study reports that the share of households that stated remittances have been invested in production or profit generating activities or invested in business are very small, 4% and 8% respectively. Moreover, the use of the remittances is not much used for productive investment. Therefore, structural transformation is essentially needed to take the jump on the bandwagon of a global dynamic and digitally driven market and not to lag even further behind. Aside from decreasing remittance inflows, flagship private investments and critical public investment in infrastructure are expected to contribute to growth. A key challenge will be to boost productivity and export capacities. The advancement of the business environment and the reduction of the structural unemployment will thus be the necessary adjusting screws (EBRD 2016). To achieve this, a new innovation system, consisting of fiscal and non-fiscal support measures for economic promotion as well as sound cooperation structures on all institutional levels, from local administrations to international partner organisations, from regional innovation intermediaries to representatives of the business and research community, has to be developed. A main issue, in this context, will be the targeted advancement of human resources, not only to solve the mismatch between the competencies of young job seekers and the requirements of the labour market, but also to combat unemployment among young people. With strategic programs for the digitalization in the education system through to new business sectors, new perspectives for young talents can be opened up and, at the same time, the danger of a brain drain can be mitigated. The objective must be to unfold an entrepreneurial thinking and innovative spirit. Surrounded by adequate, i. e. business-friendly framework conditions, the gap from the status quo to a competitive and future-oriented economy can be bridged.

2.3 Alignment with other national strategies

In line with the Kosovo's legal framework, the Ministry of Innovation and Entrepreneurship has the competence to draft, implement, coordinate and supervise policies, strategies and legislation in the field of innovation and entrepreneurship on behalf of the Government of the Republic of Kosovo.⁴ Innovation and entrepreneurship, by nature, is very interdisciplinary and embedded in many policy areas. Thus it is of highest relevant that the current Strategy for Innovation and Entrepreneurship is well aligned with other existing and upcoming policies and related strategies of the Government of the Republic of Kosovo, notably with the Kosovo's National Development Strategy 2016 – 2021 (NDS)⁵, Economic Reform Program (ERP)⁶, IT Strategy, the ongoing Private Sector Development Strategy, the International Evaluation Reports for the Republic of

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Kosovo for Innovation and Entrepreneurship, EU Regulatory and Strategy for this area.

National Development Strategy 2016 - 2021. The government has adopted the National Development Strategy for 2016 - 2021 aiming to form a basis for sustainable and inclusive growth, as well as to accelerate Kosovo's integration into the EU through pre-requisite reforms. Key reforms aimed at enhancing the legal environment, strengthening public administration, developing institutions, and reinforcing physical infrastructure, resulting in the improvement of certain preconditions for inclusive and sustainable growth. This will help strengthen the connections between industries, creation of new enterprises supported by existing ones and innovation through connection with research efforts. A business will produce or deliver a new service based on information it will acquire as a result of this clustering. The particular attention in the NDI is paid to the connection of education sector with enterprises through product research and development (R&D).

Private Sector Development Strategy. Strengthening and developing the SME sector with particular focus on innovation is therefore a policy priority of the Kosovo's government. This is reflected, in particular, in two previous documents that covered partially issues of entrepreneurship and to lesser degree innovation: 'Private Sector Development Strategy 2013-2017' and in the 'SME Development Strategy 2012-2016'. Both documents are out-dated and need to be renewed. SME Strategy aims to create a SME-friendly business environment, promote an entrepreneurial culture, and raise the (international) competitiveness of SMEs. There is ongoing project to have an updated version of the Private Sector Development strategy which is commissioned by MTI. The Innovation and Entrepreneurship Strategy is aligned with key orientations and priorities of the PSD strategies.

Economic Reform Program (2016-2018). The ERP sets overall policy framework and objectives for economic growth. The ERP pays particular attention to research and innovation to support long term growth. ERP acknowledges that support for the field of research and innovation in Kosovo is low, with budget for science and research, which is only around 0, 1% of GDP. Based on the Law on Scientific - Research Activities, government of Kosovo should allocate 0.7% of the annual budget. The ERP states that main structural obstacle to research and innovation is the lack of legal and policy framework for supporting R&D. Currently, there is no relevant legislation for research and development (R&D) and no bylaws governing the field of innovation and transfer of technology and knowledge. In terms of policies, there are no tax reliefs for R&D activity and no

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National Development Strategy 2016 - 2021 (accessed 20 November 2018 at http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf)

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<https://mf.rks-gov.net/desk/inc/media/57179C7A-9531-4E3D-AEDE-ECC703B75D55.pdf> (accessed 25 November 2018)

public grants allocated specifically for enterprises for purposes of R&D. The weaknesses identified by ERP are addressed with current innovation and entrepreneurship strategy and ongoing efforts of MIE to draft the Law on Entrepreneurship and Innovation.

European Bank for Reconstruction and Development (EBRD) Strategy for Kosovo. The EBRD strategy for Kosovo's points out the key challenges to Kosovo's economic growth. In the area of the private sector to development the strategy suggests that to develop in a sustainable manner, major improvements are needed in the areas of reinforcing the investment climate, building up governance and the rule of law, and strengthening the economy's competitiveness. In particular, the last one is addressed in the Strategy of Innovation and Entrepreneurship. According to the EBRD (2018) the value-added production is hampered by limited internal capacity, obsolete technology, difficult business environment and limited access to finance. Therefore, there is priority to strengthen the competitiveness of the private sector through gains in efficiency, adoption of innovative operational practices, improved managerial practices, improved business environment and access to finance.

The National Research Program, drafted by MEST and adopted by GoK in 2010, aims to provide a conceptual framework for upgrading scientific capacities in Kosovo. The specific objectives are: i) Development of human capacity for research activities; ii) Development of research infrastructure; iii) Internationalization of scientific research activity; iv) Strengthening the links between science, society, and the economy for enhancing economic and social development; and v) Excellence in research and scientific activity.

IT Strategy. The main purpose of this Strategy is the promotion of the development of the Kosovo IT industry in order to reach the overall goal, which is defined: *IT Industry shall become main driver for economic growth, employment and innovation by 2020 through increasing the international competitiveness of the Kosovo IT industry based on digital excellence*⁷. The main beneficiary and target group of the strategy is the Kosovo IT industry. Related topics such as IT infrastructure and e-government have been covered by other strategies. The underlying idea of the Kosovo IT strategy is that fostering the Kosovo IT sector is a highly complex task and thus requires a collaborative approach involving all relevant stakeholders, such as IT companies, associations, ministries, universities and donors. The current Strategy for Innovation and Entrepreneurship is well aligned with the IT Strategy of Kosovo. The Strategic Pillar 7 (Entrepreneurship) and 8 (Innovation and R&D) address similar objectives. During the implementation of both Strategies, dedicated attention is given to gain synergies and avoid redundant actions. The National Advisory Council for Innovation and Entrepreneurship is in charge to coordinate related measures in close cooperation with the Ministry of Innovation and Entrepreneurship.

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Kosoco IT Strategy, http://www.kryeministri-ks.net/repository/docs/Kosovo_IT_Strategy.pdf, accessed in 28 November 2018

Furthermore, strong alignment has to assured with the **Smart Specialisation Strategy** approach, which is expected to gain increasing relevance in Kosovo. Smart growth is a key pillar of the SEE 2020 Strategy. It is based on the idea that growth should be driven by the best use of up-to-date technologies that support high value-added high skilled production and services rather than by low value-added low-cost production. In other words, it aims to develop knowledge-based economies. The building blocks needed for smart growth include investment in research and innovation, knowledge and information infrastructures and a close relationship between universities and the business sector. Smart Specialisation Strategies (S3), a new concept developed by the European Commission provides one element of a smart growth. Smart specialization is an integrated, place-based economic policy (Foray et al., 2012). The cornerstone of the smart specialisation approach is to identify the need for regions or nations to shift resources into key areas with high economic potential in certain sectors, regions or market niches (Bartlett et al. 2018). It requires the transformation of the knowledge base, technology, and other complementary resources to integrate into production networks and global value chains (Radosevic & Stancova, 2018; Georghiou et al., 2014). Smart specialisation supports measures to integrate SMEs into the innovation value chain. The key focus is on identifying the “smart” regional strategies which would enable specialisation in areas that encourage complementarities with the productive capabilities of a region.

As far as the current Strategy for Innovation & Entrepreneurship is concerned, it embeds key elements and philosophies of the S3 approach, adapted to the current challenges of Kosovo. Thus, the current Innovation & Entrepreneurship strategy can be understood as an approach by stimulating specialisation in certain areas, where the public and private sector has gained significant strengths, like in ICT and high value added se. The current strategy will act as an umbrella for long term competitiveness and innovation of private sector which can be used for developing S3 in Kosovo.

Digital Agenda as part of the Western Balkans Strategy other sector-specific strategies

Kosovo is participating country in regional economic cooperation of Western Balkans. The WB has adopted the Multi Action Plan⁸ according to which digital agenda is one of three key pillars. The MAP sets out that the use of digital technologies can generate great benefits in terms of macroeconomic development as well as speed, efficiency and transparency of economic activities across borders. Digital integration improves the supply of new services to consumers and businesses and supports socio-economic development, high value job creation and a knowledge-based society. The objective of the MAP digital agenda-related actions is to integrate the region into the pan-European digital market on the basis of a future-proof digitisation strategy, an updated

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MAP STOCKTAKING AND NEEDS ASSESSMENT REPORT (available at https://www.rcc.int/priority_areas/39/map-rea), accessed 25 November 2018

regulatory environment, improved broadband infrastructure and access as well as digital literacy.

Kosovo has made good progress in this area and plans to establish an Electronic Atlas for Broadband Telecommunications Infrastructure. With the support of the World Bank two studies have been carried out: Facilitation of Efficient Infrastructure Sharing for Kosovo* and the Rural Broadband Programme. Kosovo* has also secured a World Bank loan of €20 million for broadband infrastructure development in rural and uncovered areas.⁹

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Kosovo* Digital Economy (KODE) Programme

3. Framework Conditions for Innovation and Entrepreneurship

3.1 Introduction

When analysing general policy on innovation and entrepreneurship of Kosovo, it is noteworthy that there has not been an explicit and coordinated national policy on entrepreneurship. The establishment of Ministry of Innovation and Entrepreneurship is likely to produce concentrated efforts to boost innovation and entrepreneurship. This section provides an overview of the framework conditions of entrepreneurship and innovation ecosystem (Figure 2). The innovation and entrepreneurship policy should focus the efforts of the various actors in the public sector as well as international donors, NGOs and other stakeholders and to ensure coherence in their implementation.

