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STRATEGY FOR INDUSTRIAL DEVELOPMENT AND BUSINESS SUPPORT 2030

(“Industrial Policy”)

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ACRONYMS

B2B	Business-to-Business
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
CO ₂	Carbon Dioxide
EIU	Economist Intelligence Unit
EQuIP	Enhancing the Quality of Industrial Policies
ESPN	European Social Policy Network
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOK	Government of Kosovo
Ha	Hectares
ICT	Information and Communications Technology
ILO	International Labor Organization
IP	Industrial Policy
IPR	Industrial Property Rights
KAS	Kosovo Agency of Statistics
KCGF	Kosovo Credit Guarantee Fund
KDB	Kosovo Development Bank
KSDW	Kosovo Sustainable Development Week
KTA	Kosovo Tax Administration
KTOE	Kilotons of Oil Equivalent
LFS	Labor Force Survey
M	Million
MI	Ministry responsible for Industry
MVA	Manufacturing Value Added
NDGs	National Development Goals
NDS	National Development Strategy
NFI	National Forest Inventory
NO _x	Nitrogen Oxide
NQA	National Qualifications Authority
OECD	Organization for Economic Cooperation and Development
OPM	Office of Prime Minister
PPP	Purchasing Power Parity
R&D	Research and Development
SDGs	Sustainable Development Goals
SIDBS	Strategy for Industrial Development and Business Support
SO ₂	Sulfur Oxide
SPO	Strategic Planning Office
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank
WB6	Western Balkans 6
WITS	World Integrated Trade Solutions
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Strategy for Industrial Development and Business Support (SIDBS) 2030 (hereinafter referred to as “Industrial Policy”) has been developed by the Government of Kosovo (GOK) to provide a strategic policy framework for fostering industrial development.¹ The drafting of this strategic document expresses the importance that GOK attaches to the manufacturing sector in achieving a structural transformation of Kosovo’s economy. The vision of Kosovo’s Industrial Policy is that, “By 2030, Kosovo’s industry will have transformed into a more globally-integrated industry that is able to produce high value-added products and provide decent employment.”

The Industrial Policy was drafted using a methodology known as *Enhancing the Quality of Industrial Policies*, which has been designed to support countries in developing comprehensive industrial policies based on robust diagnostics. The intervention logic of the Industrial Policy was developed by, first, determining the relevant strategic objectives of the National Development Strategy (NDS 2030) which would be positively affected by a growing industrial base. Second, based on these alignments to the NDS, concrete policy objectives of the Industrial Policy were formulated. Third, by understanding the underlying shortages in Kosovo’s industrial capability structure, specific changes (hereinafter referred to as “sub-objectives”) could be identified that are required to achieve the industrial policy objectives. Fourth, the identified sub-objectives provided the foundation to develop key industrial policy actions and the overall action plan.

The Industrial Policy’s objectives and sub-objectives were identified based on a comprehensive diagnostic of the economic, social, and environmental performance of the manufacturing sector. Even though per capita GDP growth rate is outpacing its regional peers, Kosovo still has the lowest GDP per capita among the Western Balkans Six (WB6). Kosovo’s manufacturing sector has a slightly higher weight in the composition of the economy compared to its regional peers but has not become a driver of the overall economic development. Kosovo has a small industrial base concentrated in low value-added activities with limited export competitiveness and concentrated in few export products and markets. Between 2015 – 2020, the manufacturing sector created about 5,700 new jobs. Despite the increase, employment in the sector still remains low, accounting for *only* over a tenth of total employment. However, the sector is still far from unfolding its potential of creating numerous decent jobs. Kosovo’s manufacturing labor market is characterized by low wages, high informality, and the lowest female participation of 16% compared to the WB6 average of 37%. The diagnostic also found that Kosovo’s industry had improved its energy efficiency but at a slower pace than its regional peers, while CO2 intensity of the sector is being reduced faster than the region. Finally, the manufacturing sector uses Kosovo’s abundant domestic natural resources only in limited quantities.

¹ The terms “industry” and “manufacturing” are used synonymously in this document.

To facilitate the unfolding of the manufacturing sector's development potential in Kosovo and to contribute to achieving the strategic goals of the NDS 2030, the Industrial Policy will pursue five policy objectives: 1) expanding industrial production; 2) reducing the industrial trade deficit; 3) generating comprehensive and decent employment; 4) supporting the growth of green industry; and 5) maximizing domestic value addition. The achievement of these policy objectives depends on significant changes to be made in 16 distinct sub-objectives ranging from improving access to finance and product innovation, to supporting manufacturers to expand into export markets, to equipping the workforce with industry-relevant skills, to improving attainment of green industry, to increasing the share of domestic inputs in manufacturing.

Ten priority policy actions have been developed to ensure that the vision of creating a globally-integrated industry that is able to produce high value-added products and provide decent employment will materialize and, in doing so, help turn the manufacturing sector into a driver of development for the country. These priority actions include supporting the establishment of modern industrial parks with eco-friendly features to attract investment and facilitate inter-firm horizontal and vertical collaboration; creating a national facility for product certification to accelerate international market penetration, including supporting conformity assessment bodies; scaling up the Export Finance Facility of the Kosovo Credit Guarantee Fund (KCGF) to improve access to financing for export-oriented manufacturers; upgrading the import tariff regime for selected manufacturing goods to reduce the high dependency on foreign suppliers and inputs; implementing a labor manufacturing program that combines wage subsidy and in-company apprenticeships to address the high level of unemployment among vulnerable groups; creating a skills credit scheme to enhance skills among the workforce for more and better engagement in manufacturing; supporting increased investments in green technologies through combining loans and grants to improve efficiency and digitalization; upgrading public procurement legislation to provide incentives for domestically produced and green products; and offering tax incentives for investments in product innovation to encourage greater innovation toward higher value-added products.

In concluding, the effectiveness of the Industrial Policy will require concerted actions, sustained commitment, and close collaboration among the GOK, the private sector, and Kosovo's international development partners. Key to the realization of the Industrial Policy vision will be a commonly shared understanding of the challenges, potentials, and priorities for promoting industrial development in Kosovo. This strategy document is meant to lay the foundation for this collaboration.

1. INTRODUCTION

The Industrial Policy 2030 is a strategic document that aims to articulate the overall framework for promoting industrial development in Kosovo.

Historically, Kosovo's industrialization started in the 1960s until late 1980s, with Kosovo companies being integrated within a broader industrial value chain in the former Yugoslavia. Manufacturing gained a foothold in Kosovo through manufacturing of, inter alia, automotive parts, battery production, and metal processing. The collapse of the former Yugoslav federation went along with a period of rapid de-industrialization. In the postwar period, Kosovo experienced only scant industrial development and has lacked a strategic industrial policy to guide the recovery of Kosovo's manufacturing sector.

For the first time in the post-independent period, the Government of Kosovo (GOK) has developed a distinct industrial policy. The decision was driven by the understanding that industrial development is critical for gradually transforming Kosovo into a high-income economy and improving the socio-economic well-being of Kosovo citizens. Arguably more than most sectors, manufacturing has a high potential to create significant productivity and value addition gains by absorbing new technologies and innovation. Industrial development may also have multiple positive development implications beyond the manufacturing sector. Due to various linkages to other sectors of the economy, industrial development can stimulate growth and development in sectors such as agriculture and mining in Kosovo and in related service industries. In doing so, industrial development has the potential to become an important driving force for Kosovo's desired structural transformation towards a modern growing economy which is well-integrated in the global economy and can generate socio-economic well-being as outlined in the vision of the National Development Strategy 2030.

Kosovo's decision to develop a modern industrial policy sits well with a renewed global appreciation of industrial development as an effective tool for low- and middle-income economies to catch up with developed countries. At the same time, industrial policy is also regaining prominence in the industrialized world to facilitate the transition toward a green and digital economy as well as to strengthen the development of strategically important industries in a respective country. The global resurgence of industrial policy is grounded on the understanding that any desired structural transformation requires significant and well-tailored government interventions, centered on a close collaborative relationship with the private sector.

In summary, the Industrial Policy 2030 offers a strategic framework to Kosovo's policymakers and development partners on how to facilitate the development of Kosovo's manufacturing sector. The Industrial Policy is closely aligned with NDS 2030, as the overarching strategic document for Kosovo's national development and, given the numerous linkages, embedded within a broader set of related sector policies.

This strategic document is organized in several sections. Section 1 provides an introduction to the strategic document. Section 2 presents the methodology used to develop the strategic document. Section 3 introduces the industrial performance analysis of Kosovo, benchmarking

its manufacturing sector performance against its regional peers and role model countries. Section 4 outlines the vision and mission of the industrial policy, including alignment with the NDS. Section 5 presents the main policy objectives and sub-objectives, including the main intended policy actions. Section 6 describes the priority sectors based on an assessment of their past relative performance. Section 7 lists the main priority actions of industrial policy. Section 8 describes the implementation, monitoring, and reporting arrangements. Finally, Section 9 provides the budgetary impact of implementing the industrial policy.

2. METHODOLOGY

The Industrial Policy was designed under the auspices of a government-mandated working group, comprising mainly representatives of government, businesses, business chambers and industry associations. The main responsibility for drafting the Industrial Policy rested with a technical-level group at the Ministry responsible for Industry (MI). Supported by external expertise, the drafting team worked through various stages from March 2022 until December 2022 to develop the strategic document. The development of the Industrial Policy was also closely coordinated with the Strategic Planning Office (SPO) of the Office of Prime Minister (OPM), whereas the document itself is aligned with GOK Regulation No. 07/2018 on *Planning and Drafting Strategic Documents and Action Plans*.

The process of designing the Industrial Policy has been structured according to a methodology known as *Enhancing the Quality of Industrial Policies* (EQuIP). EQuIP was developed by the United Nations Industrial Development Organization (UNIDO) and the German Development Cooperation (GIZ) to support countries in designing comprehensive and evidence-based industrial policies that build on well-grounded diagnostics.

The development of the intervention logic of the Industrial Policy follows four basic policy design steps: First, it links the Industrial Policy with the National Development Strategy 2030, which involved determining which NDS objectives a developing manufacturing sector would impact the most. Second, it translates these linkages into specific and measurable industrial policy objectives. Third, it identifies the most relevant industrial drivers (sub-objectives) that need to improve their performance in order to achieve the industrial policy objectives. And fourth, it develops a costed action plan of governmental interventions to enact the desired industrial policy vision.

During the design of the Industrial Policy, the MI-led technical design team drew on the expertise of various specialized government ministries and entities, which were frequently consulted. At key stages of the design process, the MI team presented the main findings of the industrial performance diagnostics, the intervention logic, as well as the policy instruments to the wider working group, where active input was received by government, private sector, and donors. Moreover, the MI-led technical team also sought the active involvement of the business community to better contextualize the identified policy actions.

Each step of the policy design process has built on comprehensive diagnostics. The industrial

performance analysis (see section 3 and annex 1), which assesses the economic, social, and environmental performance of Kosovo's manufacturing sector over the past 10 years, was critical toward the definition of industrial policy objectives, as well as how such objectives would ensure the achievement of key NDS 2030 strategic goals. Furthermore, the analysis of the industrial capabilities (annex 2) informed the definition of sub-objectives. Additionally, the sector selection analysis (annex 4) helped to identify those manufacturing industries that have the highest potential to contribute to the achievement of one or more industrial policy objectives. The overall industrial diagnostics was key to determining not only the design of policy actions, but also to tailor them for specific target groups. Finally, the target setting analysis (annex 1) helped to determine realistic and evidence-based targets for the policy objectives and sub-objectives.

The industrial performance diagnostics is a critical part of the strategy design process. It benchmarked Kosovo's industrial performance against the WB6 comparators (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia), and Slovenia and Estonia, used as aspiring *role models*. Data were obtained from numerous local sources, including the Kosovo Agency of Statistics (KAS), Kosovo Tax Administration (KTA) and Central Bank of Kosovo (CBK), as well as international sources such as World Bank (WB), UNIDO, International Labor Organization (ILO), World Integrated Trade Solutions (WITS). Given the limited availability and quality of national data in Kosovo, the diagnostics could partially not include more in-depth analyses. A thorough review of other relevant national- and other sector- and subsector-level strategies was also conducted to explore horizontal synergies and ensure an overall policy alignment and coherence.

3. BACKGROUND

3.1. Industrial Performance Analysis

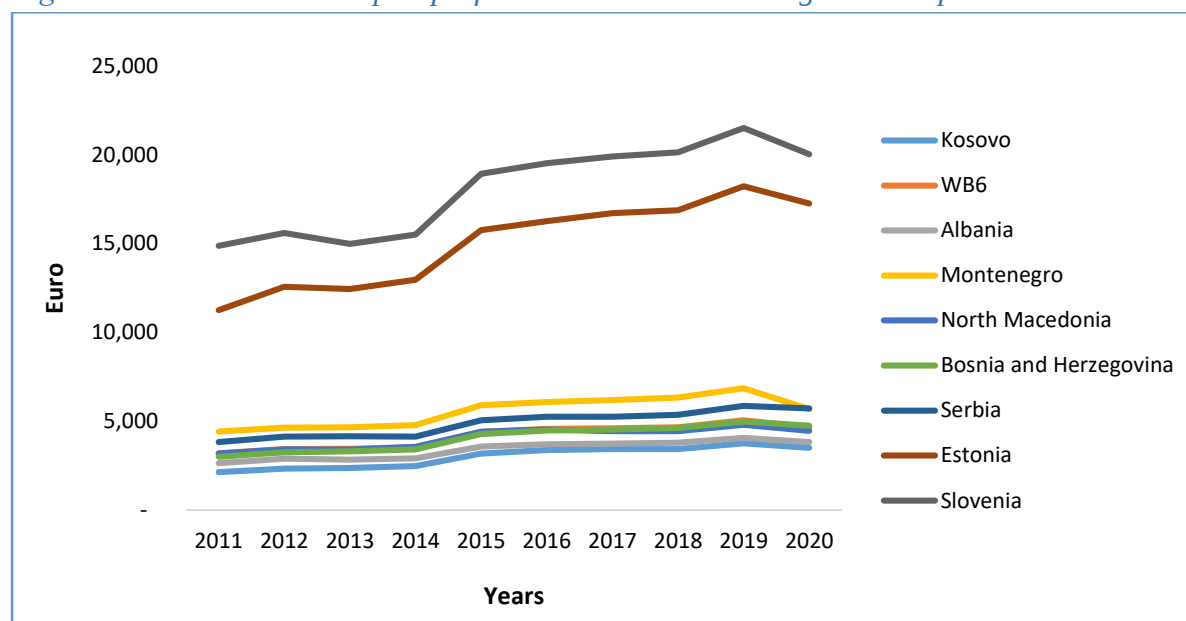
Numerous studies have highlighted the central role of manufacturing for economic growth and development. Having a well-developed manufacturing sector is vital to reaching high and sustainable living standards. An empirical link is well-established between the degree of industrialization and levels of income per capita, with manufacturing being a driver of productivity growth, which is a hallmark of an advanced economy. Beyond economic and social effects, the manufacturing sector may also impact the environment significantly.

This section serves a key purpose: it provides a *problem analysis* on the performance of the Kosovo manufacturing sector across three main dimensions, which in turn provides important guidance on how to strategically orient Kosovo's industrial policy. It provides a brief assessment of the performance of Kosovo's manufacturing sector in the economic, social, and environmental dimensions over the past decade, benchmarked against aforementioned comparators.

3.1.1. Economic Dimension

Comparatively, Kosovo shows the *lowest* overall economic performance in WB6: its 2020 GDP/capita of €3,500 is well below the WB6 average of €4,660. Despite the shortfall, starting from a low base, Kosovo has been growing at a faster pace than its regional peers: Kosovo's GDP/capita growth rate of 5.1% over the period 2011 – 2020 outpaced the region by more than a percentage point (WB6's average: 3.9%). However, the existing growth rate needs to be accelerated to ensure a quicker catch up with its regional peers.

Figure 1: Kosovo's GDP/capita performance benchmarked against comparators

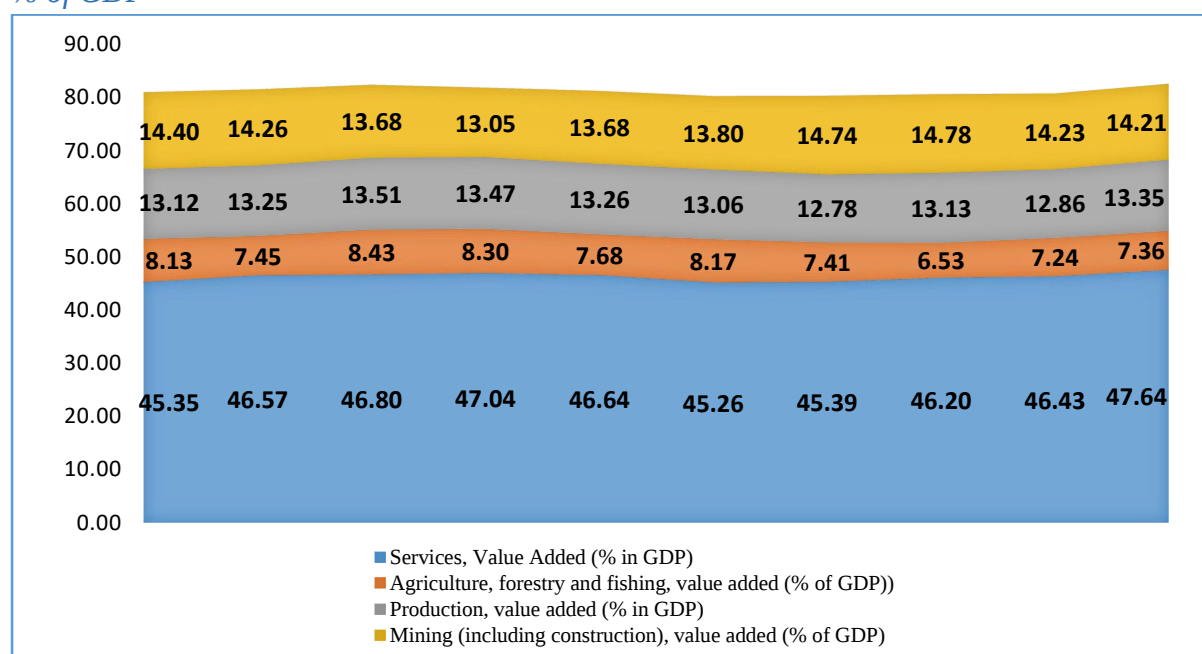


Source: World Development Indicators (WDI)

Moreover, between 2011 and 2020, Kosovo exhibited little structural change in the composition of its economy. The importance of manufacturing to the overall economy is relatively limited. The share of manufacturing valued added (MVA), as a share of GDP, remained stable at 13%, with the services sector growing only incrementally during the period but still accounting for a lion's share of GDP in 2020 (48%).