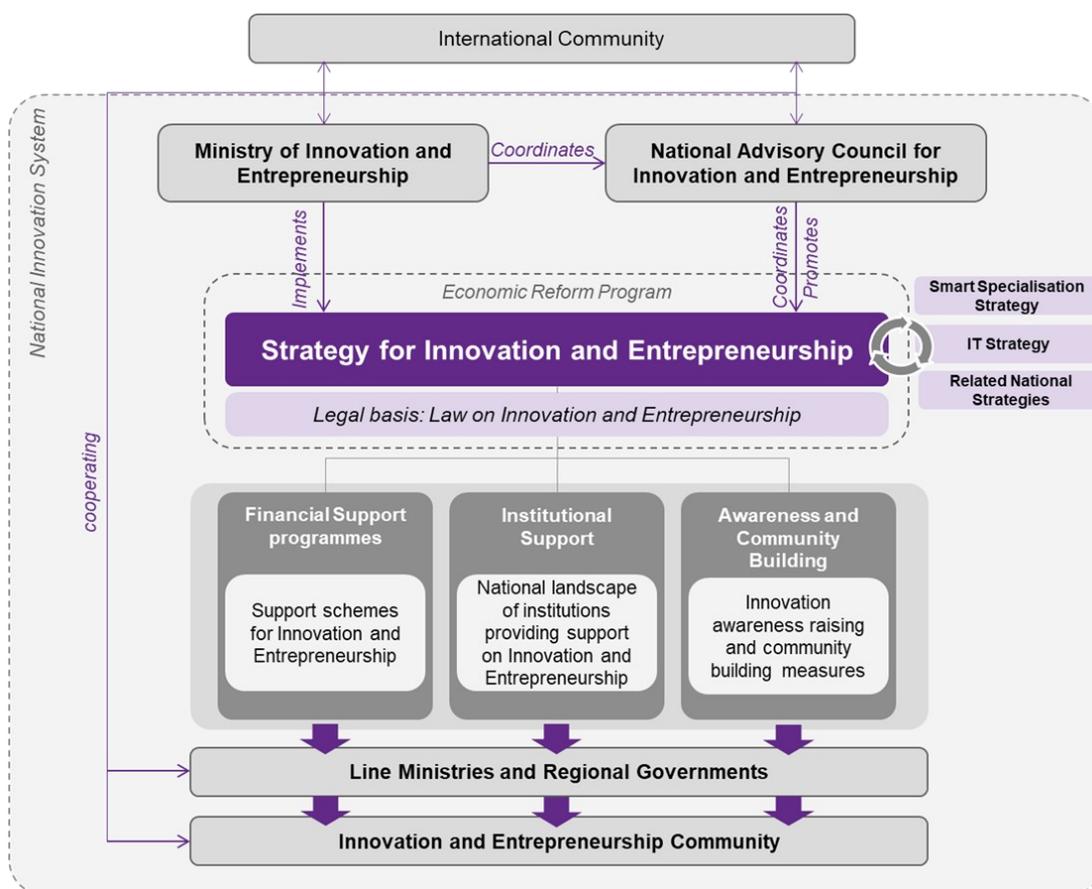


Figure 2: Kosovar Innovation System

Macroeconomic environment

Kosovo is a lower-middle-income country which has experienced solid economic growth over the last decade. Kosovo is one of only four countries in Europe to experience growth in every year since the onset of the global financial crisis in 2008 (World Bank, 2018). In 2017 the Kosovo's economy grew about 4.4% compared to the 4.1% from 2016. The World Bank's estimates for 2018 is expected for Kosovo's

economy to grow by 4.8%, 0.6 p.p. higher than the projection it made in June 2017. The positive economic trends in terms of economic growth are expected for 2019 too. According to WB, Kosovo's 2019 GDP growth forecast to 4.8%, with slightly slow to 4.7% in 2020(2018 Global Economic Prospects report). KAS reports that GDP at current prices in 2017 was 6,413.8 million euros, with real GDP growth in 2017 4.23% compared to 2016. Kosovo has GDP per capita for 2017 was 3,566 euros.

The growth of economic activity in Kosovo in 2017 was supported by investments increase and the increase of goods and services export.¹⁰ According to the Central Bank of Kosovo (2018) the main contribution to the real GDP growth was given by construction, trade, financial and insurance activities along with the processing industry. This is in line with World Bank (2018)¹¹ report suggesting that recently there was a notable shift towards toward more investment- and export-driven growth.

Kosovo Agency of Statistics (KAS, 2018)¹² publishes the yearly data on GDP 2017 by economic activities and expenditure approach according to the ESA2010. It is interesting to note the real growth rate in the GDP by economic activities for the year 2017 was as follows: Financial and insurance activities 31.4%, Construction 8.6%, Wholesale and retail trade; repair of motor vehicles and motorcycles 4.5%, Information and communication 3.4%, Mining and quarrying 3.1%, Manufacturing 3.0%, Professional, scientific and technical activities 2.8%, Transportation and storage 2.8%, Agriculture, forestry and fishing 2.7%, Real estate activities 2.6%, Electricity, gas, steam and air conditioning supply 2.5%, Administrative and support service activities 2.5%, Accommodation and food service activities 2.4%, Arts, entertainment and recreation 1.9%, Other service activities 1.2%, Human health and social work activities 1.1%, Water supply; sewerage, waste management and remediation activities 1.1%, Public administration and defence ; compulsory social security 0.9%,

Although Kosovo's economic growth has outperformed its neighbours and been largely inclusive, it has not been sufficient to significantly reduce the high rates of unemployment; provide formal jobs, particularly for women and youth; or reverse the trend of large-scale outmigration. Although there was significant decrease in unemployment still remains high. Unemployment rate in 2014 was 35,3% and in 2017 was 30,5%. The average wage in public sector is higher comparable to the private sector. The average net wage in the public sector in 2016 was € 449 while in private sector was €359. The private sector in Kosovo generated 145,736 jobs in 2014 (ASK, 2017). The growth model relies heavily on remittances to fuel

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https://www.bqk-kos.org/repository/docs/2017/CBK_Q4_2017.pdf (accessed 26 November 2018)

11

<https://www.worldbank.org/en/country/kosovo/overview> (accessed 25 November 2018)

12

<http://ask.rks-gov.net/media/4333/gross-domestic-product-gdp-production-approach-2017.pdf> (accessed 21 November)

domestic consumption. The remittances inflow in 2014 were € 622.3 million while in 2017 were € 759.2 million (Central Bank of Kosovo).

On the international trade, data from Kosovo Foreign Trade show a lower trade deficit of (3.1%) in April 2017, compared with the same period of 2016. This figure is around € 220.6 million compared to the deficit of 227, € 6 million in 2016. Exports cover imports during this period (12.4%). Exports of goods in April 2017 amounted to € 31.2 million, while the import € 251.8 million was an increase of exports (35.5%) and imports (by 0.5%) compared to the same period of the year 2016. According to the data of the main export groups: (37.5%) of exports consists of base metals and articles thereof, (21.7%) mineral products, (9.2%) plastics, rubber and articles thereof, (8.4%) prepared foods, beverages and tobacco, (4.4%) vegetable products, (3.2%) leather and articles thereof. In particular there is an increase of export of services category as a share to GDP, from 10.1 percent in 2008 to 23,9 percent in 2017 (KAS, 2018). These figures may suggest a high potential for competitiveness of the private sector.

In terms of the business activity, there was a significant increase in the number of enterprises. The number of registered businesses considered active in 2015 was 142.299 businesses, in 2017 was 161.946 businesses (Kosovo Business Registration Agency). However, the number of active businesses that were active taxpayers is much lower. The number of active businesses in 2017 was 62.567 businesses. These businesses have declared any of the forms of statements in the Tax Administration of Kosovo even zero values (Tax Administration of Kosovo, 2018). This shows a high informal activity of firms in Kosovo, around 38%. This is similar to the finding based on the business survey suggesting the unreported sales of business sector to be around 35.7 percent of sales (Williams and Krasniqi, 2018).

On the type of business ownership, majority of businesses are organized as individual businesses. According to the Agency for Business Registration (ABR) in 2016, 85% of enterprises were registered as individual. Based on data from the same sources, there is a significant change in terms of legal format of businesses in the recent years. We have a decrease of number of individual businesses while we have increase in business partnerships and limited liability companies. From the total number of registered businesses (159,724) 85,2% individual businesses, 2.44% are registered as a general partnerships, 11.28 % as limited liability companies. Compared to 2003, the number of foreign owned companies has increase significantly by 0,5%, suggesting more active role of foreign companies in Kosovo. Another feature of the private sector of Kosovo is dominance of firms in trade and services sector compared to other sectors especially manufacturing. The number of production companies has remained very low since 2000 with slow increase in the recent years. Although slow, percentage share of production companies has increased from 4.9% in 2008 to 6.35% in 2014, which shows an improvement in terms of production sector.

3.2 State of play in innovation and entrepreneurship

Innovation among SMEs in Kosovo appears to be minimal, with most emerging businesses being built by using existing models.¹³ While there is some progress with data on entrepreneurship activities there is still lack of statistics on innovation in Kosovo to assess the capacities and engagement of SMEs in innovation. One of the most recent surveys conducted for this purpose is the private sector survey with 153 companies implemented by the OECD in 2013 to assess the innovation system in Kosovo.¹⁴ The OECD reports that many firms considered themselves to be innovative, with high levels of collaborations in innovation, but the concept of innovation is broadly understood and mostly referred to incremental or minor innovation that responds to market adaptation or introduction. Indeed, only few firms are actually engaged in R&D activities -about 80 percent of these firms do not actually conduct formal R&D activities, and 77 percent invested less than 1000 euros in R&D during 2009-2011. 62 percent of the surveyed companies that perceive themselves to be innovative did not devote any financial resources to R&D during 2009-2011. Similar findings are reported by Business Support Centre Kosovo (2013) that only 13.2 percent of SMEs stated that during the past three years the company has undertaken R&D activities for the creation or substantial modification of products, services or new processes.¹⁵

There are several obstacles that hinder entrepreneurship and mainly innovation performance in Kosovo. Some of these obstacles may be generic and linked to the overall business environment while some other are more specific to the firm and sector. According to the European Investment Bank- EIB (2016), Country Report for Kosovo 2016 (Assessment of financing needs of the SMEs in Kosovo) identified that micro firm's face financing gap such as loans and equity finance. Although finance for SMEs is available high collateral requirements present a major obstacle for access to finance. The banks do not finance start-ups up to 6-12 months and the large banks have recently decided to stop serving the microenterprise segment, micro loans are now mostly supplied by the small microfinance sector (MFIs). While banks have high liquidity due to high level of deposit funding, micro finance institutions struggle to meet the growing demand due to limited funding resources. The cost of funds for MFIs from microfinance investment vehicles and other sources amounts to 6-8%, which is on par with the rates currently offered to end borrowers by banks. Start-up finance is even more limited, with most lenders requiring at least six months of financial statements for loan eligibility.

13

http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_kosovo_en.pdf, accessed 1 December, 2018

14

OECD (2013) Assessment of the Kosovo* Innovation System, <https://www.oecd.org/south-east-europe/programme/Kosovo%20Innovation%20Report%20English%20Version.pdf>, accessed 28 November 2018

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<http://www.bsckosovo.org/publikimet/20140205055101250.pdf> (accessed 30 November 2018)

The EU Kosovo Progress Report 2016 (EU 2016), states also that the main obstacles to SME development and further growth remain limited access to finance, weak legal enforcement of contracts and business regulations, administrative barriers, unfair competition from the informal sector, an inefficient judiciary, and corruption. The EU report 2016, highlights that some progress was made in this field, notably with the creation of a KCGF.

Another important SME policy tool is EU Small Business Act, which is an agreement between Kosovo and EU to help Kosovo pave its future path to EU. As already recommended last year, Kosovo should in particular: follow up on the recommendations from the EU's 'Small Business Act' assessment and introduce regulatory impact assessments to reduce the administrative burden on SMEs. According to SBA Policy Index 2016 (OECD/EU/EBRD/ETF/SEECEL 2016), SMEs could benefit from targeted support to help them access finance without distorting the market, especially now that credit availability is so restricted in many economies (Table 1). Kosovo scores lowest in terms of ranking of access to finance for SMEs in the Western Balkans. There is a need for SME support through non-bank financing alternatives by reforming their legal frameworks to reduce legal uncertainty surrounding the use of instruments such as factoring. Introducing assessments of and programmes for financial literacy could also help improve access to external funding sources in the medium to long term.

Table 1. Progress in Dimension 6: Access to finance for SMEs

| | | | | | | | | WBT |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Dimension 6 | ALB | BIH | KOS | MKD | MNE | SRB | TUR | average |
| 2016 | 3.26 | 3.25 | 3.21 | 3.46 | 3.25 | 3.62 | 3.89 | 3.42 |
| 2012 | 3.04 | 3.09 | 2.17 | 2.96 | 3.07 | 3.83 | 3.72 | 3.13 |

Note: Substantial methodological changes to Dimension 6 do not allow for direct comparison between 2016 and 2012 scores.

Kosovo ranks the lowest among its peer countries for support services for SMEs and start-ups on the SME Policy Index 2016. Moreover, the situation has not improved almost at all since 2014. The development of policy frameworks to place entrepreneurship at the heart of growth and jobs generation could benefit greatly from establishing genuine partnerships between the state and the business community. In line with the EU policies, entrepreneurship could be a key lever to tackling youth unemployment (which stands at 61% among 15-24 year-olds) and female unemployment (41.6% in 2014).

Assessment of financing needs of SMEs in Western Balkans points out the importance of innovation and its role in ensuring the absorptive capacity of SMEs. Although the infrastructure needed is being developed, its financial sustainability and advisory capacity should be improved. Finally, dedicated financial instruments should be developed to promote access by SMEs to finance, incentivise businesses to collaborate with research institutions and enable innovation and R&D activities within SMEs.

On the area of the Research and Innovation, the Economic Reform Programme 2017-2019 (ERP) states that, Kosovo's capacity for research, development and innovation (RDI) is very low, this limits the creation of new jobs. The ERP (GoK 2016) recognises and points out the lack of a legal and policy framework as well as the low level of political commitment to RDI, which is reflected in the very low

public expenditure (0.1 % of GDP). The analysis also adequately signals the lack of incentives for the private sector and academia, although there is no reference to the companies' low absorption capacity and universities' limited capacity for specialised research and lack of results in commercialisation. The measure to improve the policy and strategic framework is new but the expected impact may not be achieved if the measure is not complemented by more ambitious actions to assist and boost applied research activities in Higher Education, and to substantially improve cooperation between research institutions and private sector. The only scientific infrastructure of the country is laboratories of scientific research institutions. Universities have no activities for creating incubators, start-ups, etc.

Building innovation capacities of SMEs needs further improvement in terms of other support services to develop skills base of SMEs and start-ups. Although Kosovo made some progress according to the SBA Policy Index 2016 it needs to make a more sustained effort to build knowledge and skills among SMEs which keen to trade with the EU. Quality assurance of vocational education and training also needs further development. The fundamental steps should be the development and adoption of policy frameworks (completing legal framework for innovation and entrepreneurship, updated SME Development Strategy and Entrepreneurial Learning Strategy), accompanied by a further development of innovation-related infrastructure and financial instruments covering the entire financial cycle ranging from start-up to high-growth stages of SMEs. These actions should take into consideration the existing innovation "ecosystem" and encourage deeper co-operation between academia and the private sector, and increasing awareness of innovation among the general public and especially youth.

Overall there is still a shortage of financial instruments promoting innovation within SMEs. Innovation voucher schemes, credit guarantee schemes and programmes to promote links between business and academia should be made more widely available throughout Kosovo. The key recommendation crucial for this report and future IPA is to build up intelligence on SME skills and needs to create a single information point on the business training offered to entrepreneurs. Linking innovation with academia and private sector and broadening of the supply of training and mentoring for youth and women entrepreneurs.

The dynamic growth of the new private sector has been one of the key driving forces behind the economic recovery in all former communist countries. Kosovo is not an exception. Despite its importance, the business environment has not been very conducive for SMEs. Hallberg (2000) argues that the stable and encouraging business environment is a key precondition to the success of any targeted policy support.

Kosovo has significantly improved its business regulations as captured by the Doing Business Indicators 2017 (World Bank 2017). Kosovo is implementing reforms to narrow the gap with the global regulatory frontier (World Bank, 2017). Doing Business Report 2017 finds that Kosovo made paying taxes easier by introducing an online system for filing and paying VAT and social security

contributions. Nowadays, paying taxes is less costly by allowing more types of expenses to be deducted for the calculation of corporate income tax. In addition, Kosovo also made trading across borders easier by reducing the time and cost of documentary compliance and the time of border compliance for exporting by improving its automated customs data management system, streamlining customs clearance processes and implementing the Albania-Kosovo Transit Corridor.

EU progress reports also point to the need for future interventions. According to the EU Progress report (2016, p. 41) there was no progress in addressing the structural weaknesses of Kosovo's private sector, which continues to be fragmented and unable to improve its efficiency. There have been no significant structural changes in Kosovo's economy since 2008. The EU report suggests that structure of economic sectors is still no favourable, with agriculture sector contributing with 13.5 % of the gross value added (GVA) (compared to 17.5 % in 2008), is responsible for 26.7 % of total employment and provides about 12 % of the total value of exported goods. The promising sign is the rise of the services sector to 59 % of GVA (compared with 55 % in 2008), centred around the trade, finance and IT sectors. Beside this positive sign, compared with the average of developed countries Kosovo's economy is still lagging in terms of sector diversification. MSMEs continue to account for 99 % of total employment. The largest number of enterprises operate in the trade sector (29.9 %), followed by accommodation, food services and industry.

Intellectual Property Rights

Registration of intellectual property is based on regional and international practices. A trademark registration process takes approximately nine months to be completed, while patents take about 18 months. Public awareness on the importance of brand protection and associated IPR is low. A number of counterfeit consumer goods, notably CDs, DVDs, and clothing items, are available for sale and are openly traded. The government tracks and reports on seizures of counterfeit goods. In 2016, Customs confiscated counterfeit goods valued at over €2.5 million which suggest an improvement in government's effort to implement IPRs.¹⁶

Evidence suggests there is little domestic production of counterfeit goods in Kosovo, but the importation of counterfeit goods, especially apparel, is a concern. IPR protections are improving slowly, limited by a persistent lack of awareness among the public and judicial system. The Law on Patents, Law on Trademarks, Law on Industrial Design, and Law on Geographical Indices, together with the relevant Criminal Code and Customs provisions, provide for strong protection of intellectual property rights; authorize enforcement of trademark, copyright, and patent laws; and comply with related international conventions. The IPR laws

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<https://www.export.gov/article?id=Kosovo-Protection-of-Property-Rights>, accessed 15 November 2018

were amended in 2015 to strengthen legal remedies for right holders and to further align them with the EU standards.

MTI established the Industrial Property Rights Office (IPO) in 2007, which is tasked with IPR protection. The Industrial Property Office is an institution that deals with the activity in the field of protection of industrial property rights. The office implements the procedures for protection and registration of rights pursuant to Law No. 2004/49 on Patents, Law No. 02/L-100 on Amending and Supplementing the Patent Law No. 2004/49" , and Administrative Instruction No. 2007/06 on the Organization and Functioning of the Office of Industrial Property. However, the low level of innovation is reflected in the limited number of the successful patent applications. Based on the data of the Department for Science and Technology of MEST, the number of employees in R&D is only 833, 3 employees in one million residents (ERP, 2016). According to our current data, Patent Office in MTI has approved 32 patents since 2016, whereas European Patent Office has not approved any.

3.3 Current support programmes for innovation and entrepreneurship

In this section the current status of support schemes are aiming to support business start-ups, entrepreneurship and innovation in the Kosovo is given. It includes an inventory of existing institutions/supporters (innovation intermediaries) that offer to support entrepreneurship and innovation as well as of existing support schemes and programmes. The interplay between innovation intermediaries and support programmes is essential for Kosovo. The main tasks for Innovation intermediaries is to promote and increase awareness about innovation and new technical / market trends, incl. creating curiosity and demand SMEs to innovate. Innovation support programmes mainly come into play to reduce the investment risk for SME by providing access to financial resources. To succeed on a long run, the Kosovan innovation and entrepreneurship support scheme must offer all necessary support along the innovation chain (s. Fig. 3)

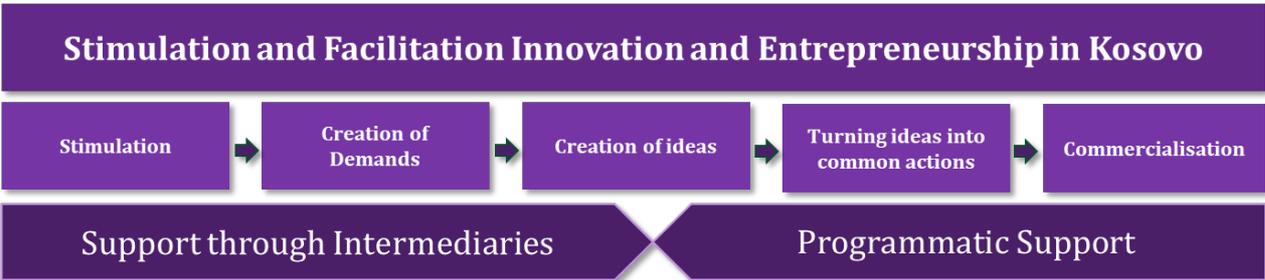


Figure 3: The interplay between institutional and programmatic innovation support

The innovation ecosystem in Kosovo offers many initiatives for start-ups and innovation support, but they are fragmented and majority do not seem to work together. As such, they cannot utilise potential complementarities between projects and even more benefit from more integrated system of support. On the

finance support, there is frequent use of traditional forms of start-up financing, while the more modern types of financing such as VC and crowdfunding are very limited. What follows, each type of instrument will be discussed.

3.3.1 Programmatic support schemes

Entrepreneurial finance is rapidly evolving all over the world. Entrepreneurs are combining traditional debt and equity start-up finance (e.g., friends, family, angel investors, venture capitalists, and occasionally banks) with alternative ways of financing (Bruton et al. 2015). Kosovo in its initial stage of development still has not fully exploited the benefits of all traditional start-up finance. Finance start-up support has been limited in mainly in provision of grants, equipment and machinery, co-financing grants, and to lesser extent by angel investors and equity financing and venture capitalist funds are almost non-existent.¹⁷

On the other hand, the start-ups face and especially innovation-driven firms with growth-orientation aims face difficulties in accessing finance for new innovative projects. Consequently, there is a necessity to find creative solutions to fill this gap connected to access to finance for start-ups and SMEs, for which the access to traditional banking system has been almost impossible. Therefore, it very crucial to have concentrated efforts of all stakeholders including but not limited to all government institutions and agencies, business community, international donors to explore the possibility in finding alternative financing instruments for start-ups. Such alternative finance schemes that proved to be successful in other contexts and could become more sustainable in the long run (Crowdfunding platforms, angel investors, venture capitalist etc.) could become potential for entrepreneurship and innovation funding in Kosovo.

Grants. So far, grants has been used extensively as mechanisms to address finance gap for start-ups and innovation in Kosovo. Usually, grant schemes take a form of matching grant scheme and competitive grant scheme combined with some sort of business plan competitions and co-funding by the entrepreneurs (see Annex for details). The programmes/projects aimed to attracts talented people with impactful business ideas. Some of grants used co-financing by local entrepreneurs to involve entrepreneur in sharing risk for the projects while some of them where directly used for full coverage to provide equity-free seed capital.

Loans. In addition to grants, loans are the primary funding instrument for SMEs, with the vast majority of the loan volume coming from local banks. Shorter-term working capital loans are the most popular, while investment loans are viewed as less in demand due to uncertain political and economic conditions. Although, lending activity, especially for SME loans, has grown during the recent past in

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For more details MTI 2014. 'Start-up Businesses and Business Support Services for Start-ups in Kosovo.' Prishtina: Ministry of Trade and Industry., accessed 23 November 2018

Kosovo, especially during 2015, as noted by the Central Bank of Kosovo¹⁸ the start-up finance by local banks is not present. The situation with female entrepreneurs is even worse. Kosovo banks lack gender disaggregated data, but estimate that women-led SMEs represent only 0.5 – 5% of their loan portfolios¹⁹. Accordingly, to EBRD there is very unequal gender distribution in the labour force 67% for men and 29% for women. Women entrepreneurs in Kosovo themselves identify key obstacles as: access to finance (32% of interviewers), legal advice (17%), Lack of information on business practice (14%), and self-confidence (11%). This financial support programme is operated in connection with other technical support.