The share of value added of mining that also construction constituted an average of 14% of GDP during the same period. The absence of a meaningful strategic policy to guide industrial development may have arguably influenced the continually limited role of industry in economic development of Kosovo.

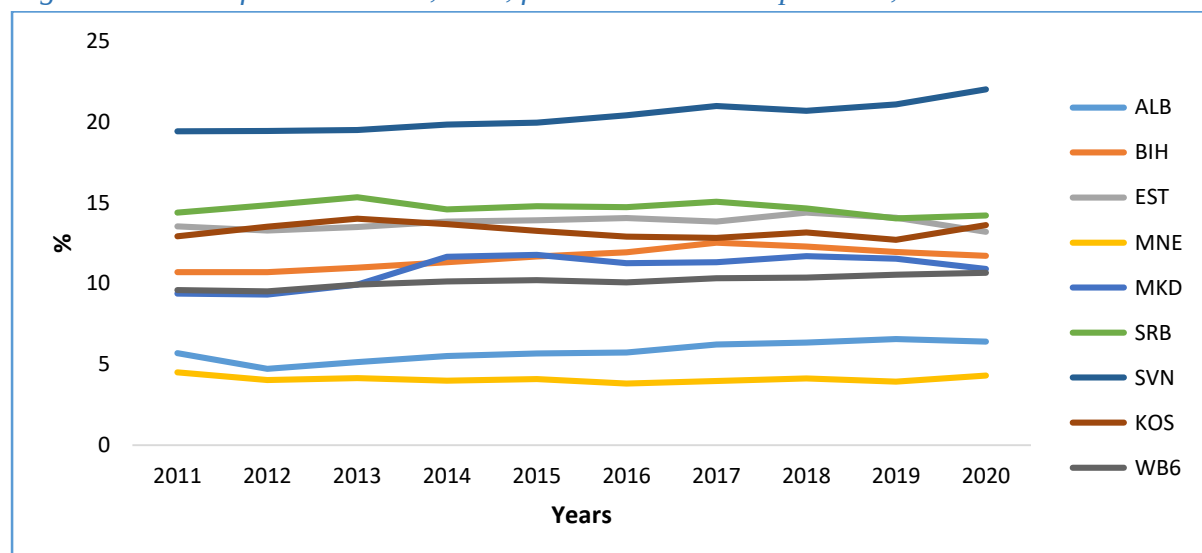
Figure 2: Kosovo's lack of structural transformation, as actioned by sectors' value-added as a % of GDP



Source: World Development Indicators

In 2020, Kosovo's level of industrialization, measured by the share of MVA to GDP, outperformed (13.6%) the WB6 average (10.7%), except for Serbia (14.2%). Yet, on the same indicator and for the same year, Kosovo underperformed significantly compared to Slovenia (22%), but was slightly higher than Estonia (13.2%).

Figure 3: Share of MVA to GDP, in %, for Kosovo and comparators, 2011 – 2020

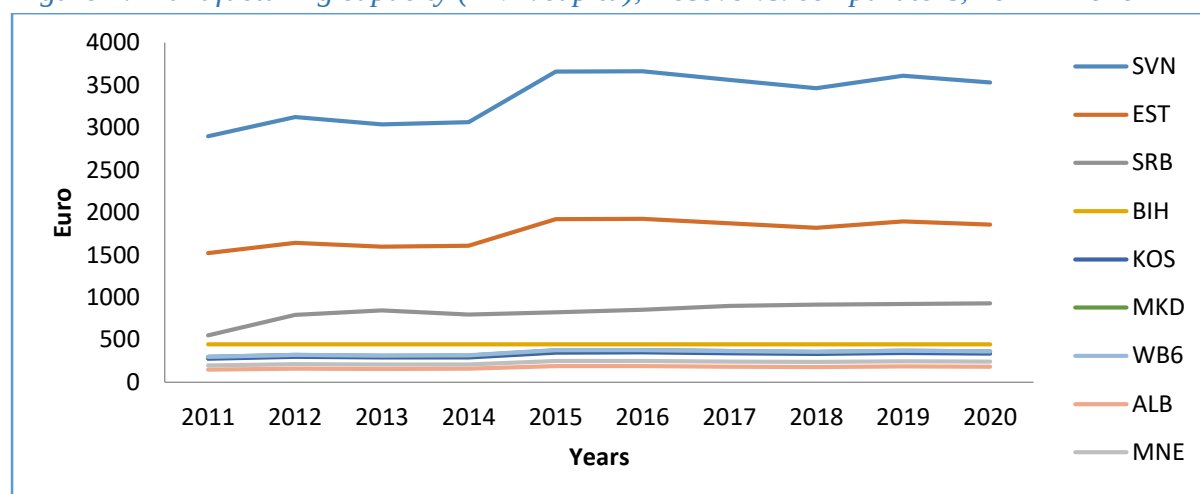


Source: WITS and Kosovo Agency of Statistics.

The *manufacturing production capacity* of a country is measured by how much value added is generated in the manufacturing sector per capita. It finds Kosovo to be at €338/capita in 2020, below the WB6 average of €365/capita in the same year, with only Albania (€182/capita) and

Montenegro (€242/capita) having a lower capacity. In comparison, Slovenia's per capita production capacity for the same year was over 10 times higher than Kosovo's.

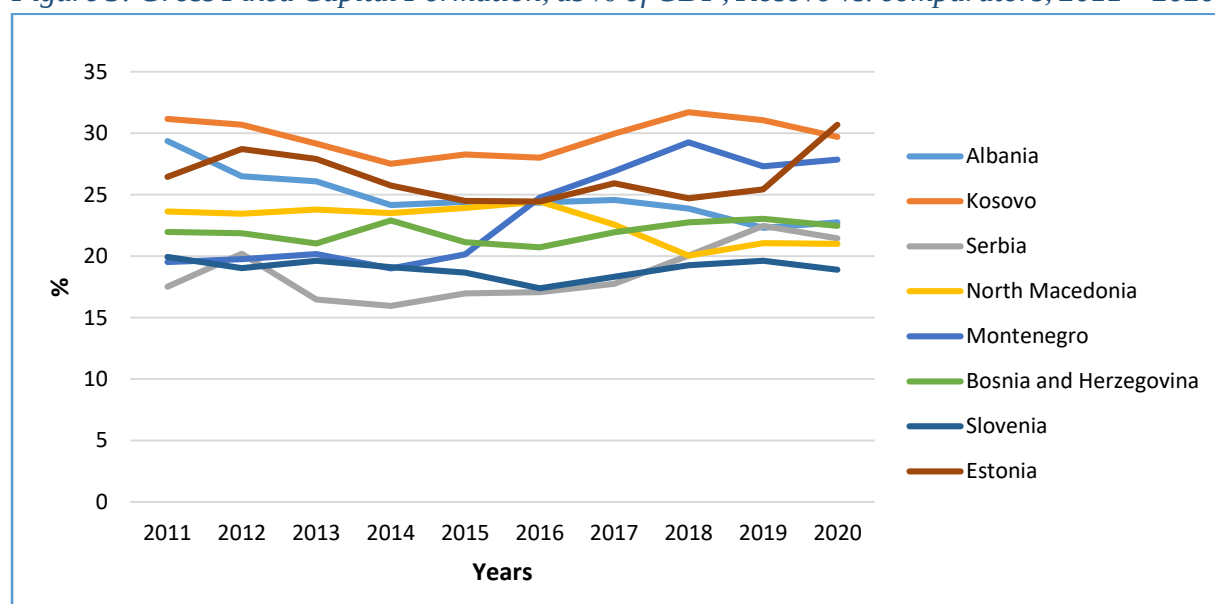
Figure 4: Manufacturing capacity (MVA/capita), Kosovo vs. comparators, 2021 – 2020



Source: World Development Indicators

Kosovo exhibits a high level of investment in fixed assets, as measured by the share of Gross Fixed Capital Formation (GFCF) to GDP. Kosovo's share of GFCF to GDP of 30% in 2020 outperforms WB6 average (24%), including Slovenia (19%), with the exception of Estonia (31%). Slovenia showed high rates of GFCF in the period from 1990 until 2008 between 26% and 32%, which gradually stabilized at around 20% in the 2010s. While Kosovo's high GFCF share of GDP reflects high investments in infrastructural outlays, which can aid industrial development, the high ratio also seems to capture significant new investment in new machinery and equipment by businesses (although no disaggregated data are available to validate this).

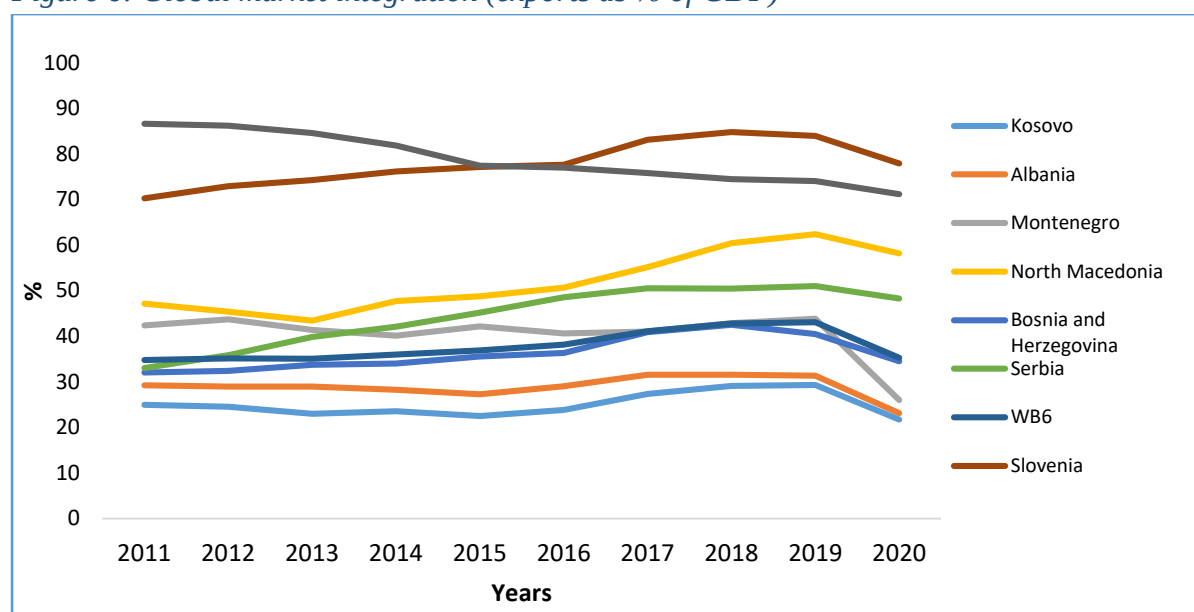
Figure 5: Gross Fixed Capital Formation, as % of GDP, Kosovo vs. comparators, 2011 – 2020



Source: World Development Indicators

International trade integration is highly important, particularly for small economies with a limited domestic market. Export market penetration can generate the needed demand for increasingly shifting to serial production, which in turn can improve competitiveness via scale economies. But Kosovo has not succeeded so far to take advantage of export market opportunities, as is amply evident by its persistently high negative trade balance. For every one euro of exports, Kosovo imports seven euros, ballooning to a trade deficit of €2.8 billion in 2020. This is also reflected in Kosovo having the lowest share of exports to GDP in the region. As figure 6 demonstrates, Kosovo's exports constituted a mere 22% of GDP in 2020 compared to WB6 average of 35%. This clearly shows the limited integration of Kosovo in international trade and the limited benefits Kosovo economy derives from exploiting export markets.

Figure 6: Global market integration (exports as % of GDP)



Source: World Development Indicators

The export basket of developed economies is usually driven by manufactured products. Promoting manufacturing exports is, hence, key for Kosovo to boost overall export competitiveness and sustainably reduce the existing trade deficit. In 2020, the share of exported manufactured goods to total goods exports had grown to 84%, up from 71% in 2011. Yet, except for Montenegro (73%), all other WB6 countries had a higher share of exported manufactured goods to exports (WB6 average of 90% in 2020).

Kosovo's limited competitiveness in manufactured exports is further evidenced by examining its *manufactured export capacity*, measured by manufactured exports per capita. Kosovo's southern neighbor, North Macedonia, had a manufactured export capacity of €2,500/capita in 2020, which was 11 times higher compared to Kosovo's €221/capita for the same year. All other WB6 countries have significantly higher manufactured export capacities than Kosovo: Serbia (€2,100/capita); Bosnia (€1,415/capita); Albania (€379/capita). Overall, Kosovo's weak export capacity of €221/capita compares weakly with the WB6 average (€1,500/capita), underlining yet again the vastly unused potential of manufactured exports to boost domestic production, if promoted in a balanced manner. Moreover, Kosovo's relative performance is

even more dismal compared to model countries such as Slovenia (€14,240/capita) and Estonia (€8,220/ capita).

Nonetheless, it is important to note that the regional comparison also reveals that higher exports of manufactured goods do not automatically translate into higher value-addition for a country. North Macedonia pursues a targeted policy to increase exports, which helped to increase its overall goods exports as a share of GDP to almost 60%, while achieving a manufactured export capacity which is 11 times higher than Kosovo's. However, looking at the link between export volumes and their effect on the value added generated in the manufacturing sector, we can observe that North Macedonia's high manufactured exports do not also translate into high value addition. Its MVA per capita in 2020 was only €364, which is only slightly higher than Kosovo's MVA/capita of €338. This seems to point to a larger challenge that appears to affect the wider Western Balkan region which points to the limited use of domestic sources by respective countries to fuel their apparent growth in exporting capacity.

The analysis also shows that Kosovo exports are mainly concentrated to a few export markets. In 2020, Kosovo exported mainly to Albania (22.8%), Switzerland (9.6%), Germany (9.5%), North Macedonia (8.7%), and Italy (7%). In 2020, 42% of Kosovo's exports went to WB6 countries, and 36% to the EU. Exports outside the WB6 went mainly to countries where there is a large presence of diaspora communities.

Part of the challenge that underpins weak industrial export performance is related to limited inflows of Foreign Direct Investment (FDI) in the manufacturing sector. CBK data indicate that net FDI inflows in the manufacturing sector have been on the decline over the years, from €47M in 2011, to an *outflow* of €4.6M in 2020. In 2011, FDI inflows in manufacturing constituted 12% of total FDI inflows, while in 2020 there was a net *outflow* equivalent to 1.3% of total net FDI inflows.

Trade

Kosovo is a relatively open economy in terms of trade. The Openness Index, which shows the ratio of international trade to GDP, positions Kosovo among liberal trading economies with an average of around 90% in the period 2017-2021. Imports dominate exports, leading to a trade deficit of about 35% in the same period – twice as high as the average of the WB6.

The high level of goods imports, registering a coverage ratio of around 13% in the last five years, is responsible for the overall negative trade balance. Goods exports, in addition to being small relative to imports, are pretty concentrated (both at product and geography level), lack stability, and have a low survival rate in international markets. Base metals, minerals, and recently mattresses comprise the bulk of exports, while only ten countries, chiefly those part of Central European Free Trade Agreement (CEFTA) and European Union (EU) members, make up over 80% of all Kosovo's export partners. As per stability, 44.2% of 4,609 firms engaged in goods exports from 2008-2018 could not survive more than one year in export markets, while only 2.1% have seen uninterrupted exports. This dismal export performance is predominantly a reflection of numerous supply-side constraints (inside-the-border challenges) such as limited access to finance, unfair competition, small capacities for innovation, and unskilled workers – to name a few. These also constitute the factors behind the massive floods of imports.

Contrary to the case of goods, Kosovo fares much better in services trade. The average amount of services exports is around twice that of imports in the period 2017-2021. This surplus has contributed to offsetting the sustained trade deficit in goods. However, it has not been sufficient as services trade accounts for only around 1/3 of the overall trade. Despite the better performance, akin to the case of goods, services exports are not well diversified either. Travel alone makes up the lion's share of services exports with more than 80% in the period under consideration. Besides the high level of services export concentration being a problem on its own, the structure of the travel sector itself, with diaspora tourism as the main driver, is yet another issue, rendering the current export performance largely unsustainable, considering the prospects for "diaspora fatigue" over the long run.

Table 1: Evolution of trade (mil. €)

Trade	2017	2018	2019	2020	2021
Goods exports	378.0	367.5	383.5	474.9	749.7
Goods imports	3,047.0	3,347.0	3,496.9	3,296.0	4,652.7
Services exports	1,358.8	1,561.6	1,675.1	994.9	1,954.4
Services Import	531.5	705.8	749.1	603.3	870.7

Source: Kosovo Agency of Statistics

A study of CEFTA countries conducted by the Economist Intelligence Unit (EIU) also shows that Kosovo performs below its export potential. According to this study, the country utilizes only around 38% of its export potential in goods and services based on the main drivers of trade potential: that is, Kosovo's level of development, its size, and its distance from key markets. In this regard, Kosovo is the worst performer among the Western Balkan countries and far away from the 11 post-communist EU member states, where actual exports are only 2 percentage points short of their estimated potential.

Kosovo's international trade policy is shaped by several preferential trade agreements, such as the Stabilization and Association Agreement (SAA), the Central European Free Trade Area (CEFTA), the Kosovo Turkey Free Trade Agreement, and the UK-Kosovo Partnership, Trade and Cooperation Agreement. Currently, Kosovo is negotiating a Free Trade Agreement with EFTA states. It is also worth noting that Kosovo benefits from Generalized System of Preferences (GSP) schemes with the US, Norway, Switzerland, and Japan, which offer one-sided preferential treatment (better than MFN) to products originating in Kosovo. A well-developed industry is often the primary driver of good export performance in developing economies. With the objective to expand industrial production, the Industrial Policy creates the basis for Kosovo to enhance its export performance and consequently improve the trade balance. The Industrial Policy also directly addresses the trade issue by aiming to reduce the industrial trade deficit through supporting enterprises to exploit export potentials and reach diversification, on the one hand, and reducing overreliance on foreign intermediate and final products, on the other. While the foreseen Industrial Policy trade-related (sub-) objectives are essential and will likely have spill-over effects on non-industrial sectors, they still capture just a portion of the country's trade policy. To address trade more comprehensively, the Government is set to design a separate **Trade Policy document**. Apart from other remaining aspects of industrial trade, Trade Policy will thoroughly cover services and agricultural trade. Market access and operations barriers of regulatory nature in the case of services and higher protectionist tendencies in the case of agriculture will be issues that will have particular attention, amongst others.

Investment Promotion

Over the past decade, investment in Kosovo stood at around 30% of GDP, outperforming the WB6 average. Despite being relatively high, most of this investment has not contributed to growing the domestic production base or tradable activities. Investment has gone chiefly into wholesale and retail, construction, transport, and financial services. Besides the last sector, the rest of the sectors support domestic consumption and have a minor impact on the growth of productive capacities. In the past three years, out of all investments, it is estimated that only 17% went to buying physical assets for production processes (i.e. machinery, equipment, and other tools).