Business Angels and Venture Capital. Angel investors are typically the equity investors in start-up companies at the early stage. Angel investors are usually wealthy individuals that band together in investor networks seeking to find entrepreneurial opportunities. The investments by business angels can fill the gap between venture capital and debt finance, especially for start-ups. Until few years ago, angel investors in Kosovo, were virtually non-existent. Although, the angel investors' network is growing in Kosovo, it is still in its infant stage of development. Today there only few business angels networks such as Kosovo Business Angel Network-KOSBAN, MDA foundation, gjirafa.com and some individual angel investors. There is no clear evidence of the results produced by the Kosovo Business Angels' Network. Some of initiatives of business angel networks struggled in their work and are no longer in operations (e.g. EYE initiative). The overall culture in promoting business partnerships should be encouraged to motivate potential entrepreneurs to team-up, including business angles type of partnerships. Notwithstanding, business angels can become promising way of financing of start-ups in Kosovo. The government of Kosovo and support of donors has an important role to play. For instance, government could help develop an internet platform to provide information on a list of angel investors in Kosovo or interested in investing in projects from the country. They also could support open calls for business ideas, pitching events, B2B which then could easier link to the business angel's network in Kosovo and region. Kosovo can learn from the example of UK's government supporting BANs and national campaigns highlighting the role and importance of business angels (Box 1 in Appendix). In addition, various forms of fiscal and non-fiscal incentives can be used to trigger investments in start-ups as in UK.²⁰

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Central Bank of the Republic of Kosovo (2015), *Financial Stability Report Number 8*
<http://bqkkos.org/repository/docs/2015/Central%20Bank%20of%20the%20Republic%20of%20Kosovo-FSR.%20No.%208.pdf>

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See <http://www.ebrd.com/womeninbusiness> , accessed 22 November 2018

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For more details on UK Business Angels network see <http://www.angelcofund.co.uk/> , accessed 2 December 2018

Finetch/crowdfunding. Crowdfunding draws inspiration from concepts like microfinance (Poetz and Schreier 2012, Morduch 1999) but it represents a unique category of fundraising, with different vehicles, processes, and goals. (Mundial 2013). Crowdfunding estimated to be a growing \$5 billion global industry, is the practice of funding a project or venture by raising small amounts of money from a large number of individuals, typically via the Internet, using an intermediary known as a platform (Balkan Economic Forum, 2017)²¹. There are 2 primary types of crowdfunding: Equity Crowdfunding in which providers receive shares in a company. In this process, borrowers typically apply online, usually for free, and their application is reviewed and verified by the platform software, which also evaluates the borrower's credit risk and determines the interest rate. Investors buy into securities, and this, in turn, facilitates the loans to individual borrowers. Investors make money from interest on the unsecured loans; the platforms make money by charging a percentage of the loan and a loan servicing fee; and the borrower gains access to capital. Reward Crowdfunding – in which entrepreneurs pre-sell a product or service before delivery in order to launch a business concept without incurring debt or sacrificing equity/shares. (A third lesser-used type of crowdfunding is money pledged as a donation. The crowdfunding emerged as a way of allowing individual investors an opportunity to pool relatively small amounts of money together in order to meet the funding requirements of new or expanding ventures. Finally, various peer-to-peer networks, both debt and equity, use social networks to harness communities of both entrepreneurs and investors in an effort to improve the efficiency and effectiveness of aggregating and transferring funds.

In Kosovo, there is an emerging demand in using this alternative form of financing to more traditional type of funding and Kosovo could draw on successful examples of other countries. There are some preconditions for developing crowdfunding platforms such as:

- Some crowdfunding platforms are successfully raising money from diaspora communities (large diaspora community)
- ICT potential is high Kosovo
- Information sessions and events should be presented to promote crowdfunding principles to start-ups, business owners and investors in
- Huge potential in the future, because it matches our tradition of community help and co-working.

3.3.2 Innovation Intermediaries

Support for innovation and entrepreneurship can also be provided through institutions (intermediaries), so call institutional innovation support. A national innovation system needs a broad variety of different intermediaries, since all

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For details go <http://www.balkaneconomicforum.org/wp/private-sector-investment-in-the-balkans/>

have different competences and roles. Such intermediaries have to have clear tasks and roles within a national innovation system. Furthermore, they have to be properly equipped in terms of human capacities and financial resources. It is most relevant that these intermediaries operated in a coordinated way (systematic approach), preferably according to different modes of the “innovation chain”. A schematic drawing is given in Figure 4.

The innovation support infrastructure in Kosovo generally lacks institutional and human resources and thus is, by far, not fully developed. Some institutions have been created to support technology and innovation, mostly oriented towards providing education and consultancy services to entrepreneurs.

Whereas for the IT-sectors many relevant innovation intermediaries exist, other important sectors in Kosovo are missing such systematic institutional support.

| | Stimulation & Awareness | Creation of demands | Targeted Networking | Generation of ideas | Turning ideas into innovations | Commercialisation |
|------------------------------------|-------------------------|---------------------|---------------------|---------------------|--------------------------------|-------------------|
| Chambers | x | x | | | | |
| Cluster & Networks | | | x | x | | x |
| Innovation- / TechTransfer Centers | | | | x | x | |
| Incubators / Accelerators | | | | x | | x |
| Technology Business Parks | | | x | x | | |
| Universities | | | | | x | |

Figure 4: Kinds and areas of expertise of innovation intermediaries along the innovation chain

Intermediary organisations

There are different intermediaries in place in Kosovo to support innovation and entrepreneurship, like (see Annex 1 for broader list of intermediaries and their role in supporting entrepreneurship and innovation). Some of them have been initiated within the frame of governmental interventions, others have developed as a result of Third Donor projects and supported by NGOs.

In the following the most relevant intermediaries are listed and described in brief:

Innovation Center Kosovo - support enterprise, innovation and business development with the focus on information and communication technology for start-up businesses and existing companies with growth potential. The center

focuses on creating new job-oriented future-based opportunities based on knowledge and new technology and innovation.

STIKK - Kosovo ICT Association - was established in 2008 by six founding member companies. STIKK currently has over 125 members representing 90% of the entire ICT market in Kosovo. During its career, STIKK has implemented numerous projects aimed at promoting the ICT sector, improving the legal framework, implementing research and industry-specific analyses, and assisting in the professional development of key ICT sector stakeholders, Regulation. STIKK has had a crucial role during the process of drafting the Strategy for Information Technology, sponsored by the Ministry of Economic Development, while the Embassy of Norway and the German Agency for International Cooperation - GIZ are involved in the process of drafting this document.

Innovation and Training Park - Prizren. ITP is Kosovar and German companies active in one of the three priority sectors (ICT/Technology based firms, Agro/Food Processing, Creative and Cultural Industries) create jobs, commercialize innovations from R&D activities, boost the economy and offer possibilities for VET and praxis-oriented learning.

Bonevet, is a makerspace not for profit foundation whose aim is help youngsters to identify skills and talent. BONEVET aim is to build the spirit of curiosity, innovation and creativity through active play and technology. Organisation applies a wide range of STEM classes and trainings support children in coping with challenges of the 21st century.

In addition, Kosovo is leveraging international resources to fill the gap in policy interventions to support entrepreneurship and innovation. Businesses receive financial support from many sources in the international community, such as European Bank for Reconstruction and Development (EBRD), World Bank (IBRD, IFC), European Commission, SIDA, GIZ, ADA, DFID, USAID, SDC etc. Some of these funding and projects will likely be channelled towards creating innovative products.²²

Government-level support

Government funding programs for R&D in Kosovo are based on the National Research Program and have been implemented since 2010. A major obstacle to successful implementation of support measures and programs for research and development is the limited budget and research capacities. The law on scientific research activities is not being properly implemented due to lack of funds. Government spending on research has fallen to 0.1% of GDP. In higher education, the quality of post-graduate programs being prepared for scholarly careers are of poor quality, with private and public higher education institutions having very unequal criteria for promotion based on scientific research and publications.

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<http://www.worldbank.org/content/dam/Worldbank/document/eca/Western-Balkans-R&D-Kosovo.pdf>, accessed 2 December 2018

Kosovo is at an early stage of preparation for science and research. According to the EU report not much progress has been made over the past year. In the coming years, Kosovo needs in particular to increase government spending on research and seek to stimulate private sector investment by preparing and using the findings of a smart specialization strategy that needs to be developed by GoK. The limited research capacity of Kosovo is also reflected on the low participation of Kosovo in EU Horizon 2020.

Participation in the framework of programs, Kosovo participates in the EU's research and innovation program Horizon 2020 (H2020) as a third party, only in the capacity of the observer. Kosovo has applied with 10 projects in the H2020 program, while in 2016 it has applied with two projects and in 2017 with one project which results to have a slight increase compared to previous years, but this level of participation remains below Kosovo's potential. Awareness raising measures, consultancy and training should be undertaken with priority to improve this situation. Therefore, increase of participation in EU Horizon 2020 program and ensure greater coordination of contact points for Horizon 2020.

Policy structure

When analysing general policy on innovation and entrepreneurship in Kosovo, it is noteworthy that there has not been an explicit and co-ordinated national policy on entrepreneurship to focus the efforts of the various actors in the public sector as well as international donors, NGOs and other stakeholders and to ensure coherence in their implementation.

Ministry of Innovation and Entrepreneurship. In 2017, the Ministry of Innovation and Entrepreneurship has been established and its role is to strengthening and developing the entrepreneurship and innovation. The particular focus of MIE now on innovation which has become policy priority of the Kosovo's government. MIN has a mission to stimulate innovative activities in Kosovo in order to increase economic and institutional productivity, entrepreneurship development and private initiative through innovation focusing on SME development, support for start-up businesses and development of ideas and activities innovative initiatives through the establishment of the Regional Innovation and Entrepreneurship Centers, where these ideas and activities will be dealt with from the phase of pre-incubation, incubation, accelerators to full empowerment when they are managed, subjected to favourable conditions by commercial banks. The MIE's Strategy for Innovation and entrepreneurship integrates all these policy efforts to support entrepreneurship and innovation in Kosovo. MIN has established **the National Council for Innovation and Entrepreneurship** - which has an advisory role and is chaired by the Minister of Innovation and Entrepreneurship and key representatives of line ministries, non-governmental organizations, business community and governmental organizations international non-governmental organizations.

On the **support to start-ups and innovation**, the government-level budget for the promotion of Innovation and Entrepreneurship has increased. From the 2018 MIN has allocated over 10 million EUR in total. Of this value over 7 Million EUR are allocated to the category of subsidies and transfers that will be invested to

support the entities that, within their mission and responsibilities, address the innovation field and have a direct impact on the growth the performance of existing SMS-s and the Start-Ups. Over 2 Million EUR from the government budget are intended to be invested in the establishment of four Innovation and Entrepreneurship Centers and their functionalization (renovation, laboratory equipment and other accompanying equipment).

Ministry of Economic Development (MED) key focus is to draft policies and strategies on the overall economic development of the Republic of Kosovo as well as to support the development of market economy, market liberalization in public services and the introduction of private capital in public endeavours. Inter alia, the MED focus is to support information technology, innovations, and electronic trade. The MED aims to stimulate the development of information technology training systems. All these roles of MED are cross-cutting issues with entrepreneurship and innovation strategy and therefore are well integrated in this strategic document.

Ministry of Trade and Industry MTI is responsible for creating framework conditions for trade, industry, commercial work, industrial and construction products. It creates labour policy and implements legislation to support fair competition, labour policy and enforces legislation and programs to support industrial and commercial enterprises, especially small and medium-sized enterprises. Supports the work policy for private sector development and administers the business registration system. **KIESA** under the Ministry of Trade and Industry is responsible for the coordination of comprehensive National SME policy. KIESA operates under the MTI, which is responsible for supporting policies and programmes for micro, small and medium enterprises. As a results there were many, uncoordinated programmes and projects funded by government and donors. The KIESA's policy is designed to enhance the SME sector based on four main components: 1. Improvement of the Business Enabling Environment; 2. Establishment of Public-Private Dialogue and Donor Coordination; 3. Improvement of Competitiveness of Kosovo SMEs; and, 4. Public Information Campaign. The SME Strategy is firmly based on the two main pillars of EU SME Strategy: The "Small Business Act" (SBA) for Europe which Kosovo has committed itself to implement and the EU framework programs Competitiveness and Innovation (CIP) which Kosovo aspires to take part in the near future. In the area of the SMEs' support, KIESA provides subsidies for a part of business consultations, recognition of the contribution SMEs have provided to improve the welfare of citizens, the retention of two-month internships in the private business community, the support of women entrepreneurs for product promotion and finding new markets, as well as the support of startup companies that offer the best business plans.

Ministry of Education, Science and Technology (MEST) is established to perform functions in the area of education and science. According to the Law, the MEST is responsible for creating action policies and implements legislation for the development of education, including higher education and science in the Republic of Kosovo. Support research on the social, economic, scientific, technological and cultural development of Kosovo. Within the MEST, the Department of Science and Technology has a duty to establish a good infrastructure, institutional and

financial basis for the development of science, scientific research and the promotion of modern technological developments and applications in the Kosovo economy. MEST operates a grant scheme which provides grants which are allocated to scientific research institutions and which are conditioned by the element of innovation. The total number of the allocated grants by MEST is 82 amounts with total budget of €600,000. There is no government plan to stimulate SMEs to cooperate with the Academy and towards innovation and there is no cooperation between ministries or joint interministerial bodies (ERP, 2016). In addition, a fundamental role in shaping Kosovo's R&D policy is held by the **National Research Council** (NRC). MEST has very limited budget to effectively deploy a comprehensive research and innovation policy program. In fact, the Ministry's experience in funding and implementing research policy programs is very recent. Currently the NRC is not functional. The national strategy on R&D is outlined in the National Research Program 2010-2015. It addresses the key elements relevant to strengthen research capabilities in Kosovo. As such, it includes provisions to develop human capacity, research infrastructure, international collaboration, business science linkages, and budget allocations. **The Centre for Innovation Support and Technology Transfer** (CITT) is part of the Department for Technology and Science within MEST. It aims to enhance the linkages between science, technology, and industry actors in order to accelerate the process of technology transfer, technology development, and innovation in Kosovo. CIIT provides support to entrepreneurs and assistance regarding the patentability and protection of other intellectual property rights.

Other ministries included in the overall STI system in Kosovo include **the Ministry of Finance**, especially in the area of budgeting; **the Ministry for Public Administration**, especially in the area of information and communication technology (ICT) development and the **Ministry of Labour and Social Welfare**, especially in the area of employment and co-operation with MEST in labour market development issues. Within the GoK there are several programmes/projects to support start-ups under Ministry of Culture, Youth and Sports, KIESA, Ministry of Labour and social Welfare, Ministry of Internal Affairs and many other donors. The Strategy for Innovation and Entrepreneurship aims to serve as an umbrella for entrepreneurship and innovation policy in Kosovo.

Legal environment for Entrepreneurship and Innovation

The MIN's aim is to draft the Law on Innovation and Entrepreneurship to complete the legal framework. There are number of laws that related to entrepreneurship and innovation support:

- Law No. 2004/49 on Patents, Law No. 02/L-100 on Amending and Supplementing the Patent Law No. 2004/49". This Law defines the provisions and procedures for registration of patent, the rights deriving from the registration and application of these rights.
- Law No. 04/L-135 ON SCIENTIFIC- RESEARCH ACTIVITIES. With this Law there are regulated: establishment, activity, organization, governance, rights and obligations of scientific workers and researchers in this activity; position of the National Science Council, approval and implementation of

the National Science Program, financing bases of scientific-research activity, as well as other issues regarding the scientific-research activity in Kosovo.

- The Law No. 04/L-006 on Business Organisations specifies the types of business organisations through which business activity may be conducted in Kosovo. It also establishes the registration requirements for each type of business organisation, lists the legal provisions applicable to each type of business organization with respect to its legal capacity and structure, as well as their rights and obligations as legal entities, of owners, managers, directors, legal representatives and third parties;
- The Law No. 03/L-181 on Market Inspectorate and Inspective Supervision determines the inspective supervisory functions and operations and authorizations of market inspectors, who are in charge of implementing and enforcing legal provisions on inspection supervision;
- The Law No. 04/L-00 on Internal Trade regulates requirements for carrying out internal market trade (including wholesale and retail sale), auction, mediation in trade, restrictive practices, as well as protection measures for carrying out trade activity, supervisory measures, and administrative and punitive measures against illegal competition in the context of internal market;
- Law No. 05/L-079 on Strategic Investments in the Republic Of Kosovo aims to stimulate, attract and create conditions for implementation of strategic investments in the Republic of Kosovo, as well as to establish administrative procedures and criteria for evaluation, selection, implementation and monitoring of strategic projects, as well as determining the procedures for granting the use of the property of the Republic of Kosovo, for the purpose of implementation of strategic investments projects.
- Law No. 04/L-159 on Economic Zones (dated 04.03.2013) is designed to regulate initiatives for establishment of the economic zones, free economic zones, creation of the basis for drafting the national plan for economic zones, site of economic zones, way of use of economic zones, promotion of economic zones, drafting of national plan for economic zones and establishment of national council for economic zones.
- Law No. 05/L -029 on Corporate Income Tax (dated 22 July 2015). This Law sets the system of Personal Income Tax in the territory of the Republic of Kosovo.
- LAW NO. 04/L-220 On Foreign Investment (December 2013) is designed to protecting, promoting and encouraging foreign investment in Kosovo by providing foreign investors with a set of fundamental and enforceable legal rights and guarantees, with e view to ensuring that they and their investments are protected and treated with fairness and respect, in strict accordance with the rule of law and widely accepted international standards and practices.
- Law on Protection of Competition nr.03/l-229, of October 7th 2010 (official gazette of Republic of Kosovo). This law amended the Law 2004/36. This law defines the rules and measures for protection of free and effective

competition on the market, competencies, organization of the Authority for Protection of Competition as well as the procedures concerning implementation of this law.

- Law on Economic Zones no. 04 / L159). This Law aims at establishment of the economic zones, free economic zones, creation of the basis for drafting the national plan for economic zones, site of economic zones, way of use of economic zones, promotion of economic zones, drafting of national plan for economic zones and establishment of national council for economic zones.
- Law No. 2004/19 on Academy of Science and Arts of Kosovo (June 16, 2004 with promulgation on July 28, 2004).
- Law No. 2002/3 on Higher Education in Kosovo (September 26, 2002 with promulgation on May 12, 2003).
- Law No. 2011/04-L-037 on Higher Education in Kosovo (August 31, 2011).

3.4 SWOT analysis

On the basis of information presented within Analysis chapter, Kosovan strengths, weaknesses, opportunities and threats with regard to innovation and entrepreneurship are summarized in the SWOT table below. Although weaknesses currently seem to outweigh the strengths, the consultations with various stakeholders have indicated existing potentials in specific areas, where given megatrends and societal challenges are offering prospects and opportunities for future development. Table 2 represents SWOT analysis stemming from the conducted analysis.

Table 2. SWOT Analysis

| Strengths | Weaknesses |
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| <ul style="list-style-type: none"> • Stable economic development and continues growth in the last decade • Innovation and Entrepreneurship high on the political agenda and well represented Existence of a Ministry of Entrepreneurship • Increased harmonisation of Kosovo industrial and innovation policy with EU SME policy and support programs • Consistent ICT-related legislation and strategic framework in place • Good interconnectivity between municipalities, combined with availability of basic hardware and software. | <ul style="list-style-type: none"> • Low public investment in Innovation and Entrepreneurship • Low ability of private sector to invest in innovation • Institutional innovation and entrepreneurship landscape not yet complete • Insufficient coordination between the public institution and public institutions and private companies • Weak coordination between training and education stakeholders. • Academic sector not ready to service private sector as innovation solution provider • Lack of inventive for industrial - academic cooperation • Innovation related legal framework |
| <p>Opportunities</p> <ul style="list-style-type: none"> • Availability of small number, but well educated professionals graduated abroad • Youngest population in Europe capable to cope with digital transformation of society and industry, • Increasing number of highly innovative and internationally competitive firms (mainly from the ICT sector) • Rapidly developing mobile and internet infrastructure • ICT as enabler for digitalisation of other important industries • Good level of cooperation among companies | <p>Threats</p> <ul style="list-style-type: none"> • Insufficient cooperation between public and private stakeholders might hamper fast progress • Unclear role and low capabilities of innovation intermediaries hampers their role to support national industry to become more innovative • Brain drain of well-educated young potential entrepreneurs due to lack of business opportunities • Innovative firms move out of Kosovo or taken over by foreign firms • ICT graduates supply doesn't meet the demand of the industry • Lack of public investment in innovation and entrepreneurship will not lead to |

4. WHAT THE STRATEGY INTENTS TO ACHIEVE

Based on the results of the analysis of current status and future challenges of the innovation and entrepreneurship, the Strategy for Innovation and Entrepreneurship defines the vision 2022, strategic objectives and dedicated operational objectives. The latter once are grouped according to the four Thematic Pillars (s. Fig. 5).



Figure 5: Kinds and typically tasks of innovation intermediaries

The respective thematic pillar, strategic and operational objectives providing as well as sets of concrete support measures are all aiming to contribute to the commonly agreed vision 2022. Agreeing in a common vision is an important task within strategy development, especially since many different stakeholders are involved and have to contribute in a systematic manner.

Vision 2022

By 2022, Kosovo should base its economic competitiveness in the effective utilization of knowledge, creativity and innovations, and become internationally recognised as hub for digital driven be known at regional level for innovations and scientific research with economic effects, and become a regional center for the development of digital economy.

The mission the Strategy for Innovation and Entrepreneurship follows can be defined like “The Kosovar innovation system applies an integrated approach of investing in knowledge, creativity and innovation on the one hand, and promoting exchange among the national innovation and entrepreneurship community as well as with international experts on the other hand. Thereby, favorable framework conditions will be developed to increase competitiveness of Kosovo businesses, and increase social welfare.

The strategic objectives defined in the Strategy for Innovation and Entrepreneurship represents a more general, at least five-year, aspiration in the form of a statement about the preferred conditions that the GoK will be committed to achieve. In the following four strategic objectives are defined,

which will be linked to identified problems and their causes. They systematically tackle all three levels, the policy level (macro level), intermediary level (meso level) as well as the industry and academia level (micro level). Following such a systemic approach, will likely contribute to meet all related objective (s. Fig. 5).

The four strategic objectives are

1. To improve public policies for the initiation and development of innovations, with focus on increasing competitiveness and exporting potential of Republic of Kosovo
2. To enhance private sector and academia participation as well as collaboration in overall investments in research and development
3. To create strong coordination mechanisms for innovation and entrepreneurship at the national level
4. To increase human capacities and competence for research, development and innovation in entrepreneurship

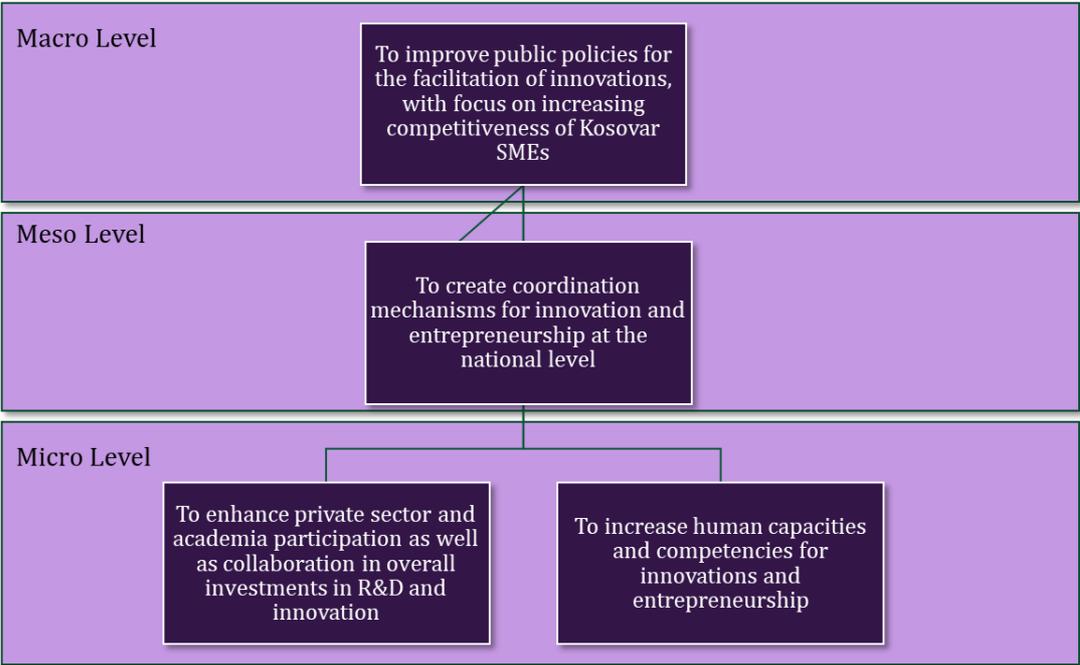


Figure 6: The hierarchy of the four strategic objectives

5. THEMATIC PILLARS AND OPERATIONAL OBJECTIVES

To achieve the strategic objectives and support innovation and entrepreneurship in Kosovo a set of thematic pillars have been defined. For the purpose of effective coordination and implementation, the different measures and actions defined will be organized in these thematic pillars and according to operational objectives. These pillars form an integrated portfolio of support measures, which can be quickly adapted to changing market conditions and needs.