Foreign Direct Investment (FDI), which usually provides an impetus for a sustained upgrading of the economy, as % of GDP, remains below the WB6 average by 1.9 percentage points, standing at 3.9%. Analogous to general investment, the largest share of FDI went into sectors with little spillover effects. Real estate and construction attracted nearly 60% of all FDI flowing to the country in the past decade. On the other hand, two sectors with considerable growth potential, manufacturing and information and communication technology (ICT), accounted for only 1.3% of total FDI in the same period. Besides structural challenges, including limited access to finance, infrastructure gaps, and unfair competition, Kosovo's poor performance in attracting growth-enhancing FDI is attributable to the unfavorable incentive regime, which predominantly relies on investment protection agreements and some fiscal relief measures. While Kosovo lacks financial incentives for FDI, some neighboring countries (i.e., Serbia and North Macedonia) provide employment-related subsidies, subsidies to cover investment costs, R&D incentives, and other stimulus packages and, as a result, manage to attract more FDI.

The latest Organization for Economic Cooperation and Development (OECD) Competitiveness Outlook reveals that Kosovo's performance in investment slightly worsened, decreasing from a score of 2.6 in 2018 to 2.0 in 2021 (on a scale from 0 to 5), mainly due to poor investment promotion and facilitation performance. Cognizant of the unsatisfactory investment performance, the Government of Kosovo has committed itself to drafting an **Investment Promotion Program**, which is expected to articulate the country's concrete and comprehensive solutions for more investment, especially with export orientation. The Industrial Policy will play its role in the Government's efforts to improve Kosovo's overall investment performance, in particular in manufacturing.

Industrial Property Rights

Kosovo has established a relatively sound Industrial Property Rights (IPR) legal system consistent with international IPR law and partly aligned with the relevant industrial property law in the European Union. Despite this, it still has not managed to create the needed instruments to promote the generation and commercialization of industrial property by individual inventors, businesses, industry, universities, and research institutions.

Enforcement of industrial property rights remains a weak spot of the system. Courts have limited capacities and insufficient expertise to handle disputes concerning industrial property. Likewise, coordination between enforcement authorities is relatively poor and therefore hampers the effective enforcement of IPR. Moreover, public awareness and consumer education on IPR-related matters are not at a desirable level, posing another challenge to an effective IPR protection system.

This Industrial Policy covers, to a degree, the application of IPR in the form of measures to increase product quality. Another strategic document, namely the **Industrial Property Rights Program**, will cover the whole spectrum of IPR issues. The Program will aim to improve the conditions for protecting and enforcing IPR in view of improving trust in the system by innovators, designers, and businesses. This is expected to generate benefits to the economy, including the manufacturing sector, by creating a climate conducive to investment, employment, and growth.

3.1.2. Social Dimension²

Kosovo faces substantial social challenges, manifested in high poverty and unemployment. Eighteen percent (18%) of Kosovo's population lives below the poverty line, with 5.1% living in extreme poverty (WB and KAS report, 2019). Moreover, every sixth employed Kosovar is considered in-work poor (European Social Policy Network, ESPN, report, 2019). While the national unemployment rate is at a significant 26%, vulnerable groups like women are particularly affected (32.3% unemployment rate), while every second youth aged 15-19 is without a job for more than a year (Labor Force Survey, LFS, 2020).

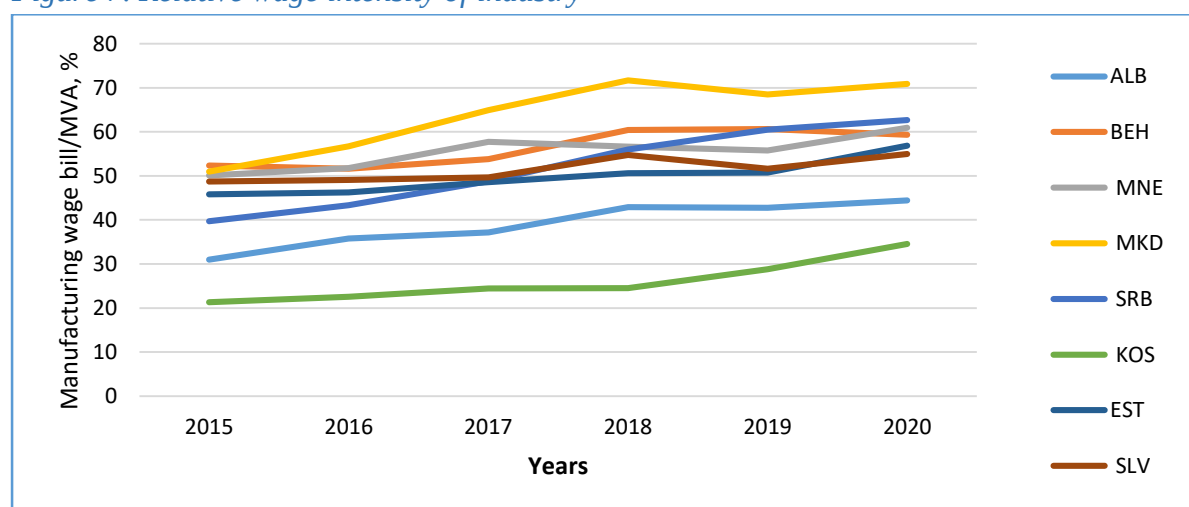
² Unlike the other dimensions, under the social one the diagnostics looks at a shorter period, namely 2015 – 2020, due to the lack of availability of reliable data for the period before.

The manufacturing sector can make significant contributions to mitigate these challenges by providing inclusive employment opportunities and decent wages. However, the manufacturing sector provides relatively limited employment opportunities, currently employing only 12% of the workforce in 2020, down from 13% in 2015. The analysis also demonstrates that while Kosovo's manufacturing sector grew annually at a compounded rate of 2.5% between 2015 and 2020, manufacturing employment grew slightly higher by 2.8% for the same period. That suggests that job creation in the manufacturing sector went hand in hand with economic growth of the manufacturing sector. In short, the growth of Kosovo's manufacturing sector was *employment-led*.

Between 2015 and 2020, 5,700 new jobs were created in manufacturing. This number does not include indirect jobs created in other sectors due to their linkages to growing industries. In comparators countries, growth in the manufacturing sector was also fueled by hiring, especially in Albania (3.7% annual MVA growth rate, coupled with a 4.7% growth in manufacturing employment); Bosnia (1.7% MVA annual growth rate and 2% manufacturing employment growth); Montenegro (0.6% MVA annual growth rate and 2.4% growth in employment); North Macedonia (a negative MVA annual growth rate of 0.5%, linked to 0.9% growth in manufacturing employment), and Serbia (1.5% MVA annual growth rate, coupled with a 5% growth in manufacturing employment). In many of these cases, growth in manufacturing was labor intensive, especially in Serbia, Albania, and Bosnia. In Slovenia, productivity growth was critical (a 3.6% annual growth rate in MVA but only 2% growth in employment).

Between 2015 and 2020, manufacturing sector wages increased in average by 11%. The increase in gains to workers is also confirmed by the study of relative wage intensity, measured as share of manufacturing wages as a share of MVA. This indicator measures the share of MVA that goes to manufacturing sector workers in the form of wages. Figure 7 below shows that Kosovo's relative wage intensity has been increasing from 21% (2015) to 35% (2020). In short, with a growing manufacturing sector, the total manufacturing wage bill has been increasing. However, it still results in the lowest relative wage intensity in the region. All comparators lay above 40% share of wages in MVA.

Figure 7. Relative wage intensity of industry



Source: Instate Indicators

With respect to inclusive employment, the analysis revealed that Kosovo has by far the lowest female participation both in the general workforce, as well as in manufacturing sector employment. Female share in total employment was only 25% in 2020, up from 22.5% in 2015, while the WB6 average stood at 40% in 2020, with many WB6 comparators well above 40%, while model countries Estonia at 48% and Slovenia at 46%. Female share in manufacturing employment is similarly dismal for Kosovo compared to comparators: although the share of females grew from 2015 (10%) to 2020 (16%), it remained well below the WB6 average of 37% in 2020, with Albania outperforming the region with a nearly 60% share, followed by North Macedonia with a nearly 50% share.

3.1.3. Environmental Dimension³

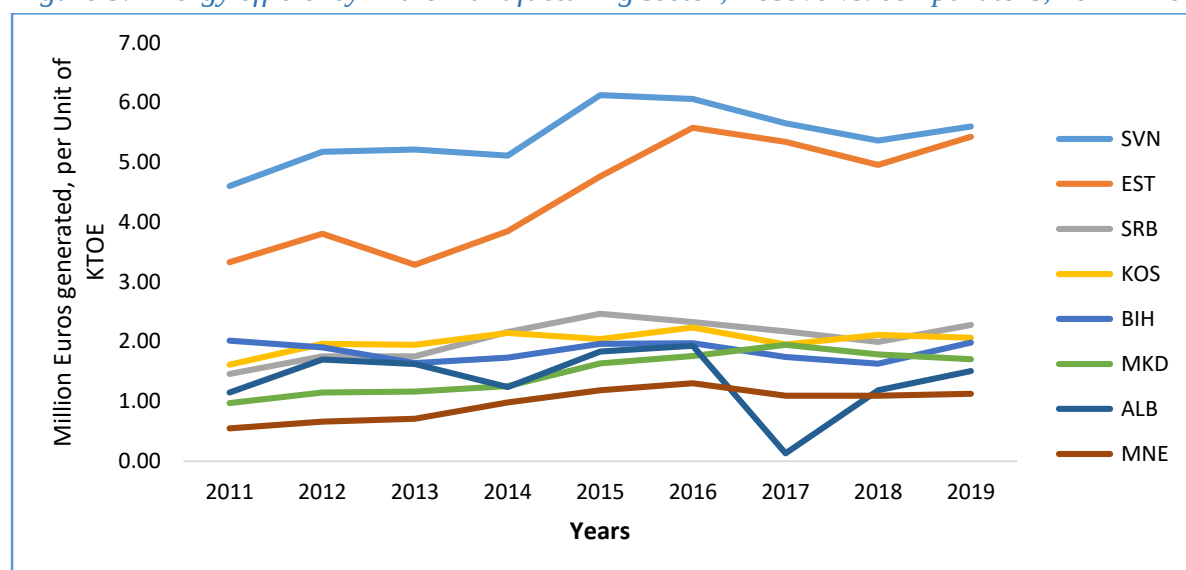
Final energy consumption by industry has been declining in Kosovo from 2011 (308 kilotons of oil equivalent, or simply “KTOE”) to 2019 (300 KTOE). However, apart from Bosnia, which experienced an increase of 1.2% annual growth in energy consumption in industry during 2011 – 2019, Kosovo had the most moderate pace of annual reduction in energy consumption by industry at 0.13%, compared to Montenegro with the highest annual reduction rate of 2.6%, followed by North Macedonia at 1.8%, and Serbia at 1.2%.

Disaggregated by sector, the industry’s share in final energy consumption came third at 20.1% in 2020, trailing the household sector at 40.1%, and the transport sector at 27%. Within the industrial sector, glass, ceramics and building materials industries consumed the largest share of energy (36%), followed by the iron and steel industries (23%), and food, beverages and tobacco industries at 15.5%. Oil products were the largest energy source in the industry sector, comprising 63% of the total energy sources consumed in 2020, followed by electricity (27%), biomass (5.7%), and coal (4.8%).

In terms of energy efficiency use in the manufacturing sector, in 2019, Kosovo generated an economic value of €2.1M per unit of KTOE, outperforming most WB6 countries (average €1.8M per KTOE unit), apart from Serbia, which in the same year generated an economic value of €2.3M per KTOE unit (see Figure 8 below). Compared to the role model countries, Slovenia and Estonia generated more than double the economic value of Kosovo per unit of KTOE consumption. Meanwhile, over the period 2011 – 2019, Kosovo’s annual growth rate in energy efficiency use increased by 3%, compared to the WB6 average of 4%.

³ Please note that data from the International Energy Agency (IEA) cover only the period up to 2019.

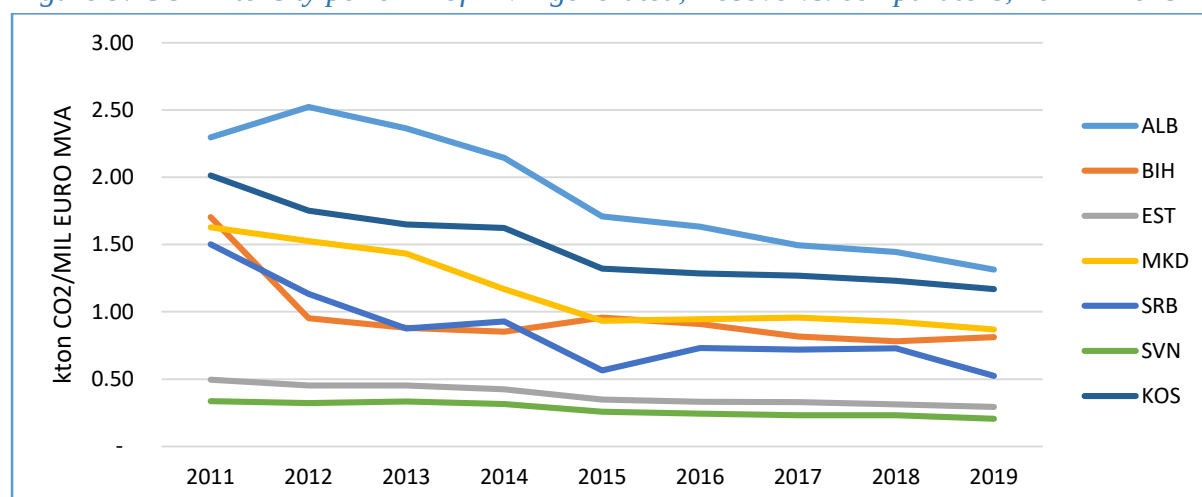
Figure 8: Energy efficiency in the manufacturing sector, Kosovo vs. comparators, 2011 – 2019



Source: International Energy Agency and Kosovo Agency of Statistics

In terms of CO₂ intensity, measured by how many tons of CO₂ are emitted per €1M of MVA generated, Kosovo marked an annual reduction of 5% over the period 2011 – 2019, compared to WB6 average of 4% over the same period, with Serbia standing out with a 10% annual reduction. Kosovo's manufacturing sector emitted 1.1 tons of CO₂ per €1M in MVA in 2019, compared with 0.6 tons in Serbia, 1.3 tons in North Macedonia, 1.4 tons in Bosnia, 1.8 tons in Albania, and 6.5 tons in Montenegro. Slovenia and Estonia (0.3 tons and 0.4 tons, respectively) performed significantly better: they already had a much higher energy efficiency, but nevertheless managed to improve significantly by gaining about 2.5 times higher added value per KTOE of energy input. In sum, Kosovo reduced its CO₂ intensity at both a higher annual rate than most WB6 (except for Serbia), but also in absolute terms, while still emitting in 2020 twice more than Serbia, and nearly three times Estonia and over 5 times the level of Slovenia.

Figure 9: CO2 intensity per €1M of MVA generated, Kosovo vs. comparators, 2011 – 2019



Source: International Energy Agency and World Development Indicators

Finally, Kosovo's Environmental Protection Agency Annual Report in 2020 found that Kosovo's manufacturing sector is a significant pollutant. The manufacturing sector was the overwhelming emitter of key pollutant sulfur oxide SO₂ (responsible for 96% of total SO₂ emissions) and was responsible for more than half (57%) of nitrogen oxide NO_x pollution in 2020.

3.1.4. Domestic Natural Resources

Natural resources, both renewable and non-renewable, provide indispensable inputs for production and industry. Domestic access to natural resources is often seen as an advantage for industrial development. For a country to benefit from natural resources in the long run, it is essential to manage and use its natural resources and materials wisely, efficiently, and sustainably.

Kosovo is well endowed with a variety of exploitable mineral deposits. In addition to having the world's 5th largest lignite coal reserves, it also has abundant deposits of various metallic minerals, such as lead, zinc, nickel, and chrome, and is rich in non-metallic minerals, including limestone, clay, and marls. Until today, only a fraction of the currently available potential is used, while large sections of mineral reserves remain idle, under-exploited, and insufficiently explored. Most of the extracted minerals, especially metallic ones, have been exported in a raw form or with little processing.

Kosovo has abundant high-quality agricultural land, comprising around 39% (420,210 ha) of the total land area. Meadows and pastures (including common land) and arable land account for the most significant share of the utilized agricultural land, with 52% and 43%, respectively, whereas vegetables, gardens, tree plantations, and vineyard plantations altogether make up only 5%. The value of agricultural products in the last five years stood at an average of € 781.2M. Crops, notably cereals, forage plants, vegetables, and fruits, made up the most significant share of production. Cattle and milk were the dominant products in the category of animals and their

products. Despite its potential, Kosovo relies heavily on imports of agricultural products. Moreover, linkages of domestic farmers with processing industries are limited.

Forestry is another resource that Kosovo has. The country's forests stretch over 481,000 ha, 44.7% of the total land area. The forest coverage in Kosovo is higher than in the rest of the WB6 (Albania 28%, Macedonia 39%, Montenegro 40%, and Serbia 31%). Broadleaved trees dominate Kosovo forests with 93% (449,400 ha). The total growing stock is 40.5 million m³ and has a stable trend. Around 45% million m³ of the growing stock resides in Beech forests, then comes Oak forests with over 22%. The average growing stock per hectare stands at 84 m³, lower than the European average of 104 m³/ha. Regarding ownership, 62% of the forests are owned by the state, while private landowners own the remaining. Based on the National Forest Inventory (NFI), the gross annual sustainable harvest amounts to 1.45 million m³ with around 630,000 m³ in high-quality and 815,000 m³ in low-quality coppice forest. In addition to their crucial role in human health, biodiversity conservation, and land degradation prevention, forests can make an economic contribution as well. The forestry sector's current contribution to Kosovo's GDP is estimated to be insignificant, hovering around 1%.

Under sustainable conditions, all these resources can be of essential use for industry. Metallic minerals could help the development of the metal industry, while non-metallic metals (ex., bentonite) could cater to the needs of the chemical industry. Agriculture resources could be used more in the food chain, while forestry could be better utilized as input for the wood industry.

3.2. Summary of Problem Analysis

Even though GDP growth rate is outpacing its regional peers, Kosovo has still the lowest GDP per capita among the WB6 and is, hence, the tail-light of economic development in the region. Kosovo's manufacturing sector has a slightly higher weight in the composition of the economy compared to its regional peers. However, the manufacturing sector has not become a driver of the overall economic development, as its share of GDP remained stable over the past 10 years. Manufacturing Value Added grew by a very moderate 2.5% annually, resulting in a manufacturing production capacity of €338 MVA/capita, which is lower than the WB6 average of €365 MVA/capita, and significantly lower than Slovenia (€3,530 MVA/capita) and Estonia (€1,855 MVA/capita).