For each of the thematic pillars a set of operational objectives are defined. A operational objective specifies more concrete results, focussing more narrowly on an aspect within a given thematic pillar, usually with a shorter-term (or medium-term) perspective. On the one hand, specific objectives are defined to provide more exact directions for actions, and each one is to be achieved through the implementation of a certain number of actions. On the other hand, they are linked to a general objective and represent a means to achieve it.

The GoK will apply a wide set of instruments for the Strategy implementation, like

- Regulatory instruments – setting forth rights, obligations, restrictions, or standards stipulated in laws and secondary legislation
- Administrative instruments – including direct or indirect (i.e. outsourced) provision of services, infrastructure investment, capacity development (training), inspection, etc.
- Informative instruments – including information dissemination campaigns, publications and the development of new information websites, etc.
- Institutional instruments – including the establishment or rearrangement of public institutions to ensure the fulfilment of necessary state functions or provision of public services and to improve service quality.
- Financial instruments – including subsidies, tax deductions, guarantees, favourable trade conditions, etc. In PAR these are seldom used, however, although new fines or financial incentives may be introduced.

5.1 Thematic Pillar A: Development of an integrated system for innovation in the Republic of Kosovo and advancement of the legal and fiscal framework conditions

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| Thematic Pillar A | Development of an integrated system for innovation in the Republic of Kosovo and advancement of the legal and fiscal framework conditions |
| Rationale | Responsible institutions of the Government of Kosovo need to be embedded in an efficient system of innovation creation with effect on the economy as well as the legal and fiscal framework. Suitable framework conditions enable the orientation of research and scientific capacities of the public and private sector in terms of using innovation in the economy and the use of new technologies to increase competitiveness. The National Council for Innovation and Entrepreneurship will be the advisory platform for building an integrated innovation and entrepreneurship system. The long term objective is implement a systematic and integrated approach for innovation and entrepreneurship, incl. appropriate legal and fiscal framework conditions. |
| Operational Objective A.1: | To well align the implementation of Innovation and Entrepreneurship Strategies with related initiatives In order to avoid redundancies and to leverage synergy potentials between the different strategies of the Government of Kosovo, the coordination mechanisms, like the Interministerial Advisory Council for Innovation and Entrepreneurship, have to be further developed. By doing so, significant synergies between different strategies can be reached. The Strategy for Innovation and Entrepreneurship can serve as an overall strategy with an integral holistic orientation. Under this roof, the Kosovo IT Strategy, a Smart Specialisation Strategy and other sector- or technology-specific strategies focus on certain areas with more concrete formulations of goals and fields of action. In this context, clear responsibilities have to be defined among all institutions concerned. |
| Operational Objective A.2 | To streamline the responsibilities and operational tasks of Kosovar innovation intermediaries Innovation intermediaries are playing an important role with the national innovation system. Their number is still limited (e. g. Chambers, ITP Prizren or ICK), but their role to provide support to the private sector in terms of innovation and entrepreneurship is important. It is important that these innovation intermediaries have dedicated tasks and objectives in order to cooperate in a targeted way and to avoid |

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| | <p>competition among them or redundancy. Therefore, under the leadership the Ministry of Innovation and Entrepreneurship and / or the National Council for Innovation and Entrepreneurship, coordination mechanisms are set in place that assure a streamlined operation of the respective innovation intermediaries. Incentive models for the innovation intermediaries might help them to follow such a streamline approach. Where need the set up of new innovation intermediaries are initiated</p> |
| <p>Operational Objective A.3:</p> | <p>To install a systematic fiscal and non-fiscal policy toolset for the promotion of innovation activities</p> <p>Based upon the Law on Innovation and Entrepreneurship, the Ministry of Innovation and Entrepreneurship, together with the Advisory Council for Innovation and Entrepreneurship, has to develop as set of policy instruments to support innovation activities addressing both the needs and potentials of regional economic and scientific landscape. Tax incentives, grants, innovation and entrepreneurship funding programs are options to be considered to promote horizontal economic development (e. g. physical infrastructure like incubators, digital infrastructure) as well as vertical economic development, which focuses on certain technology and innovation fields having the potential for spurring economic growth.</p> |
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5.2 Thematic Pillar B: Enhancement of the potential for innovation in Kosovan enterprises

| Thematic Pillar B | Enhancement of the potential for innovation in Kosovan enterprises |
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| Rationale | There is a strong need to strengthen the innovative potential and competitiveness of the economy by providing support for the establishment of innovative enterprises, supporting investment in processes and innovative technologies, market research, technological development and innovation, and support and facilitation of financial support for attracting foreign investment to innovation and entrepreneurship. |
| Operational Objective B.1 | <p>To increase awareness of the importance of innovation among the private sector</p> <p>The awareness of importance and potential of innovation and entrepreneurship is not yet fully understood by the private sector nor in public. Communication and information campaigns to raise such awareness are important tools to contribute to a more innovation driven Kosovar society. It is fundamental to ensure transparency and provide information through different communication channels in order to properly address the key target group. Administrative entities on local level, the business and research community as well as citizens shall be sensitized for innovation and entrepreneurship.</p> |
| Operational Objective B.2 | <p>To implement a programmatic and institutional innovation and entrepreneurship support scheme in an efficient manner</p> <p>The core of the Innovation and Entrepreneurship Strategy is the development and implementation of a systematic support scheme on both levels programmatic and institutional. It aims to support the framework conditions to facilitate innovation for SMEs and strengthening entrepreneurship in two ways. It contains generic programmatic innovation support schemes (e. g. funds, subsidies etc.) intended to improve innovation readiness and ability of SME in all sectors. Furthermore it aims to strengthening and streamline the innovation intermediary landscape. The emergence of new innovation intermediaries are stimulated (where needed) and coordination mechanisms implemented to increase efficiency and effectiveness of innovation intermediaries. All these support schemes shall be demand-driven and easy to access for the entire target group.</p> |
| Operational Objective B.3 | <p>To efficiently transfer R&D outcomes into marketable solutions through close cooperation between academia and research with the private sector</p> <p>In order to better match higher education curricula and business requirements, the Innovation & Entrepreneurship</p> |

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| | Strategy promotes the better engagement of private and academic sector. Investments in academia and business need to be harmonized and enrich each other by focusing on priority areas, including digitalization and IT as pivotal and cross-sectoral fields. Moreover, the inclusion of students in practical work of companies is to be stimulated. |
| Operational Objective B.4 | <p>To promote innovation through foreign investments and export promotion</p> <p>In order to fill gaps in highly relevant value chains and to provide attractive employment opportunities, a location marketing campaign for Kosovo should be developed together with neighbouring Western Balkan states in order to ensure greater visibility. Also, a close cooperation with foreign experts and institutions is to be sustained to further enhance the integration of Kosovo as a business location on the European market. In the context of the regional policy of the European Union (Cohesion Policy), transnational innovations projects can serve as testing ground for new innovation ideas and as a chance to benefit from exchange with other partners, and also learn from best practices.</p> |

5.3 Thematic Pillar C: Supporting innovation and entrepreneurship among youth and women in businesses

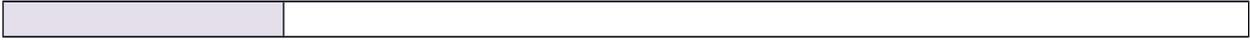
| Thematic Pillar C | Supporting innovation and entrepreneurship among youth and women in businesses |
|--------------------------|--|
| Rationale | Universities are considered as an important source of innovation. Collaboration of students and professors with the private sector creates an added value of the educational process and assists in building and advancing professional to new generations. Currently neither vocation training schemes nor higher education curricula correspond to the needs of the economy. Students and graduates are not fully able to apply their knowledge in economics, important elements with regard to innovation and entrepreneurship are missing. This pillar aims to promote close cooperation with the private sector in the academic world, stimulating student involvement in internships, as well as financial support for young people and women in business with additional vocational training. Related measures are intended to lower the current under-representation of women in business- only 10 % of the business owners in Kosovo are represented by women ²³ . |

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|----------------------------------|---|
| Operational Objective C.1 | <p>To boost innovative spirit and awareness among young talents</p> <p>Creativity is the initial force for innovation. To incorporate innovativeness and entrepreneurial thinking, investments in human capital are fundamental and need to be organised in a holistic approach. This is why national measures should be implemented right at the beginning of the innovation chain “education – research – business”. Curricula are to be modified accordingly by taking into consideration digital and entrepreneurial skills, media competencies, soft skills as well as innovative teaching methods. Furthermore, extracurricular initiatives to promote young talents can serve as an incentive to support eagerness to experiment and problem-solving abilities.</p> |
| Operational Objective C.2 | <p>To align vocational and higher education curricula with entrepreneurship and economic demands</p> <p>The design of vocational and higher educational curricula needs to address this issue by incorporating respective course contents and provide infrastructure. Also, incentives should be offered for students and researchers to better develop and contribute their talents. Scholarships or innovation contests can constitute possible instruments.</p> |
| Operational Objective C.3 | <p>To better integrate women in business through specific support programs</p> <p>Especially in developing countries like Kosovo, women face substantial barriers due to the traditional view on women’s role as well as unfavourable societal attitudes and stereotypes. Consequently, running a business or even work as an employee is considerably more difficult for women. To significantly leverage the economic growth potential, it is crucial to promote women to take on an active role in the economy, either as entrepreneurs or as workers. The development of a supportive business environment for female entrepreneurs is an essential prerequisite for it. Specific funding programs and the foundation of national or local interest groups could mark a beginning.</p> |
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5.4 Thematic Pillar D: Promotion and treatment of innovations in sectors with economic development potential

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| Thematic Pillar D | Promotion and treatment of innovations in sectors with economic development potential |
| Rationale | <p>Kosovo's economic development for a long period of time is based on natural resources and the development of light industry sectors. This does not guarantee Kosovo competitiveness in regional and global markets, because</p> |

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| | <p>recent developments in the global economy argue that competitiveness is based on investment in innovation and entrepreneurship stimulation. The field of services supported by technological developments, innovations in production processes, marketing, administration, trade, agriculture and health are the economic future of Kosovo. This pillar aims at starting the debate on the new economic thinking in Kosovo, where the use of information technology for the development of economic sectors is foreseen in order to increase the economic effects. This strategy enables the digital and manufacturing economy to apply in each country's development sector.</p> |
| <p>Operational Objective D.1</p> | <p>To establish a horizontal policy toolset in order to provide good framework conditions in the economy and research, and to lay the foundations for follow-up approaches with a sector-specific orientation</p> <p>Before promoting and investing in certain economic priority areas, sector-neutral measures are to be applied in order to create the necessary framework conditions for a functioning innovation system (see also B.2). On this basis, the development and implementation of non-neutral, i. e. topic-specific policies for certain thematic fields with great future potential is the next step to increase competitiveness.</p> |
| <p>Operational Objective D.2</p> | <p>To channel investments in economic and innovation fields with great economic development potential</p> <p>Based upon a sound analysis in the framework of a Smart Specialisation Strategy, a selection of specific fields of strength with the potential to spur economic growth and transform existing structures need to be defined. Focus shall be given on Transformative Activities (s. chapter 6). Endogenous potentials need to be intelligently combined with technological trends, like digitalization, in order to identify and promote new economic fields. Developing complementary capacities, specific initiatives and services for these specific domains require priority investments. Thus, USPs can be built up, which help to improve the national competitiveness.</p> |
| <p>Operational Objective D.3</p> | <p>To tightly interlock the promotion of prioritized industries with the digital economy</p> <p>In combination with the national IT strategy and a Smart Specialisation strategy, the development of priority areas are to be accompanied by the digitalization and strategic measures derived from this. This close integration is fundamental for the successful transformation towards a knowledge-based economy. The IT industry of Kosovo is regarded as the main engine for future economic development and growth. It has to be embedded in all parts of the innovation chain, from secondary education through to business development.</p> |



6 Priorisation of Kosovan Sectors with High Economic Development Potential

Due to the embryonic status of the Kosovan innovation and entrepreneurship system, the Strategy consists mainly of horizontal measures and neutral policy aimed at improving general framework conditions and capabilities for innovation and entrepreneurship. However, Thematic Pillar D emphasis on a more vertical and non-neutral logic of intervention to better explore capacities and opportunities for transformation and to create critical mass in innovative new fields with over-average growth potential. Focus shall be given on promoting so called Transformative Activities since they usually show over-average growth potential. The idea of transformative activities (TA) has been inherent in the concept of S3 since the latter was first formalised in 2009 by Foray. In this context Transformative activities can be defined as a number of innovation related activities done by a group of actors targeting the same (technical, market or industrial) area, having the potential to significantly transform existing industries. However, they are always difficult to identify since traditional statistics and indicators are missing.