The lacking performance of Kosovo's manufacturing can be linked, first, to the limited value addition that domestic manufacturing adds in the production process. This is due to various reasons: (i) the share of medium- and high-tech production is only 5.6% of the gross value added, as the majority of production is based on low-technology, which goes along with lower value-added products; (ii) existing natural resources (i.e. metals) are often exported as raw materials or as only limited processed goods, so the main value addition in these value chains happens outside of Kosovo; (iii) weak domestic value chains can also be found in processing industries (i.e. wood and furniture industry) that import the majority of their inputs (material

and services), instead of sourcing them locally. Consequently, weak domestic value chains and inefficient usage of existing natural resources lead to various value leakages.

Second, the lacking performance of Kosovo's manufacturing can also be linked to the low global market integration of Kosovo's industries. Given the small domestic market, exporting goods abroad is a vital means to boost production and achieve economy of scale effects. Kosovo managed to increase the share of manufactured goods in total exports to 84% (which is still the lowest value in WB6), however exports remain persistently low at 22% share to GDP compared to the WB6 average of 35%, and more than 70% in Estonia or Slovenia. Despite increased manufactured exports, the dependency on imported manufactured goods has risen even more, reaching a ratio of 1:7 of manufactured exports vs. imports. Finally, manufactured exports are concentrated in a few products and to a limited number of regional and EU markets, further compounding Kosovo's weak position in external competitiveness.

Kosovo faces substantial social challenges, manifested in high poverty and unemployment at 26% and significantly higher rates for women and youth. The manufacturing sector created between 2015 and 2020 about 5,700 new jobs. The growth of manufacturing translated into a slightly faster growing manufacturing employment (employment-led growth). However, the sector is still far from unfolding its potential of creating numerous decent jobs. Kosovo's manufacturing labor market is characterized by low wages, high informality, and the lowest female participation of 16% compared to the WB6 average of 37%.

Regarding the environmental impact, Kosovo manufacturing activities generate significant pollution, with industry being the chief culprit for the emission of poisonous substances such as SO₂ and NO_x. Industry is the third largest energy consumer, behind the household and transport sectors. Kosovo's industry performs better than most regional peers in energy efficiency, however, Slovenia and Estonia generate between 2.5 – 3 times more value addition per KTOE. While the industry's energy consumption has been declining over the past decade, indicating higher energy efficiency due to the concurrent growth in MVA during the same period, nevertheless Kosovo still had the lowest pace of annual reduction in energy consumption compared to WB6 comparators. Additionally, Kosovo has also been reducing CO₂ intensity of production at an annual pace of 5%, which is slightly faster than the WB6 average of 4% but much slower than Serbia's reduction by 10% or those of Slovenia and Estonia. Regarding CO₂ intensity, Kosovo ranks only average in the WB6.

The Industrial Performance Analysis reveals that over the past decade, the manufacturing sector has failed to turn into a driver of Kosovo's social, economic, and environmental development. This policy, hence, is dedicated to support the manufacturing sector to unfold its potential to contribute to the country's overall development more effectively.

4. NDS ALIGNMENT AND INDUSTRIAL POLICY VISION

4.1. Alignment to NDS and Contribution to Strategic Goals

Any policy, to be effective, should be integrated with an overarching national strategic framework and contribute to achieving the country's national development goals (NDGs). Ensuring the overall strategic orientation of the Industrial Policy requires an understanding of which NDGs can be best achieved through industrial development, and hence should be pursued by industrial policy.

Kosovo's national development goals are outlined in the National Development Strategy 2030, released in 2022. NDS 2030 articulates Kosovo's long-term development vision by setting the main development priorities, strategic objectives and expected results. The NDS was drafted based on a comprehensive assessment and analysis of Kosovo's social and economic conditions and identifies the main needs and challenges that are to be addressed by 2030. NDS 2030 constitutes Kosovo's most important strategic document, reinforcing the critical necessity of having an overall strategic planning framework in Kosovo. NDS 2030 is organized along four main development pillars, namely: Pillar 1: Sustainable Economic Growth; Pillar 2: Equitable Human Development; Pillar 3: Security and Rule of Law; and Pillar 4: Good Governance. Under each development pillar, NDS 2030 sets out several strategic objectives, which are further broken down by specific objectives and concrete actions.

NDS 2030 was critical to the process of designing the overall strategic orientation of Kosovo's Industrial Policy. The Industrial Policy is most closely linked to pillar 1 (Sustainable Economic Growth) and pillar 2 (Equitable Human Development). Within these two pillars, the following strategic objectives are those NDGs which the Industrial Policy can most significantly impact:

NDG1: Digital, Circular and Competitive Economy

NDG1 seeks to develop an internationally integrated, competitive, circular, economy, centered around innovation and digitalization. Currently, Kosovo's economic performance is limited (€3,772/capita), externally uncompetitive (exports constitute only 21.6% of GDP), with generally high CO₂ intensity (0.47 kg of CO₂ per unit of PPP-adjusted GDP), with low gross value added as a share of GDP in sectors related to circular economy (0.8% of GDP) and with limited digitalization uptake (with a 35.7 intensity score, which is half the EU average).

Industrial development is critical for digitalization and innovation, improved material circularity and external competitiveness. First, the industrial sector is able, arguably more than most sectors, to generate productivity gains through technological upgrading, innovation as well as digitalization. Innovation and technology development are at the heart of industrial development that constantly brings about new products and improved production processes, translating into higher value addition. In doing so, the manufacturing sector has the potential to make an outstanding contribution to creating an innovative and digital economy in Kosovo. Second, the industrial sector is at the same time by far the most significant consumer of material inputs, processing them into final goods. Hence, improving the material efficiency and circularity of the industrial sector is one the most important components towards establishing a circular economy in the country. Third, most traded goods in developed economies are manufactured goods. For Kosovo, to become a more globally integrated and internationally

competitive economy, industrial development and the production of globally demanded goods are indispensable.

In all three dimensions, Kosovo's manufacturing sector is performing poorly. So far, Kosovo's manufacturing activities are characterized by a low level of innovation and digitalization, a limited green industry, as even basic recycling processes are missing, and a limited export performance. The Industrial Policy is dedicated to activating the potential of industries to advance the goal of having a more digital, circular, green and competitive economy.

NDG2: Comprehensive Labor Market, Greater and Dignified Employment

NDG2 seeks to expand employment, increase labor force participation, and improve job conditions. Kosovo continues to exhibit a high unemployment rate (26%), high rate of labor informality (35%), while unemployment among women and youth is particularly troubling. The industrial sector and, hence, industrial policy, have the potential to contribute to employment creation in various ways. Labor-intense industries can quickly create plenty of new, simple jobs that provide income to numerous households. More technology- and capital-intense industries, that require a skilled labor force, tend to create more stable jobs that go along with higher wages, more social benefits, and improved and more decent working conditions.

The growth of manufacturing in Kosovo has translated into more employment. However, many private sector jobs continue to remain informal, with effectively limited decent work opportunities. A balanced and socially sensitive industrial policy has the chance to create more decent jobs in manufacturing and contribute to a higher social inclusiveness by promoting women and youth employment in industries.

NDG3: Clean Environment and Sustainable Use of Natural Resources

NDG3 aims to maintain a clean environment and promote the sustainable use of Kosovo's natural resources. Currently, poor practices persist that harm the environment and adversely affect the quality of life. Currently, Kosovo emits 9.6M tons of CO₂ equivalent in greenhouse gases. Moreover, it is estimated that 2,458 years of life lost per 100,000 inhabitants are attributable to exposure to fine PM_{2.5} particles.

In order for Kosovo to establish a clean environment and better use of natural resources, manufacturing plays a key role. As usually one of the major polluters, and responsible for various forms of emissions such as CO₂, as well as solid waste and wastewater, improvements in the environmental performance of industries can make a significant contribution to achieving this strategic objective of the NDS.

Industries in Kosovo are one of the main polluters and consumers of natural resources. The underexploited metal and non-metallic reserves as well as agriculture and forestry potentials can fuel a host of industries. Exploiting these natural resources in a careful manner while reducing harmful effects to the environment requires a tailored industrial policy that makes

strategic choices, which resources should be exploited and which not that promotes upgrading of clean technologies to ensure energy and material efficiency and circularity, as well as a solid industrial waste management.

4.2. Summary on NDS Alignment

Aligning Kosovo's Industrial Policy with the NDS 2030 provides a clear rationale on why Kosovo strives to promote industrial development in the country. This improves not only the overall government transparency and legitimacy but helps policymakers to develop a persuasive and meaningful industrial policy vision that can generate social and political support needed for effective industrial policy buy-in and implementation. Finally, it ensures the design of a context-appropriate industrial policy package which is aligned to Kosovo's national priorities.

4.3. Vision and Mission

An industrial policy vision represents a statement that determines the long-term direction of the industrial transformation that Kosovo strives to achieve. Given the broad strategic orientation of the policy (see linkages to strategic objectives above), the vision represents the core of the policy that is conducive both for prioritizing policy actions and communication with stakeholders. The following represents Kosovo's vision for industrial policy until 2030, based on wide consultations with, and validation by, key stakeholders:

By 2030, Kosovo's industry will have transformed into a more globally-integrated industry that is able to produce high value-added products and provide decent employment.

The industrial policy mission provides more details on the intended approach to help to attain the industrial policy vision of Kosovo. The following represents the mission of industrial policy in Kosovo, based on wide consultations with the main stakeholders:

Kosovo strives to achieve this industrial transformation through deepening domestic value chains, increasing and diversifying manufactured exports, enhancing the qualification of the workforce, an accelerated digitalization of production and advanced technology for green production, as well as better usage of domestic natural resources and recycled materials.

5. INDUSTRIAL POLICY OBJECTIVES AND SUB-OBJECTIVES

5.1. Policy Objectives

Industrial policy objectives are concrete and measurable goals expressing why Kosovo pursues an industrial policy and which exact changes the GOK strives to achieve in the manufacturing sector. Industrial policy objectives belong to the impact level of the intervention logic. The

success of the policy will be measured at this level. Therefore, a clear formulation of the policy objectives and the definition of corresponding indicators and targets are indispensable.

The formulation and prioritization of policy objectives has been informed by two sources: first, by the overall strategic orientation of the policy (e.g., the linkages to the NDS 2030), and second, by the findings of the industrial performance analysis. The guiding question for identifying the key industrial policy objectives was: which desired changes in the performance of the manufacturing sector can be identified that will contribute to the achievement of the three NDGs the most?

5.1.1. Objective 1: Expansion of Industrial Production

The first policy objective is to expand industrial production and to grow the industrial base of Kosovo, resulting in an increased industrial output.

Current performance: Industrial production is still very limited in Kosovo. Although the share of MVA in GDP (13.6%) is higher than the WB6 average (10.7%), Kosovo has one of the smallest manufacturing capacities (MVA of €338/capita) among WB6 comparators (MVA of €365). By focusing on industrial expansion, the Industrial Policy seeks to make the industrial sector a driving force for future economic development in the country and elevate the importance of manufacturing as a share of total economic activity.

Industrial drivers: Among the key drivers for expanding industrial production that need to be addressed by this policy are limited access to finance and low investments in manufacturing, limited uptake of digitalization, production of low value-added products, and the lack of product quality.

Link to NDS: Expanding industrial production is critical to the realization of NDG 1, especially since a better performing and competitive manufacturing sector is critical to develop an internationally competitive economy. This policy objective is also critical to the achievement of NDG 2, as industrial expansion is expected to continue expanding the demand for new jobs.

Link to SDGs: Fulfilling this objective by 2030 will also directly affect the achievement of the Sustainable Development Goals (SDGs), especially SDG1 (eliminating poverty), SDG8 (decent work and economic growth) and SDG9 (increase industry and innovation).

Indicators: The progress in achieving this objective will be measured by two indicators: a) *manufacturing value added per capita*, which measures the manufacturing production capacity; and b) the *share of MVA to GDP*, which measures the relative importance of manufacturing in relation to the overall economy.

5.1.2. Objective 2: Reduction of Industrial Trade Deficit

The second policy objective focuses on reducing the industrial trade deficit. This comprises both exporting more manufactured goods from Kosovo to foreign markets, but also replacing imports of manufactured goods to Kosovo by domestic production.

Current performance: The overall industrial trade balance of Kosovo is significantly negative and growing, with industrial imports exceeding exports by a ratio of 7:1. The global integration of Kosovo's productive sector is limited: exports share of GDP is only 22% compared to WB6 average of 35%, while the share of exported manufacturing goods in total goods exports and the manufactured export capacity (manufactured exports per capita) remain among the lowest in WB6 (84% compared to WB6 average of 90%). At the same time, Kosovo's productive sector does not meet domestic demand, resulting in increasing imports of manufactured goods from abroad.

Industrial drivers: The Industrial Policy is dedicated to reverse this trend and reduce the industrial trade deficit. On the export side, the international competitiveness of Kosovo's manufacturing sector needs to be increased and companies supported to export new products. At the same time, new export markets should be penetrated to increase international demand. Overcoming Kosovo's high concentration in export products and markets will also contribute to a more stable and less vulnerable international demand. On the import side, the trade deficit should be reduced through replacing imports by domestic goods. Companies need to be supported and incentivized into producing goods locally that have been imported so far. Promoting exports and substituting imports are expected to have a strong positive impact on objective 1 of expanding domestic production.

Link to NDS: This policy is linked to NDG1 on developing an internationally competitive economy, as it seeks to take steps to improve integration of Kosovo's manufacturing sector into the global economy.

Link to SDGs: Fulfilling this objective by 2030 will directly affect the achievement of SDG1 (eliminating poverty) and SDG9 (increase industry and innovation).

Indicators: The progress in achieving this policy objective will be measured by the *manufacturing trade balance*, computed as manufactured exports minus manufactured imports.

5.1.3. Objective 3: Generation of Comprehensive and Better Employment

The third policy objective focuses on generating comprehensive and better employment in manufacturing. This means to sustain and to potentially accelerate the positive employment growth in industries but, at the same time, to increase the quality of jobs. Quality of employment means the creation of jobs that offer higher wages, stable contractual conditions and access to various social benefits.

Current performance: Manufacturing employment grew in the past years at a growth rate of 2.8% currently absorbing 12% of total employment. Manufacturing wages have been increasing but are still among the lowest in the region. This is also reflected in the growing share of the wages that goes to the workers (total wage bill in MVA expanding from 21% in 2015 to 35% in 2020), which is still below the regional average. Moreover, Kosovo had the lowest female participation rate in manufacturing in the WB6 and employment is still often characterized by informality and unfavorable working conditions.

Industrial drivers: To sustain positive trends in creating more and decent employment, the Industrial Policy needs to address various key drivers. Kosovo's manufacturing sector is characterized by prevalent skills gaps: a high demand for technicians as well as professional managers meet a lack of skilled labor force. By addressing the pervasive skill mismatch, the untapped potential of manufacturing to remain or become an even more important source of job growth should be exploited. Creating better jobs can be partially achieved through improving the regulative framework. In addition, by supporting technological upgrading, jobs will be created that require higher qualifications and skill sets and, in turn, offer higher wages and better working conditions. Given the migration of skilled workers to more attractive labor markets abroad, creating better jobs is essential for keeping a talented, qualified and productive labor force in Kosovo. Finally, the Industrial Policy seeks improve the social inclusiveness of the labor market by increasing the participation of women and youth in the manufacturing sector.

Link to NDS: This policy objective can directly support the achievement of NDG2 on having a comprehensive labor market, and greater and dignified employment.

Link to SDGs: Fulfilling this objective by 2030 will directly affect the achievement of SDG5 (enforce gender equality), SDG8 (decent work and economic growth), and SDG10 (reducing inequalities).

Indicators: The progress in achieving this objective will be measured by two indicators: a) *manufacturing employment per capita*, which will capture how much of the workforce, as a proportion of population, is engaged in manufacturing; and b) *manufacturing wage bill as a share of MVA*, which will measure total labor income in manufacturing as a share of manufacturing value added.

5.1.4. Objective 4: Facilitation of Green Industry

The fourth policy objective is to encourage the manufacturing sector to transition to green production. Establishing a green industry aims to decouple economic growth from negative environmental externalities by maximizing the implementation of circular strategies, the application of energy from renewable sources, and the efficient use of inputs.

Kosovo is still at the infant stage of establishing a green industry. This strategy provides an overall orientation for further policy actions required for transitioning to green production. A key requirement for designing those actions is the provision of data on the environment performance of industries.

Current performance: Circularity and recycling in Kosovo's production is still very limited, while industrial waste and pollution is significant. The energy efficiency and CO₂ intensive of Kosovo's manufacturing sector has improved but still lags behind its comparators, which is mainly due to the given energy mix with low renewable energy sources.

Industrial drivers: The transition to green energy production is addressed by the Energy Strategy and waste management by the Ministry of Environment. Complementary, the Industrial Policy focuses on a firm-level on increasing material circularity and recycling in the manufacturing sector, the production and consumption of low carbon green products, as well as energy-efficiency-oriented technological upgrading.

Link to NDS: This objective directly contributes to the achievement of NDG3 on having a clean environment and sustainable use of natural resources, as well as NDG1 on having a circular and competitive economy.

Link to SDGs: Fulfilling this objective by 2030 will directly affect the achievement of SDG3 (good health and well-being), SDG6 (clean water and sanitation), SDG7 (affordable and clean energy), SDG12 (responsible consumption and production), and SDG13 (climate action).

Indicators: The progress in achieving this policy objective will be measured by two indicators: a) *CO₂ emissions per unit of MVA*, which measures reductions in CO₂ intensity of manufacturing activity; and b) a *recycling/circularity indicator*.

5.1.5. Objective 5: Maximization of Domestic Value Addition

The fifth objective ensures that Kosovo benefits from industrial development in a comprehensive manner by maximizing domestic value addition within manufacturing and beyond.

Current performance: Kosovo's manufacturing is characterized by weak domestic value chains and inefficient usage of existing natural resources resulting in various value leakages. This is, inter alia, due to low-technology production, limited processing of existing natural resources and imported inputs (material and services) to production instead of sourcing them locally.

Industrial drivers: In this objective, Industrial Policy seeks to deepen domestic value chains by strengthening backward and forward linkages (i.e., inputs from agriculture and service sector). It also supports moving to the production of higher value-added products. Finally, it will also support to increase the level of processing of existing natural resources for making better use

of the given endowment structure of the country. In doing so, this objective maximizes domestic value addition in the production process and ensures the quality of industrial development.

Link to NDS: This objective contributes to NDG 1 on creating a digital, circular, and competitive economy and NDG 3 on better use of natural resources.

Link to SDGs: Fulfilling this objective by 2030 will directly affect the achievement of SDG1 (reducing poverty) and SDG9 (increase industry and innovation).

Indicators: The progress in accomplishing this objective will be measured by *MVA as a share of manufacturing output*, which captures the extent to which local value addition will draw on domestic resources.