To identify and prioritize these sectors relevant for Kosovo, a wide range of stakeholders has been involved, backed by statistical analyses. The risk of pursuing narrow sectoral interests was limited by a strong moderation process, a consistent application of the methodology and by substantiation of assessments and proposals on the data or other evidence. The processes led to the identification of four sectors (Priority Areas) where high innovation dynamics and over-average growth potential can be expected in the future.

- ICT and related Digital Industry
- Food production and processing
- Manufacturing
- Tourism and related service industry

Practice reveals that transformative activities emerge between two or several priority areas, which typically represent strong economic sectors. Thus, the Strategy for Innovation and Entrepreneurship will apply the S3 Synergy Diamond Approach (Meier zu Köcker et al 2017), which is based on the assumption that transformative actions mainly emerge between strong sectors as a result of increasing industrial convergence. The S3 Synergy Diamond for Kosovo grouped the four identified Priority Areas corners and supposes the identification of Transformative Activities between them (s. Fig. 6). Some Transformative Activities, which might be relevant for this Strategy and Kosovan economy are given in the Figures. However, the final identification request more solid analytics.

Consequently, the Strategy for Innovation and Entrepreneurship will operationalize the identification and development of Transformative Activities, emerging between these four Priority Areas by promoting so called

Entrepreneurial Discovery Processes that develop concrete actions whose implementation generates the necessary critical mass for structural transformation in Kosovo. Generating critical mass presupposes to exploit cross-sectoral links (connectivity) and international cooperation. The whole process should be a collective endeavour including all relevant actors of the innovation process. From identification to monitoring of these Transformative Activities, clusters are thus key players. They are located at a level of granularity between individual firms and broad sectors, reunite actors of the quadruple helix, reflect connectivity and are predestined to benefit directly from S3-enhanced innovation processes. Cluster development is part of this and other Strategies, demonstrating the increasing importance of clusters as to of economic development of Kosovo.

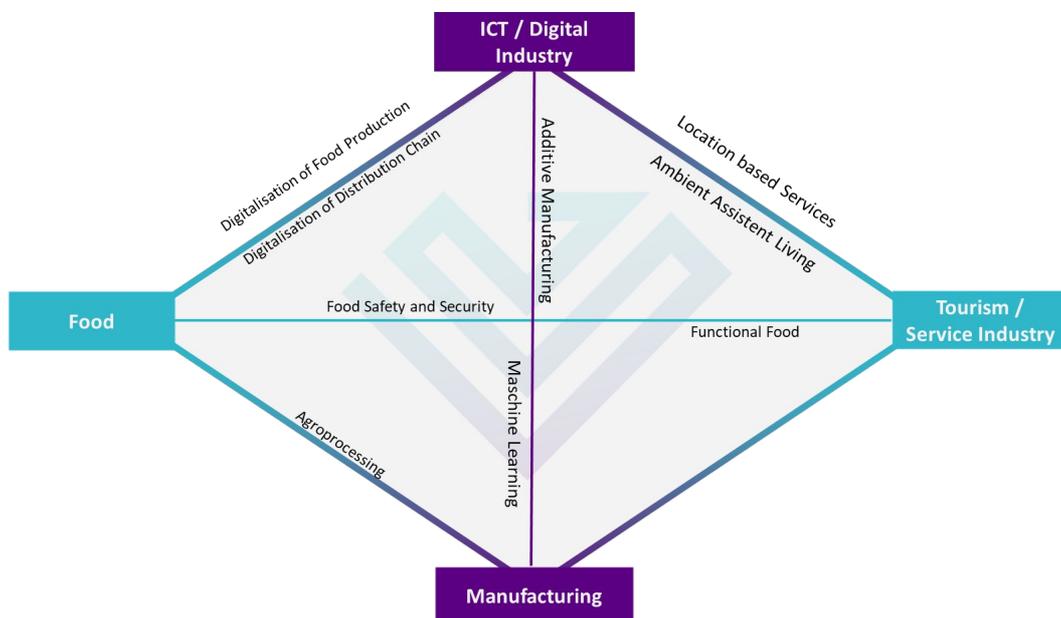


Figure 7: S3 Synergy Diamond for the Republic of Kosovo

The priority of Kosovo during the next years of the Strategy implementation is to create a climate favourable for innovation and to stimulate business sector investments in innovation activities in order to develop new products, services and technologies that will enable modernization and diversification of the Kosovan economy. The identification of the four Priority Areas might help to streamline the investments and efforts connected to the implementation of the Strategy.

7 STRATEGY IMPLEMENTATION PROCESS AND MONITORING

The Strategy for Innovation and Entrepreneurship the basic framework that delineates objectives and priorities to meet the strategic goals. The Strategy determines policies and measures for industry and academia, which will, in turn, be beneficial for economic development, industrial competitiveness and social welfare. The implementation process of the Strategy comprises an unavoidable mechanism, on the basis of which MIE will be able to delineate its policies, allocate tasks and undertake specific actions, as well as monitor the implementation of the Strategy.

The implementation process will be done according the activities by pillars, determine the timeline for their implementation, the institution responsible for such implementation and institutions supporting the activities, cost of implementation and overall planned cost and funding source.

Monitoring and evaluation mechanisms will be performed serving two fundamental functions:

- inform about what the strategy achieved and whether implementation is on track and making this information available to decision makers;
- support the constructive involvement and participation of stakeholders through transparent communication and promote trust building. The monitoring mechanism should be able to capture and follow the relevant expected changes that are foreseen in each of the Thematic Pillars by means of an appropriate choice of outcome/result and context indicators.

The monitoring and evaluation approach will play an important role. On the one hand, it will encourage regular communication among actors of the innovation system. On the other hand, it will provide stakeholders with data about results of a public intervention. That will contribute to systemic learning and continuous improvement of the Kosovan innovation policies and programs as well as trust building. Moreover, it will facilitate dialogue between the stakeholders from different levels.

The monitoring and evaluation approach concentrates on monitoring outputs and its contribution to the innovation and entrepreneurship policy as a whole rather than monitoring the absorption of financial allocations. The monitoring system should therefore allow, through the monitoring of selected output indicators, their assessment against the targets and change the policy approach in case of failure.

7.1 Responsibilities and Tasks

Effective implementation of the Strategy for Innovation and Entrepreneurship will be a key to succeed. Thus, the implementation process includes appropriate institutional arrangements and monitoring approaches. The Ministry for Innovation and Entrepreneurship (MIE) is responsible for continuously monitoring

the implementation of the Strategy and will undertake all necessary steps to ensure timely and effective conduct of the activities set out in the action plan.

The key actions under the leadership of the MIE are

- Establish an effective monitoring and reporting mechanism in line with monitoring and reporting requirements and ensure its application.
- Collect information from participating ministries on the implementation of the strategic document and its action plan.
- Prepare regular annual reports on the implementation of the strategic document and biannual reports on the implementation of the action plan.
- Organise the work of inter-ministerial co-ordination body, for which they provide secretariat functions.
- Initiate discussions of problematic issues, if needed.
- Publish regular reports on the website of the ministry after its endorsement by the respective body.

All these activities initiated by the MIE will be operationalised in close cooperation and communication with the National Council for Innovation and Entrepreneurship. This Council is the most appropriate body to monitor the implementation process through

- Regular meetings and discussion on the progress in implementing objectives, indicators and actions of the respective strategic document.
- Identification of challenges and bottlenecks to successful implementation and propose corrective measures to be taken by the MIE.
- Discussions and endorsements of regular reports

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ANNEX

Table 1: Mapping of institutions/orgnisations supporting entrepreneurship and innovation

| Institutions/org anisations/a agencies/donor s | Policy target | Technical assistance | Financial assistance |
|---|--|---|--|
| <p>The Innovation and Training Park Prizren</p> | <p>ITP is Kosovar and German companies active in one of the three priority sectors (ICT/Technology based firms, Agro/Food Processing, Creative and Cultural Industries) create jobs, commercialize innovations from R&D activities, boost the economy and offer possibilities for VET and praxis-oriented learning.</p> <p>ITP is far more than a classic business park. Beyond spatial proximity a strong networking atmosphere lies at the heart of the ITP, which builds on collaboration and shared resources. The ITP ensures close linkages among tenants as well as between park management and tenants, offering an environment that fosters synergies between the private sector, vocational education and training institutions, and innovation activities</p> <p>ICT / Technology based firms Agro / Food Processing Creative and Cultural Industries</p> | <ul style="list-style-type: none"> • Business support related services. Research institutions or universities provide high-quality application-oriented education, tailored to the needs of the labour market, establish links to industry for their students (through collaboration in form of internships, research etc.). • Dual vocational education schools and training centres provide vocational education and training tailored to the needs of the labour market and closely cooperate with businesses settled in the park. Civil society actors of related fields provide non-formal education and contribute with social and cultural activities to the park. | |
| <p>KOSME (Swiss & ADA) KOSOVO SME PROMOTION PROGRAMME (KOSME)</p> | <p>The overall objective To contribute to the promotion of market-oriented private sector development in Kosovo and foster global competitiveness of Kosovo's</p> | <p>Business Development Services The Voucher Counselling Scheme (VCS) is re-</p> | <p>Improved Access to Finance Supporting the creation of Credit Guarantee</p> |

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| | <p>SMEs in line with the principles of sustainable development.</p> <p>The specific objective To contribute to the improvement of framework conditions and service provision for SMEs in Kosovo as a result of extended access to finance and professionalized business development services provided by the SME Support Agency of Kosovo, with special emphasis on the creation of opportunities for the poor - men and women, youth, and minorities.</p> | <p>organized and re-established to assist SMEs with consulting and training services. Business Consultants Council re-organization is supported including qualification, training, and CMC certification of consultants.</p> | <p>Scheme for improving SME access to finance. Developing a funding strategy for the SME Guarantee Fund and the implementation of awareness raising measures on the CGS. Provision of coaching to the MTI/SMESA staff on the CGS and trainings to the employees of the financial institutions and the provision of support in the implementation of the initial phase of the CGS.</p> |
| <p>EBRD (former TAM / BAS)</p> | <p>This programme is funded by the EBRD, Luxembourg, Sweden and the EBRD Shareholder Special Fund. Dedicated credit lines of €8 million which has first and second loss risk cover and technical assistance to partner banks. EBRD has designed a loan scheme for supporting female entrepreneurs as a part of their pilot project in region.</p> | <p>134+ women entrepreneurs provided with basic diagnostic services identifying their business' financing and know-how needs, 45+ women trained through entrepreneurial skills courses, 40+ women-led enterprises receiving business advice and industry expertise.</p> <p>Technical assistance to participating financial institutions, but also support women-owned and women-managed SMEs in accessing know-how, non-financial business development services and networking</p> | <p>EBRD has concluded agreement with TEB bank in Kosovo to administer this credit facility scheme. EBRD will cover up to 10% of overall portfolio of loans in case of default. The screening process has following stages. First, the female start-up entrepreneurs present their business idea to the EBRD expert panels. Successful applicants then will be screened by TEB bank. After they receive a loan the collateral requirement is reduced to 50% for successful applicants. After loan repayment the 10% of the value of loan is returned to women entrepreneur.</p> |