5.1.6. Tradeoffs Between Objectives

The five key industrial policy objectives have clear synergies among them. However, there are also certain tradeoffs which may occur and need to be taken in consideration when designing policy actions and monitored to minimize negative impacts.

Expanding industrial production (objective 1) and maximizing domestic natural resource use and value addition (objective 5) may adversely affect the environment, increase overall energy and material consumption and CO2 emissions, and, in doing so, undermine objective 4. An increased extraction of natural resources may contradict the objective of a green industry based on increased material circularity.

An increase in industrial production may not automatically translate in the creation of new jobs (i.e., there can be job-less growth) depending on the respective sub-sectors (see section 6). Increased industrial production may not automatically create decent jobs, therefore steps would need to be taken to offset potential negative effects for work conditions for the workforce.

Reducing the industrial trade deficit (objective 2), particularly by boosting exports, may also not lead to an increase in domestic value addition (objective 5) if the industrial policy does not take the various value leakages into account and address them.

5.1.7. Indicators and Targets for Objectives

The indicators to measure the progress toward achieving the industrial policy objectives are needed to monitor the impact of Industrial Policy 2030. The indicators, among others, will be included in the annual progress monitoring. The table below also provides the baseline values for all indicators, as well target values for all objectives to be achieved by 2030. The calculation of the target values has been based on an evidence-based methodology, the details of which, including a detailed list of target values for each year, can be found in Annex 3.

Table 1: Main objective-level indicators, including base and target values

Policy Objectives	Indicators	Baseline	Target 2026	Target 2030
1. Expansion of Industrial Production	Indicator: MVA/capita (EUR)	541.54 (2020)	702.15	809.22
	Share of MVA/GDP (%)	13.6% (2020)	15.3%	16.5%
2. Reduction of Industrial Trade Deficit	Manufacturing trade balance (EUR)	-2,327,593,338 (2020)	-2,037,671,294	-1,844,389,930
3. Generation of Comprehensive and Better Employment	Manufacturing employment/capita	0.0234 (2020)	0.0369	0.0459
	Manufacturing wage bill/MVA (%)	34.51% (2020)	51.55%	62.91%
4. Facilitation of Green Industry	CO2 emissions per unit of MVA (kg per Purchasing Power Parity (PPP) USD 2015)	1.1682 (2019)	0.6000	0.2749
5. Maximization of Domestic Value Addition	MVA/manuf. output	n/a	n/a	n/a

5.2. Sub-Objectives

The earlier part of section 5 on policy objectives lays out why Kosovo is focusing on industrial growth, industrial trade balance, quality employment, green industry, and domestic benefit maximization. The five policy objectives and their linkages to national development goals in the NDS provide the overall strategic orientation of the Industrial Policy.

This following part addresses the question of *how* the industrial policy objectives will be *achieved*. By identifying *concrete changes* in the economy and the industrial capability structure of Kosovo that need to happen to achieve the policy objectives, more narrowly defined sub-objectives of the Industrial Policy can be formulated. By identifying the most relevant sub-objectives and most effective target groups (i.e., priority sectors), this section will set a solid ground for the development of a consistent and tailor-made action plan.

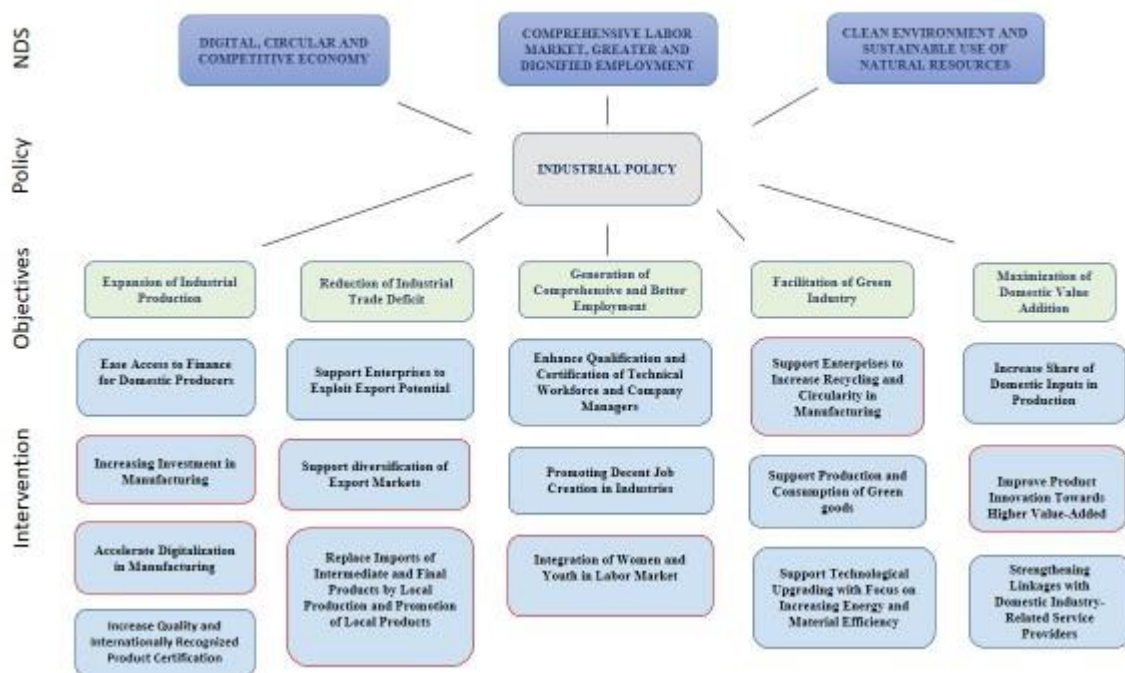
5.2.1. Sub-Objectives and Overall Intervention Logic

Developing appropriate policy actions solely based on policy objectives is challenging. Kosovo's five broadly defined industrial policy objectives are still abstract by nature and do not provide sufficient guidance on how these policy objectives can be *achieved*. Thus, the Industrial Policy introduces sub-objectives, as an additional level linking policy objectives with policy actions in the intervention logic. Sub-objectives can be thought of as *preconditions* or drivers for achieving a particular industrial policy objective.

The identification of sub-objectives was based on the assessment of the industrial capabilities of Kosovo, which comprises various factors, such as infrastructure, finance, and the skill level of workers, which determine Kosovo's ability to produce manufactured goods or create employment. The selection of the most relevant sub-objectives has been based on the industrial capability assessment and validated with a broader stakeholder group. As sub-objectives refer to general characteristics of the economy, they can relate to, and impact, more than one policy objective at the same time.

The figure below presents the overall intervention logic of the Industrial Policy across all levels. It shows which the strategic objectives of the NDS 2030 that Kosovo's Industrial Policy links the most to, followed by the industrial policy objectives which derive from the linkage to the NDS. It also shows the various sub-objectives, which inform the design of concrete actions, and their links to the policy objectives (presented at the far bottom of the figure). It is to be noted that sub-objectives whose outer boxes are highlighted in red in the figure indicate that they come from NDS (represented in the NDS as "specific goals").

Figure 10: The intervention logic of Industrial Policy



Source: MI drafting team, validated by main stakeholders

The following subsections will explain in more detail the identified sub-objectives, their relation to the policy objectives, as well as the underlying constraints to be addressed by policy actions.

5.2.2. Sub-Objectives Under Objective 1: Expansion of Industrial Production

Key changes that Kosovo needs to achieve to expand industrial production are to: (i) ease access to finance for domestic producers; (ii) increase investment in manufacturing; (iii) accelerate the digital transformation; and (iv) increase quality and certification of products.

Another relevant sub-objective for objective 1 is the technological upgrading with a focus on energy and material efficiency, which will be discussed under objective 4.

5.2.2.1. Ease Access to Finance for Domestic Producers

Access to finance in the form of loans and credits from commercial banks but also corporate bonds and other alternative financing instruments is crucial as additional capital allows manufacturers to expand their productive capacities to compete both domestically and internationally.

Current performance: The financial market in Kosovo is poorly developed for manufacturers. World Bank estimates that nearly 70% of Kosovo companies finance fixed assets through internal sources, with only 11% relying on bank financing. Kosovo's domestic credit to private

sector, as a percentage of GDP, is 51% (which is the same for WB6 average) but is far below the OCED average (160%). Additionally, the share of loans in manufacturing to total commercial loans constituted a mere 17.3% in 2021.

Relation to policy objectives: Easing access to finance can advance objective 1 by enabling manufacturers to obtain the necessary capital to expand production capacities, invest in product innovation and product quality, and accelerate digitalization. The sub-objective is also linked to objective 2 since easier financing terms can support manufacturers to be more competitive in export markets by moving away from small-scale custom orders (mainly targeting diaspora markets) to larger-scale, serial production-based orders that can improve price competitiveness (targeting non-diaspora markets).

Underlying constraints: Key constraints that fuel limited access to finance include the relatively high cost of finance, high collateral requirements, lack of tailored financing to support the growth of manufacturers, the fact that the financial sector is largely bank-based with limited alternative investment instruments, non-existent corporate debt instruments (i.e., corporate bonds), persistence of imperfect information facing businesses regarding access to finance opportunities, the current limited role and resources of KCGF to support more companies, and limited corporate governance practices that affect securing financing through banks.

Policy actions: The planned actions aim to de-risk lending to manufacturers that require high collateral requirements, including diversify financing options for manufacturers and increasing overall access to information on financing.

Indicators: Achieving the sub-objective will be measured by two indicators: (i) *domestic credit to private sector by banks (% of GDP)*; and (ii) *share of manufacturing in total commercial loans*.

5.2.2.2. Increasing Investment in Manufacturing

While the first sub-objective seeks to promote capital provision for domestic producers, this sub-objective seeks to increase the inflow of productive capital especially in the form of foreign investment but also expanding private domestic investment. Adequate investment in manufacturing capacities is critical to ensuring that the manufacturing sector accumulates sufficient fixed assets. Such investment will improve supply capacities of manufacturing companies and facilitate the essential transfer of know-how that comes with technology adoption.

Current performance: Central Bank of Kosovo data show that net FDI inflows in the manufacturing sector have been declining from €47M in 2011 to an *outflow* of €4.6M in 2020. In 2011, FDI inflows in manufacturing constituted 12% of total FDI inflows, while in 2020 there was a net *outflow* equivalent to 1.3% of total net FDI inflows. The largest share of FDI went into sectors that have little spillover effects, with real estate and construction sectors attracting nearly 60% of all FDI flowing to the country in the past decade. Regarding

investment, although Kosovo has the highest share of gross fixed capital formation to GDP in WB6. it is not possible to disaggregate the extent to which this is due to investment in machinery and equipment. The limited technology adoption is also validated by the share of imported capital goods to MVA being only 41.6%.

Relation to policy objectives: Capital is crucial but domestically limited in countries like Kosovo. Foreign investment is, hence, an important additional source to expand production (objective 1). Foreign investors come with better foreign market information and established sales channels and are rather export oriented (contribution to objective 2).

Underlying constraints: Lack of FDI inflows is impacted by limited international recognition, including issues related to transportation and logistics facing Kosovo exporters, thus presenting operational obstacles for investors eyeing export-oriented green field investment. Moreover, lacking supply a skilled workforce, and a small domestic market also contribute to limited foreign investment interest. Meanwhile, what impairs greater foreign as well as domestic investment accumulation is also influenced by policy failures which have not succeeded in utilizing vehicles such as economic zones and industrial parks. Unlike in comparator countries, strategic investments have not been incentivized enough with fiscal means in the form of tax holidays. Other constraints include current energy- and pandemic-related insecurity.

Policy actions: The planned actions aim to improve domestic and foreign investment through promotion of industrial parks which are eco-friendly, including provision of adequate fiscal and other similar incentives for strategic investors. To enhance investment initiatives, a specialized agency will be established under the auspices of the Prime Minister's Office.

Indicators: Achieving the sub-objective will be measured by two indicators: (i) *share of manufacturing FDI in total FDI (%)*; and (ii) *share of imported capital goods in MVA*.

5.2.2.3. Accelerate Digitalization in Manufacturing

The digitalization of the manufacturing sector is an increasing important global trend implying the application of digital tools for increasing efficiency and productivity in management and production as well as moving towards data-driven automation.

Current performance: The level of digitalization of Kosovo's manufacturing sector is very low. Only a fifth of surveyed businesses apply digital tools in manufacturing processes. Moreover, production optimization is partial in part due to limited recognition by manufacturers on the tools they can use such as lean manufacturing to reduce waste and increase efficiency.

Relation to policy objectives: The digitalization of manufacturing is linked to objective 1, as increased digitalization in production can create the conditions for improving production efficiencies and inducing process optimization. That in turn can support Kosovo's

manufacturers to improve product quality, to produce more customized products and to become more competitive, which can boost industrial output.

Underlying constraints: Part of the reason why digitalization uptake is limited is due to underdeveloped links between Kosovo's ICT sector and manufacturing sectors. Development of digital tools by ICT service providers mostly eyes foreign markets, due to limited domestic demand by manufacturers. Other constraints include limited awareness among manufacturers about the benefits of digitalization; and limited awareness on production efficiency and process optimization tools, which in turn can be digitalized.

Policy actions: The planned actions aim to incentivize digital transformation by manufacturers, including cross-sectorial collaboration between ICT service providers and producers.

Indicators: Achieving the sub-objective will be measured by the following indicator: (i) *use of digitalization tools in general production/work processes in manufacturing (%)*.

5.2.2.4. Increase Quality and Internationally Recognized Product Certification

Adequate product quality is indispensable for creating trust in and demand for products manufactured in Kosovo. Depending on the product, product quality comprises various specificities such as safety, durability or compliance with established product norms and can be proved by a respective certificate.

Current performance: There are no data on the number of Kosovo products that are certified. Domestic product quality is generally regarded as a significant issue, as evidenced, in part, by the inability of local producers to substitute high levels of imports across a range of products. It is estimated that only 251 industrial products worth at least €10K were exported to the EU – a low number that further reinforces weak product quality and limited product certification uptake.

Relation to policy objectives: Improving product quality is linked to objective 1, since increased trust and positive experience with domestically manufactured products increase domestic demand and, consequently, industrial output. Achieving respective product quality is also a prerequisite for attaining international certifications, which are linked to objective 2. To increase exports, sufficient product quality and international certifications is needed.

Underlying constraints: By and large, the manufacturing sector still relies on outdated technology that affects overall product quality and external competitiveness. At the firm level, product quality controls are largely missing, while lack of certified domestic laboratories for product quality checks also adversely impacts firms' competitiveness. Kosovo's accreditation directorate for laboratories and certification has not succeeded to obtain membership in relevant EU bodies and other relevant international multilateral mechanisms, thus affecting certification of local product quality and certification laboratories.

Policy actions: The planned actions aim to improve access to domestic product testing and certification services and improving the adoption of relevant certifications by manufacturers.

Indicators: Achieving the sub-objective will be measured the following indicator: (i) *number of industrial products exported to the EU* (at least €10K yearly).

5.2.3. Sub-Objectives under Objective 2: Reduction of Industrial Trade Deficit

For Kosovo to reduce its industrial trade deficit, manufacturers need to: (i) further exploit their export potential; (ii) diversify export markets; and (iii) replace imported intermediate and final products by local production and better promote local products.

Increasing product quality and attaining international certification as an additional relevant sub-objective for reducing the industrial trade deficit has been discussed under objective 1.

5.2.3.1. Support Enterprises to Exploit their Export Potential

Exploiting the export potential of companies implies that companies in Kosovo that have products or possess the capabilities to produce products that are internationally competitive should be enabled to export and tap into sales market abroad.

Current performance: Export competitiveness, measured as manufactured exports per capita, makes Kosovo (€221/capita) the worst performer in WB6 (€1,500/capita). In 2021, only 733 Kosovo manufacturing companies reported exporting values above €10K. A significant part of export success is linked either to diaspora demand, or the recent success of a key export item (mattresses) having picked up steam. Diaspora demand is scattered, generating demand for largely small-scale, custom-made orders, which in turn conditions supply capacities in Kosovo. Unless serial production emerges in selected, leading industries, Kosovo will face a hard time to develop sustainable, competitive export market links.

Relation to policy objectives: Expanding exports directly contributes to the reduction of the industrial trade deficit (objective 2). Increasing exports, and hence increasing foreign demand, will also contribute to objective 1 (expanding industrial production), as well as may generate positive momentum for product quality improvement.

Underlying constraints: Lack of membership in key international organizations, including the World Trade Organization (WTO), UNIDO, and United Nations Conference on Trade and Development (UNCTAD), undermines Kosovo's international trade integration. Kosovo manufacturers also face higher than usual transportation costs, due to having to rely on third-country transportation service operators, which stems from political disputes with Serbia. At the firm level, companies lack market intelligence and sales channels to sell their products

abroad. In addition, the lack of tailored export finance instruments undermines production expansion of export-oriented Kosovo manufacturers. Limited availability of business advisory services to support firms with export strategies and export market penetrations also pose challenges.

Policy actions: The planned actions aim to improve financing to export-oriented manufacturers, including expanding access to services on export market intelligence and matchmaking with foreign buyers.

Indicators: Achieving the sub-objective will be measured by the following indicator: (i) *number of manufacturing firms exporting regularly* (at least €10K per year).

5.2.3.2. Diversification of Export Markets

Exporting to a larger base of external markets increases foreign demand for Kosovo products and also ensures mitigation of potential shocks from international trade fluctuations. While the first sub-objective in objective 2 focuses on expansion of exports in general, including the diversification of exports products, this sub- objective focuses on the diversification of export markets.

Current performance: So far, Kosovo exports are concentrated in a few select external markets. There is a relatively high concentration involving Albania (22.8%), Switzerland (9.6%), Germany (9.5%), North Macedonia (8.7%), and Italy (7%). Moreover, 42% of Kosovo's exports go to WB6, while 36% to the EU. Moreover, export concentration is positively correlated with markets where there is a sizable presence of the diaspora community.

Relation to policy objectives: Moving towards export market diversification is critical to increase international demand and, hence, increase exports, and can help Kosovo to reduce its industrial trade deficit (objective 2). By generating higher demand, export market diversification can also contribute to expand supply capacities (objective 1).

Underlying constraints: The fact that Kosovo has signed up for a limited number of multilateral and bilateral trade agreements implies that Kosovo manufacturers may face costly tariff and non-tariff barriers if they intend to diversify their export market portfolio. Product certification and quality standards are also costly, which impair Kosovo manufacturers to expand to export markets. Additionally, diaspora-based links, who can provide new sales channels, are underexploited.

Policy actions: The planned actions aim to identify potentially exportable products, including supporting manufacturers to penetrate new export markets through innovative branding and other specific export promotion strategies, and pursuing relevant new trade agreements with specific focus.

Indicators: Achieving the sub-objective will be measured by the following indicator: (i) *geographic diversity of exports (number of countries accounting for 80% of manuf. exports).*

5.2.3.3. Replace Imports of Intermediate and Final Products by Local Production and Promotion of Local Products

This sub-objective aims at reducing imports of manufactured goods. Imported intermediate and final goods that Kosovo manufacturers are capable to produce, should be gradually replaced by domestic production.

Current performance: Kosovo remains a high-importing economy. Every Euro of manufactured exports equals 7 Euros of manufactured imports. The value of imports of intermediate goods, as a share of MVA, is at a staggering 180%. Between 2018-2020, the share of domestic sectors with import-substituting potential in imported intermediate goods stood at an average of 64%. Moreover, the share of domestic sectors with import-substituting potential in imported consumer goods was 67% for the same period. Domestic goods constituted not more than 33% of the domestic market. At the firm level, there are only a few examples where Kosovo producers have managed to access recognized foreign branded retail chains setting shop in Kosovo, or international branded franchises. Moreover, few Kosovo manufacturing suppliers have been able to penetrate domestically operated retail chains under “private label.”

Relation to policy objectives: Replacing intermediate and final goods by local production can be successfully exploited, as there are significant underutilized domestic potentials. A more prominent role for local producers can directly contribute to reducing imports (objective 2) and expanding industrial output (objective 1). Substituting imports through expanded local production can create also positive domestic value chain effects in Kosovo (objective 5).

Underlying constraints: The fact that no more than 33% of the domestic market is covered by domestically produced manufactured goods is in indication of limited product quality and competitiveness. The persistence of micro-sized companies impairs local companies to break out of their low value-added activities and compete with large inflows of imports. There is also a lack of strategic analysis that compares which heavily imported products Kosovo could effectively replace based on existing competitive advantages. Domestic producers also rely heavily on own sources to fund their expansion, thus the limited formal financing instruments to enable access to market also pose challenges. Intermediate production is also hampered by lack of certifications and quality standards that prevent local products to be taken up by recognized retail chains and branded franchises under “private label” mechanisms. At a more macro level, the liberal regime towards imports often creates a tilted playing field, undermining the emergence of a domestic competitive potential.

Policy actions: The policy actions aim to incentivize the production of local goods that can replace imports, through increasing domestic demand via public procurement and awareness campaigns as well as adjusting the trade regime to level the playing field for local products.

Indicators: Achieving the sub-objective will be measured by three indicators: *share of substitutable intermediate goods imports (as per BEC classification) in total imports*; (ii) *share of substitutable consumption goods imports (as per BEC classification) in total imports*; and (iii) *share of domestic goods in manufacturing market*.

5.2.4. Sub-Objectives under Objective 3: Generation of Comprehensive and Better Employment

For Kosovo, to generate comprehensive and better employment in manufacturing, the following changes need to be achieved: (i) the technical workforce and company managers need to be adequately qualified and certified; (ii) decent job creation in industries needs to be promoted; and (iii) women and youth need to be better integrated in the labor market.

Additional employment effects outside the manufacturing sector can be expected through the sub-objective that focuses on strengthening the linkages with industry-related service providers and the sub-objective that seeks to increase domestic inputs in manufacturing from agriculture, forestry, and mining (both of which are under objective 5 below).

5.2.4.1. Enhance Qualification and Certification of Technical Workforce and Company Managers

A qualified workforce is a key factor of production and critical to produce goods that can compete based on price, quality, and innovation. At the same time, the growth of businesses also depends on professional managers, who can guide companies through various stages of their growth cycle.

Current performance: Kosovo's labor market is characterized by a mismatch of supply and demand of skilled labor force. The formal education system remains inadequate to prepare worker according to industry needs. Kosovo managed to accredit 11 vocational training providers in the manufacturing sector by 2021. This is complemented by the fact that there are 24 approved standards of profession in the manufacturing sector. Nonetheless, the percentage of employees enrolling in formal training in manufacturing was only 26.4% in 2019 (compared to 53.6% for upper middle-income countries). The proportion of skilled workers out of all production workers was 67.3% in 2019 (against 73.3% for upper middle-income countries). Despite lack of available data, there is a general recognition that, as companies grow in complexity, they require more professional company managers, whose supply in Kosovo is limited. There are few, if any, established business or management schools or education providers that interlink closely with industry voices to offer relevant professional training.

Relation to policy objectives: A well- and formally-qualified labor force has more opportunities to acquire decent jobs with higher salaries, better working conditions and more stable work contracts. Especially, given the mismatch of supply and demand of skilled labor force, higher

qualifications are a vital means to create more and better jobs (objective 3). In order to expand production, innovate and ensure product quality (objective 1), a skilled workforce is also an essential factor.

Underlying constraints: Skills mismatches emanating from unaligned educational programs strongly influence job outcomes. A host of university-level programs are considered outdated to be relevant for the needs of a growing manufacturing sector. Capacity constraints among institutions like National Qualifications Authority slow the pace of approving new standards of profession related to manufacturing. The vocational schools have not yet integrated work-based learning in collaboration with businesses. Meanwhile, there is a positive trend of new private informal vocational training providers obtaining accreditation and supplying more relevant skill sets. However, they are limited in number and some of them lack resources.

Policy actions: The planned actions aim to address prevalent skills gaps in the manufacturing sector through addressing information shortages and creating financial incentives for the workforce to gain relevant training.

Indicators: Achieving the sub-objective will be measured by four indicators: (i) *number of accredited training institutions in manufacturing*; (ii) *number of approved occupational (profession) standards in manufacturing*; (iii) *proportion of workers receiving formal training in manufacturing (%)*; and (iv) *number of ISO certificates*.

5.2.4.2. Promoting Decent Job Creation in Industries

Creating jobs in manufacturing is an important component of the objective. Generating *decent* jobs is equally critical to ensure that manufacturers pay a fair income, provide secure employment, and improve overall working conditions.

Current performance: By and large, industries in Kosovo have failed to create decent employment. Despite the fact that the share of MVA that has gone to workers in the form of wages expanded from 21% to 35% the in-work poverty in manufacturing remains high. While across the economy, the in-work poverty in Kosovo is at 15%, it is even higher in the manufacturing sector (26.6%). Meanwhile, World Bank estimates that 35% of employees work in the informal sector. A fourth of manufacturing workers (25%) were not formally declared at the national tax authority. Informality undermines formal contracting and protections provided to workers by the labor law. Safety at work is a major challenge: working conditions for workers in factory floors and other manufacturing facilities are generally considered poor and inadequate.

Relation to policy objectives: Industries have the potential to create numerous new jobs. However, they are not automatically formal, well-paid good jobs. Having a sub-objective that promotes more stable employment, fair salaries and decent working conditions is critical to achieve objective 3.

Underlying constraints: A key constraint that undermines the emergence of decent jobs relates to the significant labor informality in manufacturing, with a fourth of sector employees undeclared. That feeds informal contracting and persistence of inadequate working conditions, which in turn also increases the likelihood of work-related accidents (estimated at 49 in the sector in 2021). Moreover, low pay is a key constraint that prevents emergence of decent jobs, as evidenced by the fact that in-work poverty in manufacturing was 26.6% - over 10 points higher than the national in-work poverty rate. The low wages can be partly explained by limited productivity gains of the sector due to limited technology adoption, a low-skill workforce, and limited transfer of know-how through FDI

Policy actions: The planned actions aim to reduce labor informality by better understanding its prevalence by sectors, while incentivizing manufacturing companies to apply decent wages and offer better working conditions.

Indicators: Achieving the sub-objective will be measured by three indicators: (i) *manufacturing employees declared in TAK/official manufacturing employment*; (ii) *in-work poverty in manufacturing*; and (iii) *number of work accidents in manufacturing*.

5.2.4.3. Integration of Women and Youth in the Labor Market

Manufacturing employment in industries must become more inclusive in order to achieve more and comprehensive employment, which creates benefits for the entire society. Women and youth, as well as other disadvantaged groups, should be better integrated in Kosovo's manufacturing labor market.

Current performance: Labor market exclusion of women and youth is particularly pronounced in Kosovo. Every second youth aged 15-19 remains without a job for more than a year – a recipe for deepening structural unemployment. The industrial performance analysis found that female share in manufacturing employment is similarly dismal for Kosovo compared to comparators: although the share of females grew from 2015 (10%) to 2020 (16%), it remained well below the WB6 average of 37% in 2020, with Albania outperforming the region with a nearly 60% share, followed by North Macedonia with a nearly 50% share

Relation to policy objectives: Improving the inclusion of women and youth in the labor market is key for achieving objective 3. At the same time, Kosovo misses out also the intellectual and creative potential that women and youth can bring to the sector. Fostering their integration can also contribute to objective 1 of growing the industrial sector.

Underlying constraints: The World Bank Job Diagnostic report (2017) identifies “family responsibility” as a critical factor impairing women's labor force participation: over half of inactive women reported having family responsibilities for not actively seeking a job. Limited availability of childcare also fuels labor force inactivity among women: the Life in Transition Survey found that childcare is provided by family members in 95% of Kosovo households with

children under 6 years of age. Childcare services are mostly offered on an informal basis, with only a quarter of childcare centers operate during the summer, while institutional childcare is limited for rural women given prohibitively high transportation costs. Moreover, the 9-month length of maternity benefits also adversely affects female labor force participation, considered by businesses as a disincentive to hire women. Also, limited promotion of manufacturing professions in schools shapes perceptions among youth about their career choices. There is also significant stigma of involving women in manufacturing jobs (demonstrated by less than 10% of employed women working in manufacturing), although certain industries involve women significantly.

Policy actions: It's beyond the scope of the policy to address the structural causes for low female labor market participation. The policy actions intend to improve the situation by providing incentives for in-company skilling of women and youth, including improving collaborations between schools and businesses to bridge the prevalent perception gaps about work in manufacturing.

Indicators: Achieving the sub-objective will be measured by two indicators: (i) *share of youth employed in manufacturing in total youth employment*; and (ii) *share of women in manufacturing employment*.

5.2.5. Sub-Objectives under Objective 4: Facilitation of Green Industry

For Kosovo, to kick-off the transformation towards establishing a green industry, manufacturing companies need to: (i) increase recycling and circularity in their production processes; (ii) produce green products; and (iii) upgrade technologically with focus on increasing energy and material efficiency.

5.2.5.1. Support Enterprises to Increase Recycling and Circularity in Manufacturing

Circularity is a systemic approach that promotes the change from linear production and consumption patterns towards more circular and sustainable ones. It involves three main principles: (i) to eliminate waste and pollution, (ii) to circulate products and materials by reintroducing them into the production cycle, and (iii) to regenerate nature. Increasing recycling and circularity in the manufacturing processes is critical to enable Kosovo's manufacturing sector to maximize efficiencies in resource usage, reduce adverse environmental impacts, and reduce costs by ensuring the recovered waste is reintroduced into manufacturing.

Current performance: Kosovo is at a very infant stage of a systematic application of recycling and circularity in manufacturing. Gross Value Added in sectors based on economic circularity is only 0.8% of GDP. There are no data on percentage of recycled material used in production. There is limited awareness of recycling and circularity in the Kosovo economy. However, the recycling value chain itself appears to be expanding and generating increasing economic value.

Kosovo companies mainly recycle paper, metals, batteries, cans, organic matters, rubber, and plastic. There are several waste recycling companies recycling waste into marketable products, some of whom are being exported. Based on KAS data, there are 175 active companies engaged in the recycling value chain, which includes wholesale of waste and scrap metal (22%), collection of nonhazardous waste (19%), collection of hazardous waste (18%), production of plastic in primary form (15%), treatment and disposal of non-hazardous waste (11%), repair activities and other waste management services (7%), dismantling of scrap metal (6%), and treatment and disposal of hazardous waste (1%).

Relation to policy objectives: Increasing the level of recycling and circularity in the manufacturing sector will significantly reduce the primary material inputs in production and reduce waste and, in doing so, contribute to establishing a green and circular industry (objective 4).

Underlying constraints: There is a general lack of awareness among business, public institutions, and the household sector on benefits of material and product circularity. There are also insufficient number of legal landfills that do waste classification. Moreover, there are informal resource collectors who engage in collection of recyclable waste in Kosovo which also may undermine the emergence of a more established formal recycling sector.

Policy actions: As Kosovo is at a very initial stage, the main actions to be pursued by this policy include (i) improving the overall awareness among manufacturers and other stakeholders on the benefits of circularity and (ii) creating an industrial waste market. By creating transparency on the kind and volume of industrial waste generated by companies, which can be utilized as inputs for other productions, the creation of industrial symbioses and, thus, cross-sectorial material circularity can be initiated.

Indicators: Achieving the sub-objective will be measured by two indicators: (i) *gross value added in sectors related to circular economy (% of total GDP)*; and (ii) *use of recycled material (%)*.

5.2.5.2. Support Production and Consumption of Low Carbon and Green Products

There is a straight-forward global transition in industries toward producing and consuming eco-friendly, low carbon green goods. Establishing a green industry involves the provision of goods and services that more directly reduce environmental degradation, dispense toxic substances and/ or are produced in a CO₂ neutral production process.

Current performance: Awareness in Kosovo's manufacturing sector toward green products is very limited. There are no data on the extent to which manufacturing products are eco-friendly, and nor are there data on local consumption trends toward green products. Since 2016, the Kosovo Green Festival initiative has sought to promote green products, the use of green

technologies, increasing sustainable waste reuse, and developing market linkages between green businesses and other manufacturers. The Kosovo Sustainable Development Week seeks to elevate awareness among policymakers and other participants on green economy trends, amongst which circular economy and green production toward decarbonization.

Relation to policy objectives: Creating a green industry (objective 4) is directly dependent on the extent to which companies are capable of producing products that are aligned with environmental preservation. Given the rising global demand for green products, producing them in Kosovo will also increase the country's export opportunities. This becomes particularly relevant for exporting to the EU and other markets that increasingly introduce trade barriers for CO₂ intense products (objective 2). A focus on green products that usually also goes along with higher value addition will also contribute to maximizing domestic benefits (objective 5).

Underlying constraints: Awareness among consumers in Kosovo of green products is considered very limited. Green production incentives are very limited, except for some activities supported by donors. Regulatory impediments to the usage of solar power and other clean energy capacities by companies also currently demotivate manufacturers for relying on renewables for reducing their energy footprint. Also, there is no classification of green activities, and the modern regulatory framework to create an enabling environment for producing and consuming green products needs to be improved.

Policy actions: The main planned actions include (i) removing regulatory barriers that hamper the installation of clean energy production capacities by companies, (ii) creating more transparency on the CO₂ footprint of companies, (iii) adopting a classification of green products and services and (iv) regulatory changes to allow procurement of green products and services and (v) raise awareness for the production and consumption of green goods.

Indicators: Achieving the sub-objective will be measured by two indicators: (i) *Market share of environmentally friendly products*; and (ii) *percentage of citizens often buying environmentally friendly products*.

5.2.5.3. Support Technological Upgrading with Focus on Increasing Energy and Material Efficiency

Technological upgrading means the process of enhancing the technological capabilities of firms to modernize production methods. Supporting manufacturers in Kosovo in their technology upgrading will put particular emphasis on increasing the energy and material efficiency of production.

Current performance: World Bank data indicate that investment in fixed assets which includes machinery and equipment, as well as public infrastructure such as highways, is 30% of GDP, which four points higher than WB6 average. Although no disaggregation is available to evaluate the extent to which such investment, captured through Gross Fixed Capital Formation,

is being driven primarily by machinery investment, there are observable trends of increased technological acquisition by the manufacturing sector. However, the adoption of new eco-friendly technologies in manufacturing is still at an infant stage in Kosovo.

Relation to policy objectives: Technological upgrading is key for expanding industrial production, as it increases productivity and competitiveness by, inter alia, cutting costs, increasing quality and allowing for serial and/or more customized production (objective 1). Advancing the adaptation of more eco-friendly technologies ensures minimization of energy use, decrease CO₂ and other emissions, as well as reduce waste and, in doing so, contribute to objective 4 of creating a green industry.

Underlying constraints: One constraint for adapting advanced machinery is the lack of skilled workforce required to operate. Regulatory and policy incentives are limited regarding provisions for renewable energy usage through new machinery. Thus, still outdated equipment dominates significant swathes of the manufacturing sector. Lack of machinery maintenance capacities also poses challenges for adoption of new eco-friendly equipment. Technological upgrading requires high investments and Kosovo lacks tailored finance products for the manufacturing sector.

Policy actions: The main actions include promotion of investment in green and efficient technologies by improving access to debt-based finance and other forms of financial support.

Indicators: Achieving the sub-objective will be measured by the following indicator: *energy intensity in manufacturing (Toe/€M)*.

5.2.6. Sub-Objectives under Objective 5: Maximization of Domestic Value Addition

The main goal of this objective is to ensure the quality of industrial growth, first of all, by strengthening domestic value addition. To maximize domestic value addition, Industrial Policy seeks to: (i) increase the share of domestic inputs in production; (ii) improve product innovation toward higher value-added production; and (iii) strengthen linkages with domestic industry-related service providers.

The sub-objective focusing on product innovation towards higher-value added products discussed under objective 1 also contributes to higher domestic value addition in the country.

5.2.6.1. Increase Share of Domestic Inputs in Production

Kosovo has significant domestic resources but their use as inputs in production is considered limited. This applies both to: (i) domestic production, where primary inputs are imported

instead of locally sourced; and (ii) domestic resources that have not been utilized at all or are being exported in raw or minimally processed form and, hence, with limited value addition.

Current performance: Kosovo has significant exploitable mineral deposits, including lignite coal reserves, various metallic minerals, and non-metallic minerals, but large sections of such resources remain idle, under-exploited, and insufficiently explored. Even extracted minerals undergo little local processing, with much of such minerals exported in a raw form. Despite arable land accounting for the 43% of utilized agricultural land, Kosovo continues to rely heavily on imports of agricultural products. Similarly, Kosovo forests stretch over 481,000 ha, 44.7% of the total land area. The forest coverage in Kosovo is higher than in the rest of the WB6. Despite the available local wood stock, the already growing and export-competitive wood processing sector relies largely on imported wood, mainly from Austria, to feed its needs.

Relation to policy objectives: Expanding the use of domestic inputs is critical to ensure a strengthening of domestic value addition (objective 5). This applies in particular to production, where Kosovo possesses domestic resources, but inputs are being imported to significant extent (i.e., wood for the wood processing industry). Also, exploiting untapped resources (i.e., agricultural products for food-processing industry) and processing them to final products, as well as promoting further processing of exported raw or minimally processed goods (i.e., metal industry) will contribute to this objective. By strengthening such backward linkages of Kosovo's manufacturing to mining, forestry and agricultural sector, positive spillover effects can be created. The usage of domestic inputs can also reduce the need for imports of raw input supplies and intermediate goods from abroad, therefore contributing to the narrowing of the (industrial) trade deficit (objective 2).