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| | | opportunities, improve human resources at women-led SMEs. | |
| Innovation Centre Kosovo (ICK) | <p>Innovation Centre Kosovo (ICK) is a center whose aim is to connect research and development component of scientific field with the business sector, focusing on creating new job opportunities oriented towards the future, based on knowledge and new technology.</p> <p>Innovation Centre Kosovo (ICK) was founded to support entrepreneurship, innovation and commercially based business development, with a focus on information and communication technology. The centre supports both start-ups and existing companies with the potential for growth.</p> | <p>Workshops Matchmaking Boot camps B2B Pitching Webinars Idea competitions Training for business start-ups and ICT specialised courses Access to International Conferences, Fairs and B2Bs</p> | Access to Grants |
| Jakova Innovation Center - JIC | <p>JIC Jakova Innovation Center is a non-profit organization which was established by the Ministry of Trade and Industry of the Republic of Kosovo, in cooperation with the municipality of Gjakova. This center serves as a business incubator with a mission of promoting and supporting young entrepreneurs in the construction and development of new companies.</p> <p>Jakova Innovation Center wants to be positioned in such a market form that uses big ideas, people and resources to influence the economy and to discover the true potential to young entrepreneurs in Kosovo.</p> | <p>Support consulting, training programs in areas such as business management, market research, finance, marketing and many other areas which</p> <p>Entrepreneurship Bootcamp Collaboration with various local and international enables the centre give way many new companies debuted on the international market.</p> | |

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| <p>Centre for Entrepreneurship and Executive Development (CEED) / SEAF, USAID, FMO</p> | <p>CEED not only provides entrepreneurs business know-how through its accelerator programs but also connects participants to mentors and a community of entrepreneurs that can help take their small businesses to next level. The holistic combination of market connections, community engagement, capacity building and access to capital set CEED apart.</p> | <p>Building Skills Through Peer-To-Peer-Learning Providing Access To Finance Developing Relationships Through Mentoring Mentoring and Consultancy for business growth; Advancement of skills to develop a successful business model; Individual Consultancy for business development B2B with local companies / regional, as well as forums and investment conferences held in the country and internationally</p> | <p>CEED Startup Accelerator To Grow business and find the right investors! Startup Accelerator. It is a 3-6 months program where businesses find the support needed for rapid growth.</p> <p>CEED Startup Accelerator is for entrepreneurs that have a registered business operating from 1 month to 3 years, and want to improve their business model and increase revenues.</p> <p>Matchmaking with potential local and international investors, as well as with financial institutions</p> |
| <p>Business Support Centre Kosovo (BSCK)</p> | <p>To support creation and growth of start-ups and SMEs by promoting entrepreneurship</p> | <p>Entrepreneurship and Start-up training programme through the School of Entrepreneurship Business coaching and mentoring Consultancy for start-ups B2B and trade fairs Networking Business Plans Pitching and matchmaking • Research and policy analysis</p> | <p>Grants with co-financing schemes funded by donors through donors</p> |
| <p>Management Development Associate (MDA) foundation</p> | <p>Job creation through support of creation and growth of start-ups. Entrepreneurs will be promoted through the range of activities and services to support growth of their companies such as consulting, technical and financial assistance to make them sustainable</p> | <p>Training in developing business start-up ideas and business plan Technical and administrative support through consulting on legal financial and other aspects of start-ups</p> | <p>Business Angels Investor Network facilitates linkages between vested investors and high potential Start-ups in Kosovo for partnerships in financial investment. Angel investors will invest capital into Start-ups and in return receive equity</p> |

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| | | | shares in the companies. |
| D&D Business Support Centre | D&D Business Support Center is consulting company founded in 2008 that offers professional services (consulting) for public Institutions, private companies, start-ups, the unemployed, youth entrepreneurs, women entrepreneurs, minorities and other marginalized groups, as well as non-governmental organizations, donors, | Business Support training Mentoring and coaching Develop and update business plans, | |
| VentureUP/University of Prishtina | Venture-UP is the first University of Prishtina Incubator that gives University of Prishtina students the possibility to establish and implement their start-up ideas. This will foster entrepreneurial mindset and education throughout University of Prishtina Faculties with specific focus on Engineering, Medicine, Agriculture and Economy. Venture-UP also gives Researchers at the University of Prishtina opportunities to commercialize research products to the market. The VentureUP is supported by USAID Transformational Leadership Program - Citizens Corps | Business support services for start-ups from UP Networking and linking with investors Mentoring and training | |
| Gjirafa.com | Gjirafa Lab is built by Gjirafa, Inc. with the support of Startup Yard and Rockaway Capital and assisted by the United States Agency for International Development (USAID), with the goal of building the Internet Economy in Kosovo and the region. Entrepreneurs will have an opportunity to transform their technology ideas/products into successful online businesses and solve real problems for society. The selection criteria on the website indicates that startups will be selected based on target market (targeting Kosovo, Albania, Macedonia and the region), team, internet economy impact, market, technology, etc, while selected startups will be offered a space to further develop their idea and mentor-ship as well, although the mentors are not public yet. | Business mentoring Experience, technical and business support, | Financial support in the form of Angel investors, in exchange for equity stake |
| Kosovo Virtual Incubator and Start Up Center UBT | Provides support for UBT student entrepreneurs and others with startup ventures. | business-plan competition for the students of the UBT, | |

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| <p>Innovation Lab Kosovo</p> | <p>UNICEF funded, Innovations Lab Kosovo is helping UNICEF and partners rethink development. A unit of UNICEF Kosovo, the Lab is home to a multidisciplinary team including project managers, software engineers, advocacy practitioners, designers, social entrepreneurs, educators, communications and marketing specialists, and graphic and web designers. The Lab works with adolescents and youth (14-24 years), with an emphasis on marginalized, vulnerable, and socially-excluded groups (non-majority communities; rural communities; communities living in poverty; adolescents with disabilities). This contributes to an increased capacity and opportunity amongst Kosovo's most marginalized youth to seek and secure meaningful participation both in the workforce and in policy-formation and decision-making processes.</p> | <p>Training and workshops on innovation, communication.</p> <p>STARTUP: SOCIAL VENTURE WORKSHOPS</p> | |
| <p>Kosovo Credit Guarantee Fond (KCGF),</p> | <p>The government and several multi-national donors have setup up the KCGF, which is a local, independent,. KCGF plays a key role in facilitating MSMEs obtaining more financing for their growth. KCGF helps financial institutions lend to viable MSMEs that might not have quite qualified without the guarantee to receive a loan, or, if it had a loan, would not have qualified to obtain the additional financing it needed to grow. The obstacles that KCGF helps overcome include the MSMEs not having adequate collateral or having a limited track record and credit history</p> | | <p>Sustainable credit guarantee facility issuing portfolio loan guarantees to financial institutions to cover up to 50% of the risk for loans for micro, small, and medium enterprises (MSMEs).</p> |
| <p>USAID, EMPOWER</p> | <p>The project works closely with firms and individuals from carefully selected growth-ready sectors to help them identify and connect to market opportunities, increase productivity, upgrade management and workforce skills, and expand access to finance. Through its activities and interventions EMPOWER Private Sector addresses high levels of poverty and unemployment, over-dependence on imports, and an underdeveloped export sector.</p> | <p>Project provides financial support to businesses for increasing and improving production, expanding buyer connections, specific training and internship programmes.</p> | <p>Grant subsidies provided by</p> |

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| <p>Promoting Private Sector Employment (PPSE), Swiss Development Cooperation:</p> | <p>Focus of the project is to promote employment by helping firms and self-employed in - tourism, food processing (fruits and vegetables, and non-wood forestry products), and possibly private health services.</p> | <p>Training, capacity development</p> | <p>Grants and subsidies in for</p> |
| <p>Prishtina Hackerspace ²⁴</p> | <p>It is is a co-working open experimentation space in Pristina, Kosovo, established exclusively for technological, educational, cultural and scientific purposes. The aim of the space is to provide workspace, equipment and other resources for communal use by all members.</p> | <p>Pristina hacker Space is encourages continued and after-school learning through workshops, classes, seminars and mentoring and also create a safe and open environment for experimentation in technology and art.</p> | <p>The direct and indirect economic development benefits of the Hackerspace ranges from employable skill development, participant self-employment, and spin-off business ideas, to the attraction of venture and grant capital and will help to build and enforce the technological and creative workforce in Kosovo. The organisation uses the crowdfunding platform. As of January 2017 they have 231 backers who pledged \$16,994 to help bring this project to life</p> |

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<https://www.kickstarter.com/projects/1731685895/lets-build-a-hackerspace-in-kosovo>

Box 1: Business Angles Initiatives and Support – Examples of business angles and crowdfunding platforms

- **Kosovo Business Angel Network-KOSBAN** is established in 2014 supported by Universum College and BiD Network, and aims at strengthening the start-up community in Kosovo by bringing together entrepreneurs and angel investors from Kosovo and abroad. KOSBAN aims to establish a platform from seasoned investors, as well as investors who seek to take the advantage of all the benefits that come along with angel investing. Furthermore, KOSBAN seeks to prepare investors (especially virgin investors) in Kosovo through various workshops that allow them to acknowledge different ways of investing their capital in start-ups that have the potential to grow and result in high returns. By mobilizing finance for start-ups in Kosovo, KOSBAN thereby stimulates the start and growth of start-ups along with supporting job creation.
- **Gjirafa Lab**²⁵ is another private run angel investor scheme. Gjirafa Lab is a start-up factory, made for Internet entrepreneurs who lack access to resources and market. As a start-up factory, the Lab provides the space, mentoring, networking, technology, talent visibility, and funding to competent Internet entrepreneurs, creating solutions for the Kosovo, Albania, and FYR Macedonia market. Unlike others, Gjirafa Lab is made of people who have done it before. Gjirafa Lab is built by Gjirafa, Inc., assisted by the United States Agency for International Development (USAID), with the goal of building the Internet Economy in Kosovo and the region. Entrepreneurs will have an opportunity to transform their technology ideas/products into successful online businesses and solve real problems for society. Gjirafa provides financial support for start-ups in the ICT sector, in the form of Angel investors, in exchange for equity stake. Gjirafa is focused on the ICT sectors mostly and connects start-ups with the incubator hub and seed funding with additional support. It has built an online platform for application and screening process of innovative ideas through open calls.
- **MDA Business Angels Investor Network** facilitates linkages between vested investors and high potential Start-ups in Kosovo for partnerships in financial investment, networking, and technology and know-how transfer for successful deployment of demand-driven products/services. Angel investors will invest capital into Start-ups and in return will be receiving equity shares in the companies.
- **Highlight Ventures.** Leo Blakaj, founded international business angel “Highlight Ventures”. The firm is an active investor in Europe, focused on early stage companies. Investments include brands like Entermedia, Zetta, Bzzz, Vello, Digital Rebellion, Punetori and most recently The Yellow Bell Labs which brings start-up communities together at its campuses, and focuses on building new technology start-ups from scratch. While in high school, Leo co-founded and led the well-known Entermedia Group, an award-winning marketing agency & video production house with offices in New York, Berlin, and Prishtina, and founded the web-hosting pioneer Hapsira Networks. He is a founding member at Kosovo Business Angels Network - which is a member of EBAN, and the German-Kosovo Chamber of Commerce. Leo has an interest in next-generation economics and artificial intelligence. He mastered business at IEDC, and has

completed studies at Rochester Institute of Technology.

- **Pristina hacker Space** provides beneficiaries of the Hackerspace with ranges support services from employable skill development, participant self-employment, and spin-off business ideas, to the attraction of venture and grant capital and will help to build and enforce the technological and creative workforce in Kosovo. The organisation uses the crowdfunding platform. As of January 2017 they have 231 backers who pledged \$16,994 to help bring this project to life
- **KOSOVA Idea crowdfunding platforms** is the first initiative (although registered in Basel, Switzerland) called KOSOVA ideas²⁶ (Verein/association) is a not for profit NGO in Basel, Switzerland. Kosova Ideas is an NGO which is tax exempt itself and donations are tax-deductible according to law and regulations of the Kanton Basel-Stadt, Switzerland. It collects funds for projects from bakers and distributes them according to rules to the project owners. The organisation develops and manages the platform, recruits staff, takes on board partners, invests in necessary software and infrastructure and reinvests any profits to further develop and promote the platform www.kosovaideas.com. All funds from received from bakers for a specific project are distributed as 90% to the project owner 10% to KOSOVA ideas GmbH allowing to cover related bank transfer cost (3 - 6%) and the remaining 4 - 7% to cover the cost to run, manage, develop and promote the platform.