Underlying constraints: The limited use of domestic inputs is in part related to lack of advanced technology in resource extraction. There is also a lack of foreign investment in extractive industries. Limited domestic resource utilization is also affected by inadequate agricultural policy incentives toward land consolidation (close to 60% of all farms have less than 5 ha of utilized agricultural area,) and land reform to support the growth food processing industry. Environmental-related policies, coupled with limited wood treatment policies, prevent the use of raw domestic wood for furniture processors. Moreover, to export, Kosovo producers have to ensure that their manufactured furniture products are based on responsibly sourced timber, but since Kosovo forests do not have the required certification, or domestic forest management policies are in place declaring large areas as protected, this incentivizes reliance on imported, certified wood. Regarding metal processing, political issues related to the utilization of mineral resources in northern Kosovo mining sector, including chronic underinvestment in the mining complex, also complicate reliance on domestic inputs, or contribute to limited domestic value addition.

Policy actions: The main actions include regulatory changes and collaboration initiatives to create conditions and opportunities for increased but sustainable use of local resources.

Indicators: Achieving the sub-objective will be measured by the following indicator: (i) *import value of intermediate products (BEC classification) as a share of MVA*.

5.2.6.2. Improve Product Innovation Towards Higher Value-Added Products

High value-added products are products whose value is less determined by the costs of their inputs and more by the process of manufacturing that adds value to these products. Producing more marketable manufactured goods and in particular moving into higher value-added products will improve Kosovo's domestic value addition. Product innovation is one of the key drivers of this aspired transformation.

Current performance: Kosovo is stuck in low value-added activities. While nearly half of total exports in the EU are considered of medium and high technological (MHT) intensity, Kosovo has a low level of sophistication of exports, with only plastics and rubber (accounting for 11% of total exports during 2016 – 2019) being somewhat more technologically advanced. Limited (product) innovation is fed by larger forces: World Bank estimates that public expenditures on R&D constitute a mere 0.1%. Poor trends in product innovation also reflect limited collaborative platforms between private sector, universities, specialized service providers, and government. As a result, only 27% of Kosovo companies declared in 2019 having introduced a new product or service.

Relation to policy objectives: Product innovation towards higher valued-added products is key for growing the industrial sector. The sub- objective is also linked to objective 2, as new products will help expand export and increase competitiveness. Green, eco-friendly products tend to have higher value addition, which can advance objective 4 of a green industry as well improve domestic benefits (objective 5).

Underlying constraints: The main constraints include limited public expenditure in R&D (0.1% of total annual public expenditures), while, as noted, only 27% of companies declared having introduced a new product or service. There is also lack of product innovation programs in the formal and non-formal education sectors. Part of the challenge is the lack of collaborative platforms among private sector, academia, and government. There are also no dedicated entities engaged in research and development. Business investment in product innovation is considered very limited.

Policy actions: The main actions include offering fiscal and financial incentives as well as recognition to manufacturers to engage in innovation, including supporting collaborative platforms on product innovation involving businesses, academia, and the public sector.

Indicators: Achieving the sub-objective will be measured by the following indicator: *percent (%) of firms that introduced a new product/service*.

5.2.6.3. Strengthening Linkages with Domestic Industry-Related Service Providers

The manufacturing sector requires various services in the production process, ranging from product design, maintenance of machinery, marketing, transportation, legal advice, or transportation, to support in the digital and green transformation of the production process. Strengthening these linkages with domestic service providers can have multiple positive employment and domestic value addition effects beyond the manufacturing sector.

Current performance: At present, Kosovo relies heavily on technicians and service providers from abroad for maintaining its machinery. Even local suppliers of foreign machinery have limited machinery maintenance capacities. That is why the state of machinery in Kosovo is subject to recurring breakdown and costly repairs. Kosovo also does not have service providers that can assist manufacturers to optimize internal processes (known as lean manufacturing). This raises a lot of operational inefficiencies and waste. Moreover, although ICT service providers offer digital solutions for manufacturers, there are few cross-sectorial partnerships. Service providers on matchmaking and product development are also limited and companies show limited willingness to pay for their engagement, contributing to crippling the emergence of a more solid set of offerors. Service providers on corporate governance are also limited that can advise manufacturers on management changes that can also impact manufacturing processes. This is also linked to limited understanding of corporate governance by businesses, and limited willingness to pay for such services. Finally, limited domestic laboratories for product testing are missing in large part, increasing costs for companies who seek to export.

Relation to policy objectives: Strengthening the linkages between manufacturers and domestic service providers minimizes the value leakage in the production processes, in which case services for the manufacturing would be less imported from abroad (objective 5). It also creates domestic demand for these services, with positive employment, professionalization, and growth effects.

Underlying constraints: The limited capacities of providers for a host of manufacturing-related services are hampering the competitiveness of the sector. Limited local technicians for machinery maintenance have given way to engagement of costly regional experts. Manufacturing process optimization is also hampered by lack of lean manufacturing specialists. Although ICT sector is developing digital solutions, there are limited partnerships with manufacturing companies on digitalization. Lack of domestic laboratories for product quality checks and certifications also increase costs and undermine local innovation. Lack of established matchmaking services aiming the export markets, including on helping business to sophisticate internally which includes corporate governance, also affects manufacturing competitiveness.

Policy actions: The main actions aim to improve availability of local services for domestic manufacturers, focused but not limited to digitalization, machinery maintenance, product testing, and export market matchmaking.

Indicators: Achieving the sub-objective will be measured by the following indicator: (i) *domestic services purchased by industries.*

5.2.7. Indicators and Targets for Sub-Objectives

The indicators to measure the progress toward achieving the policy sub-objectives are needed to monitor the outcome of the Industrial Policy. The indicators, among others, will be included in the annual progress monitoring. The table below also provides the baseline values for all indicators, as well target values for all sub-objectives to be achieved by 2030. However, some of the indicators are not presented due to the lack of statistical data. The list of indicators for which data is missing is presented in (Annex 5).

Table 2: Main sub-objective-level indicators, including base and target values

Objectives	Sub-objectives	Indicators	Baseline	Target 2026	Target 2030
I. Expansion of industrial production	1. Ease access to finance for domestic producers	Domestic credit to private sector by banks (% of GDP)	47.8% (2020)	60.4%	66.2%
		Share of manufacturing in total commercial loans (%)	17.3% (2021)	23.4%	28.2%
	2. Increase investment in manufacturing	Share of manufacturing FDI in total FDI (%)	-0.1% (2021)	10.2%	18.4%
		Share of imported capital goods in MVA	41.7% (2020)	48.3%	52.7%
	3. Accelerate of digital transformation in manufacturing	Use of digitalization tools in general production/work processes in manufacturing (%)	19.3% (2019)	35%	45%
	4. Increase quality and internationally recognized certification of products	Number of industrial products exported to the EU (at least 10,000 EUR yearly)	298 (2021)	630	895
Objectives	Sub-objectives	Indicators	Baseline	Target 2026	Target 2030
II. Reduction of industrial trade deficit	1. Support enterprises to exploit their export potential	Number of manuf. firms exporting regularly (at least EUR 10,000 per year)	733 (2021)	1,239	2,478
	2. Support diversification	Geographic diversity of exports (number of	10 (2021)	14	18

	of export markets	countries accounting for 80% of manuf. exports)			
	3. Replace imports of intermediate and final products by local production and promotion of local products	Share of substitutable intermediate goods imports (as per BEC classification) in total imports	31.6% (2020)	27%	22%
		Share of substitutable consumption goods imports (as per BEC classification) in total imports	23.2% (2020)	20%	16%
		Share of domestic goods in manufacturing market	32.4% (2020)	40%	50%
Objectives	Sub-objectives	Indicators	Baseline	Target 2026	Target 2030
III. Generation of comprehensive and better employment	1. Enhance qualification and certification of technical workforce and company managers	Number of accredited training institutions in manufacturing	11 (2021)	20	35
		Number of approved occupational (profession) standards in manufacturing	24 (2021)	40	60
		Proportion of workers receiving formal training in manufacturing (%)	26.4% (2019)	35%	42%
		Number of ISO certificates	n/a	WB Average	WB Average
	2. Promote decent job creation in industries	Manufacturing employees declared in TAK/official manufacturing employment	75.6% (Avg. 2018-2020)	80%	87%
		In-work poverty in manufacturing	26.6% (2020)	15%	10%
		Number of work accidents in manufacturing	49 (2021)	0	0
	3. Integrate women and youth in labour market and business	Share of youth employed in manufacturing in total youth employment	10.2% (2021)	13.7%	16.5%
		Share of women in manufacturing employment	15.9% (2020)	20.7%	23.9%
Objectives	Sub-objectives	Indicators	Baseline	Target 2026	Target 2030
IV. Facilitation of green industry	1. Support enterprises to increase recycling and	Gross value added in sectors related to circular economy (% of total GDP)	0.8% (2020)	1.0%	1.3%
		Use of recycled material (%)	n/a	WB Average	WB Average

	circularity in manufacturing				
	2. Support production and consumption of green products	Market share of environmentally friendly products (%)	n/a	WB Average	WB Average
		Percentage of citizens often buying environmentally friendly product	n/a	WB Average	WB Average
	3. Support technological upgrading with focus on increasing energy and material efficiency	Energy intensity in manufacturing (Toe/€M)	339 (Avg. 2018-2020)	250	150
Objectives	Sub-objectives	Indicators	Baseline	Target 2026	Target 2030
V. Maximization of domestic value addition	1. Increase share of domestic inputs in production	Import value of intermediate products (BEC classification) as share of MVA	169.1% (2020)	133.1%	109.1%
	2. Improve product innovation towards higher value-added products	Percent of firms that introduced a new product/service	26.9% (2019)	32%	40%
	3. Strengthen linkages with domestic industry-related service providers	Domestic services purchased by industries	n/a	WB Average	WB Average

6. PRIORITY SECTORS

For the Industrial Policy to be effective, the GOK has to be selective where to direct scarce resources. Targeting particular groups and tailoring policy actions is *key* to achieving desired effects. The most important selection criterion is which *subsector* a policy wants to support with a particular policy action.

A comprehensive analysis of the main subsectors⁴ within the manufacturing sector was conducted to assess the potential contribution of the subsectors to achieving the five main industrial policy objectives in Kosovo (for details of the analysis see annex 4). For each policy objective, the analysis distinguishes two groups of relevant industries: (i) those industries that are already grown and contribute significantly to the objective and still grow positively (so-called “mature sectors”); and (ii) those industries that are still small or medium-sized but grow faster than the average (so-called “rising stars”) and have the potential to become a new mature sector.

Based on the overall subsector analysis, the following manufacturing subsectors or industries are assessed as *best performers* across all the five industrial policy objectives:

Manufacture of Rubber and Plastics is considered a *rising star* with a high growth in MVA (5.5%), with a significant share of manufacturing sector employment (9% of manufacturing sector, also referred to as “Sector C”), and a positive growth rate of employment (5.8%), as well as a positive contribution to the trade balance (€800K+). KAS data are missing on how and whether the subsector has been improving its efficiency in energy consumption, although anecdotal evidence suggests so. In general, the subsector has potential to become a driver of manufacturing development with continued positive employment effects. The subsector also has significant potential to increase circularity in industry, including boosting recycling potential. Overall, the approach by decision makers may be to improve the dynamism of the subsector through increased product specialization.

Manufacture of Furniture is also considered a *rising star* with a high growth rate in MVA (10%), with a slightly negative effect on employment generation (-0.4%), although it employs a sizable workforce (12% of total Sector C employment), but has the most positive significant effect of any manufacturing subsector on the trade balance (12%), whereas the subsector has been improving its energy consumption use in recent years (energy consumption growth rate has declined by 3.8% from 2015 – 2020). In general, the subsector is a driver of manufacturing development, and the industrial policy should aim to sustain its growth path. The subsector also has significant potential to increase domestic benefits from using more local resources, with deepening linkages to textile, metal products and industry-related services.

The assessment of the performance of the subsectors also provides insights on *which subsectors are best positioned to support the achievement of the five industrial policy objectives*:

- *Objective 1: Expansion of Industrial Production*

Mature sectors like food, beverages and non-metallic minerals have high shares of MVA per capita, which indicate their relatively consolidated industrial capabilities, despite scope for much improvement. As such, supporting such industries helps Kosovo to achieve Objective 1

⁴ The term subsector and industry are used interchangeably in this section. Since the manufacturing sector has many subsectors, a subsector such as food processing or others may be referred to as “industry.”

on expanding industrial production. Additionally, rising star subsectors like furniture and rubber and plastics have high MVA growth rates, indicating a still-unexploited potential for growth in the future, hence potentially having an even greater impact on expanding industrial production.

- *Objective 2: Reduction of Industrial Trade Deficit*

Furniture and rubber/plastics sectors are both currently having a positive impact on the trade balance, which places the onus on policymakers to continue to support the deepening of such contribution in the future. However, despite the negative, and sometimes sizable, negative contribution to the trade balance of subsectors such as food, beverages, non-metallic minerals, and basic metals and metallic products, all these subsectors, with targeted support, can be positioned to reverse the trend and expand Kosovo's export competitiveness, replace imports, and thus support the reduction of the industrial trade deficit.

- *Objective 3: Generation of Comprehensive and Better Employment*

Sectors such as beverages, wood processing, rubber and plastics, non-metallic minerals and basic metals and metallic products are important sources of employment, including in some cases demonstrating dynamic growth. Moreover, textile, apparel and leather subsectors are also a source of inclusive employment, considering their role in providing livelihoods to women.

- *Objective 4: Facilitation of Green Industry*

Data by KAS on many subsectors provide a picture that indicates many subsectors are improving energy efficiency. The furniture, food, beverages have demonstrated notable reduction in energy consumption use at the same time as they have been expanding their MVA growth. The potential for circularity however is vastly underexploited throughout the manufacturing sector. The non-mineral and rubber/plastics industries are thought to have operating businesses where circularity is on the rise, but such efforts need to be further supported and deepened, including in other subsectors.

- *Objective 5: Maximization of Domestic Value Addition*

The subsector analysis also indicates the substantial level of domestic input *underutilization*, especially in subsectors such as wood processing and furniture, food and beverages, non-metallic minerals, and basic metals. Industrial Policy should support to increase the share of domestic inputs in these subsectors, while also exploring policy synergies with the forestry and mining sectors. There is also a substantial potential to explore deeper integration within and across domestic value chains, especially integrating textile, apparel, and leather with the furniture subsector, as well as better integration of basic metals and metallic products with the broader mining sector.

7. PRIORITY POLICY ACTIONS OF INDUSTRIAL POLICY

The Industrial Policy 2030 is a comprehensive development strategy for Kosovo's manufacturing sector. It provides strategic orientation for policy action and lays out the rationale for GOK interventions in this sector.

The Industrial Policy 2030 consists of 5 policy objectives, 16 sub-objectives and basic directions for policy actions. Each Industrial Policy Action Plan has to formulate a set of clear and consistent policy actions and activities on how these (sub-) objectives will be achieved.

To ensure the implementation of the main important policy actions, the GOK has defined 10 priority actions to be implemented with the first Action Plan 2023 – 2025. These priority policy actions have been selected based on their strategic relevance for achieving the objectives of the Industrial Policy.

1) Priority Action 1: Support Creation of Modern Industrial Parks with Eco-Friendly Features

GOK will support the creation of four new industrial parks in four different regions of Kosovo with infrastructure and other necessary services. Whereas three industrial parks will have eco-friendly features piloted, one is expected to be completely green, with access to renewable energy, waste management facilities, and similar - all necessary for manufacturing carbon-neutral products. Another distinguishing feature of these parks will be that they will specialize in attracting investment in activities that translate into higher domestic benefits. They will also have internal management units that will administer with them daily.

This action is expected to encourage domestic and FDI investments (Objective 1) and create spill-over effects on domestic suppliers (Objective 5).

2) Priority Action 2: Establish a National Product Certification Facility

This grant scheme will assist manufacturing companies with export potential to acquire internationally recognized product certification. The government will cover 60% of the cost with a maximum amount of up to €15K, whereas the beneficiary company will cover 40%. Given that the certification cost for metal products is generally higher, the maximum amount foreseen for that category will be up to €50K. The cost-share ration will be the same, 60%-40%. Eligible costs for product certification include testing, verification, certification, and inspection. The grant call will be open annually, and the beneficiary companies will have 12 months for implementation.

This scheme will help beneficiary companies to ensure the appropriate quality and safety of products (objective 1). Moreover, it will help them conform to the requirements of export markets and increase their export prospects (objective 2).

3) Priority Action 3: Co-finance conformity assessment bodies

This is a two component instrument that aims to provide financial support to conformity assessment bodies. The first component will be to help domestic laboratories upgrade their equipment and build operational capacities. The government will cover 50% of the cost with a maximum amount of up to €50K. The second component will be to support the establishment of new certification bodies with equipment and operational capacities to make them ready for international accreditation. The government will cover 70% of the cost with a maximum amount of up to €75K. This instrument is expected to create better access for manufacturers to domestic testing reports and product certificates recognized by high-value export markets at more reasonable prices (objective 2).

4) Priority Action 4: Scale-Up Export Finance Facility of Kosovo Credit Guarantee Fund

The Export Finance Facility is a new window under the KCGF that provides specific credit guarantee to financial institutions on loans to export-oriented manufacturing companies that face difficulties meeting collateral requirements. The government plans to top up the initial fund of this window which can expand both the overall volume of guarantees issued and the credit ceilings which can in turn facilitate larger-scale capex investments and productions supply capacity expansions. The window targets firms with less than 250 workers and at least one resident shareholder; the maximum loan amount currently is €3M, while the current maximum guarantee limit is €500K but with new GOK support both of those limits can be expanded. Meanwhile, loan maturity is up to 120 months. Of the total government top-up, 20% will be set aside to guarantee new export-focused financial products (ex. factoring) expected to be developed by financial institutions.

This action is expected to improve access to finance for manufacturing firms and increase investment in manufacturing (objective 1), improve capacity to export (objective 2), and improve green technology adoption (objective 4).

5) Priority Action 5: Upgrade Import Tariff Regime

The tariff regime will be upgraded to introduce a necessary level of protection for selected manufacturing goods, particularly in sub-sectors such as food and beverages. In addition to changing the ad-valorem tariff (the only type of tariff in place currently), other tariffs, such as specific tariffs, compound tariffs, and tariff-rate quota, will be considered. This new regime will not affect goods liberalized under the current FTAs. Countries offering one-sided preferential treatment will be excluded as well. Before the change in the regime takes place, an in-depth analysis will be conducted to identify the manufacturing goods highly dependent on foreign suppliers but with replacement potential.

This action is expected to reduce the high dependency on foreign suppliers of manufacturing goods (objective 5) and allow local producers to grow (objective 1) and compete on equal footing (objective 2).

6) Priority Action 6: Launch a Labor Manufacturing Program

This program will be designed under the Active Labor Market Measures (ALMM) framework. It will include two main actions: workplace internship and wage subsidy. The first action targets the unemployed graduates from high education institutions, VTCs, and other vocational training institutions accredited by the National Qualifications Authority (NQA). The internship duration for each internee will be six months, and the compensation will be equivalent to the minimum wage. The second action also targets the unemployed. The contract for each beneficiary will be at least 12 months. The subsidy will cover 50% of the salary. In both cases, the employer must be a manufacturing company.

The action is expected to increase employment opportunities in manufacturing for the unemployed, particularly among women and youth (objective 3).

7) Priority Action 7: Introduce a Skills Credit Scheme

The scheme will be open for individuals between 18 and 35 interested in getting equipped with industry-relevant skills and knowledge. Through the GOK portal *e-Kosova*, interested candidates can apply for a coupon that covers up to 50% (up to a maximum of €500) of the enrollment fee in a non-public accredited good quality industrial training program of candidate's choice. The coupon will be validated after the beneficiaries complete the program and submit the earned certificate. Priority will be given to women applicants.

The action is expected to create industry-relevant human capital that would contribute to high-value employment opportunities (objective 3) and increased industrial competitiveness (objectives 1 and 3). The preferential treatment for women will help them integrate into the manufacturing labor market.

8) Priority Action 8: Scale-Up EBRD Reboot Program to Support Further Investment in Green Technology

Through commercial banks, EBRD Kosovo currently issues loans of up to €1M to companies seeking to invest in better-performing green technologies and improve their working standards and processes. The recipient companies also benefit from grant incentives worth up to 15% of the loan amount to make their investments more affordable. Several donors support the grant component of the financing instrument. With this action, GOK will scale up the grant part of the program and target manufacturing companies with 50 employees or more.

This action is expected to further support manufacturing companies in upgrading their (green) technology (objectives 1 and 3). Investment in technology is expected to help companies improve productivity, increase output and introduce new quality products (objectives 1 and 2).

9) Priority Action 9: Upgrade Procurement to Create Advantages for Domestic Manufacturing Companies and Support Green Transition

The procurement law will be amended to introduce a transitory price preference of up to 15% for domestically manufactured products and gradually eliminate it within a period of seven years. The preference will not apply to the EU, CEFTA, the US, and EFTA countries. The procurement law will also be amended to incorporate relevant EU Green Public Procurement (GPP) criteria for the following categories of public contracts: food, textile, and furniture.

This action is expected to help domestic companies grow and reach economies of scale (objective 1) and be more competitive vis-à-vis importers (objective 2). On the other hand, green procurement is expected to create real incentives for developing green technologies and products (objective 4).

10) Priority Action 10: Provide Tax Incentives for Investment in Product Innovation

First, a registry of product innovation entities will be developed. To qualify for the registry, the entity must be a start-up with no more than five years of operation, has at least one product innovation project for manufacturing worth at least €25K, has proof of R&D costs, and has at least one employee dealing with innovation. Manufacturing companies with at least 100 employees will be given incentives in the form of a reduction from corporate tax if they invest in one of the product innovation entities. The total cumulative amount of corporate tax reductions cannot exceed €300K.

This action is expected to encourage innovation toward high-value-added products and contribute to scaling these products (objective 5).

8. IMPLEMENTATION, MONITORING, AND REPORTING ARRANGEMENTS

The primary responsibility for implementing the Industrial Policy lies with the Ministry responsible for Industry. Depending on objectives and activities, the line ministries, agencies, and other relevant institutions in Kosovo will be involved. The Minister responsible for Industry will establish the Implementation Committee for the IP Strategy to ensure sound and effective coordination between institutions. This Committee will consist of institutions that participated in the strategy's working group. The Ministry responsible for Industry, as the lead institution, will organize the Committee's functioning, set its work plan, and call the Committee's meetings. It can also establish sub-groups on specific tasks.

The Ministry responsible for Industry has the task of producing a Progress Report every year. This report aims to monitor the yearly achievements of the various activities and the on-time performance of the targets. The annual report with the key achievements shall be made public.

The IP Strategy will undergo interim evaluation in 2026 to assess the progress against the mid-term targets and to evaluate the appropriateness of the strategic and specific objectives. The final evaluation will be done in 2030. Both evaluations will be independent, and the Ministry responsible for Industry will seek external support.

9. BUDGETARY IMPACT

This section of the strategy presents that data that relate to the cost of implementation of the Strategy for Industrial Development and Business Support for the 2023-2025 period covered by the Action Plan. Any mid-term review of SIDBS 2030 should include the cost of actions for the next period.

9.1. General Assessment

Budgetary Impact Assessment (BIA) of the strategy is based on the estimation of the cost of implementation of the SIDBS 2030 Action Plan 2023-2025. The BIA approach is used to ensure a close link between the planning of the needs and resource projections for medium term budget planning. The bottom-up approach was used to calculate the cost of the strategy and outputs defined in the action plan were of significant importance to calculation the implementation cost.

SDIBS 2030 Strategic Objectives	Approx. Cost 2023-2025 (€)
SO1: Expansion of Industrial Production	26,571,495
SO2: Reduction of Industrial Trade Deficit	16,031,854
SO3: Generation of Comprehensive and Better Employment	12,490,500
SO4: Facilitation of Circular and Green Industry	13,082,000
SO5: Maximization of Domestic Value Addition	927,000
Total	69,102,849

The table above shows that SO1: Expansion of Industrial Production has the highest cost, reaching 38.33% of the total cost, followed by the SO2: Reduction of Industrial Trade Deficit with 23.06% of the total. The strategic objectives are broken down into 15 specific (sub)objectives, the most costly ones are as in following:

- Specific Objective 1.2: Increase of investments in production that contains two capital projects with total estimated cost of 17 milion, one being for finalization of industrial parks and the other project for construction of green industrial park, with 25.45% of the total estimated cost of the strategy.
- Specific Objective 2.1: Support enterprise to exploit their export potential with includes an action to contribute €10 mil. in Kosovo Credit Guaranty Fund, aiming at supporting 300 companies by providing access to financial products for exporting, and other support measure for promotion of export, with arround €5.41 or 22.16% of the total estimated cost of the strategy for 2023-2025 period.
- Specific Objective 4.3: Support technological improvement with focus in incresing the energy and materials efficiency where €10 mil. euro are foreseen for investment in green technology, with at leats 80 companies benefiting from such support.

With regards to impact by economic categories, the implementation of strategy includes resource that are of human nature, trainings, workshops and conferences, that include fairs;

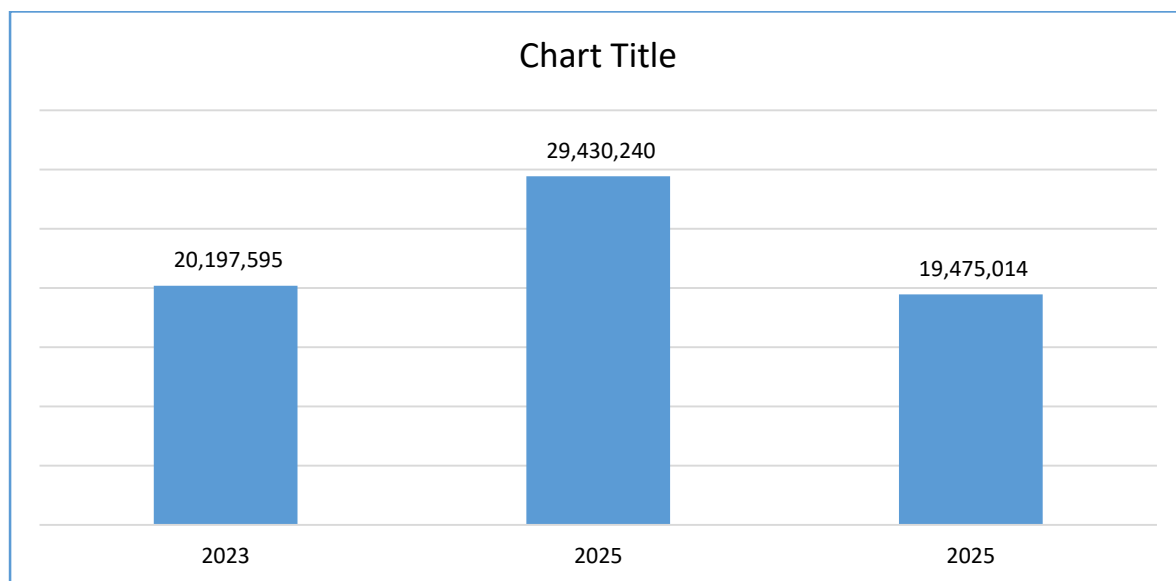
profesional expertise from local companies, supplies and equipment, as well as teknichal assistance and foreign grants. Also, to achieve the strategic objectives, financial support by means of subsidies and capital expenditures which are the largest consumers of financial resources. The table below provides the costs for each specific objectives by economic classification.

Strategic Objectives	Salaries and Wages	Trainings/ Conferences	Professional Services	Supplies and Equipment	Grants and Technical Assistance	Financial Support Subsidy /	Capital Expenditure	Gjithsej
Ease Access to Finance for Domestic Producers	57,600	-	100,000	6,400	-	-	-	164,000
Increasing Investment in Manufacturing	-	-	60,000	30,000	25,000	-	18,961,895	19,076,895
Accelerate Digitalization in Manufacturing	-	-	-	-	-	4,080,000	-	4,080,000
Increase Quality and Internationally Recognized Product Certification		12,600			58,000	3,180,000	-	3,250,600
Support Enterprises to Exploit their Export Potential	69,854	6,000	294,000	90,000	54,000	14,900,000	-	15,413,854
Diversification of Export Markets	-	-	-	-	30,000	300,000	-	330,000
Replace Imports of Intermediate and Final Products by Local Production and Promotion of Local Products.	-	-	224,000	-	44,000	20,000	-	288,000
Enhance Qualification and Certification of Technical Workforce and Company Managers.	-	-	150,000	-	455,500	11,510,000	-	12,115,500
Promoting Decent Job Creation in Industries	-	-	-	-	-	-	-	-
Integration of Women and Youth in Labour Market	-	75,000	-	-	300,000		-	375,000
Support Enterprises to Increase Recycling and Circularity in Manufacturing	-	32,000	-	-	50,000	3,000,000	-	3,082,000
Support Production and Consumption of Green Products	-	-	-	-	-	-	-	-
Support Technological Upgrading with Focus on Increasing Energy and Material Efficiency	-	-	-	-	-	10,000,000	-	10,000,000
Increase Share of Domestic Inputs in Production	-	-	100,000	-	-	-	-	100,000
Improve Product Innovation Towards Higher Value-Added Products	-	-	-	30,000	157,000	-	-	187,000
Strengthening Linkages with Domestic Industry-Related Service Providers	180,000	-		-	.	460,000	-	640,000
Total	307,454	125,600	928,000	156,400	1,173,500	47,450,000	18,961,895	69,102,849

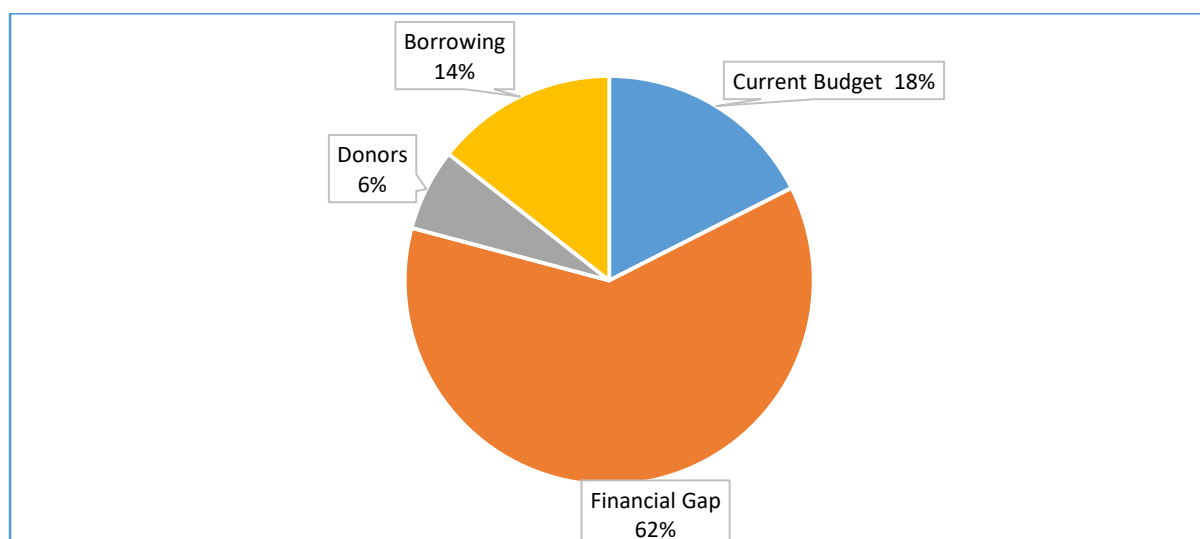
9.2. Financing Sources

The cost of strategy is estimated for 2023-2025 period, however the financing needs may exceed this period. This is based on the implementation trend of capital projects that comprise 27.27% of the total cost of the strategy. Other actions involve different resources that do not represent risks as is the case with capital expenditure category.

Taking into account the current 2023-2025 budget framework, the annual financing need for the same period is as follows:



The relevant structure will plan their needs for budget financing through relevant budget organizations, programs and budget lines in the Medium Term Expenditure Framework and annual budget preparation process.



The above figure shows the financing sources of the Strategy for Industrial Development and Business Support for year 2030. It shows that, during 2023-2025 period, €12.19 mil. will be funded under the current budget framework, €10 million are planned to be borrowed, and €4.23 mil. are expected to be funded by donors. The financial gap is €42.68 mil. or 62% of the total SIDBS 2030 cost for 2023-2025 period.

10. ANNEXES

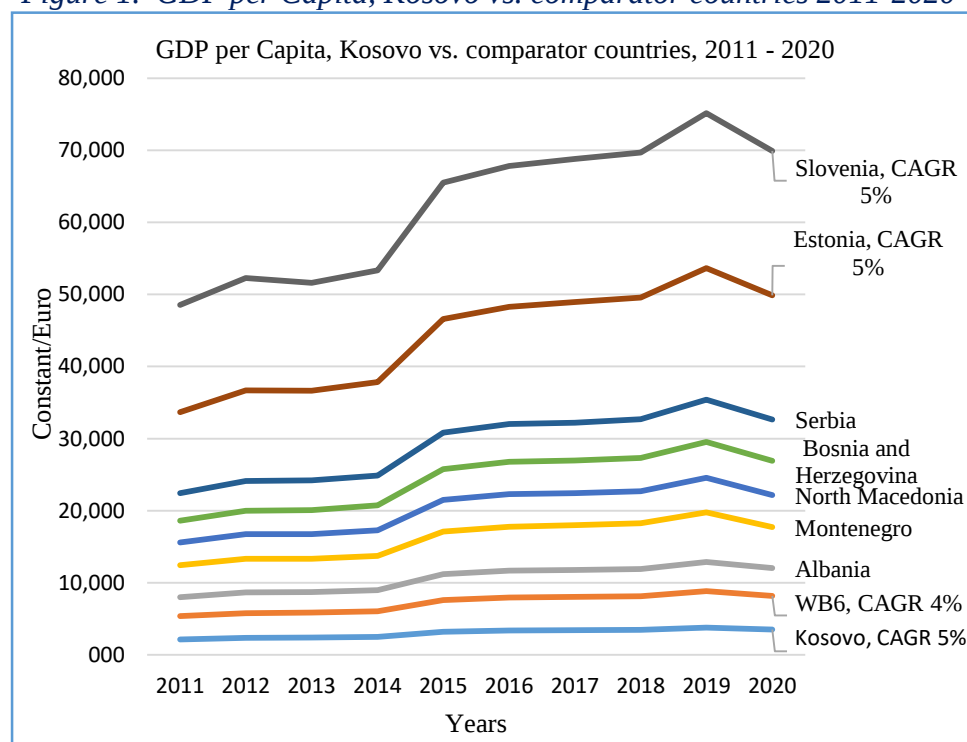
Annex 1

This appendix provides an analysis of the problem on the performance of the production sector of Kosovo during the last 10 years in three main dimensions, in the economic, social and environmental dimensions, which in turn provides important instructions on how to strategically orient the industrial policy of Kosovo.

The processing and analysis of these graphs was done according to the EQuIP method, comparing Kosovo with the countries of the Western Balkans as well as Estonia and Slovenia as model countries. The calculation of the indicators in the presented graphs are: GDP-Gross Domestic Product, trade balance, employment, wages and the use of electricity, with comparative countries from several perspectives.

Economic Dimension

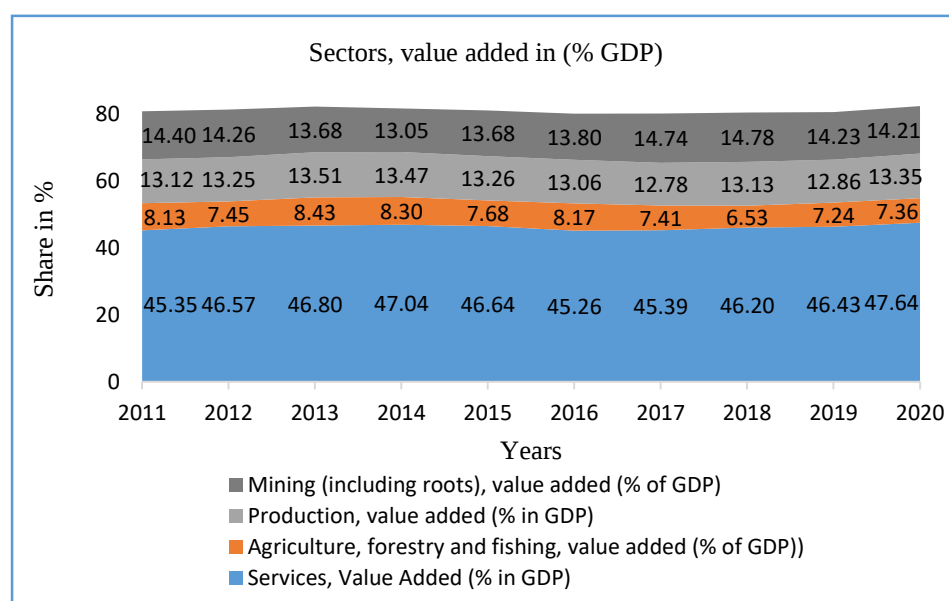
Figure 1. GDP per Capita, Kosovo vs. comparator countries 2011-2020



Kosovo has the **lowest level of GDP/capita** in the region with EUR 3,500 in 2020, which is EUR 1,100 lower than the WB6 average. The gap has not closed, as Kosovo grew in GDP/capita terms **only slightly faster(5%)** compared to WB6 (4%).

Source: WDI, (processed by DI/DIP staff)

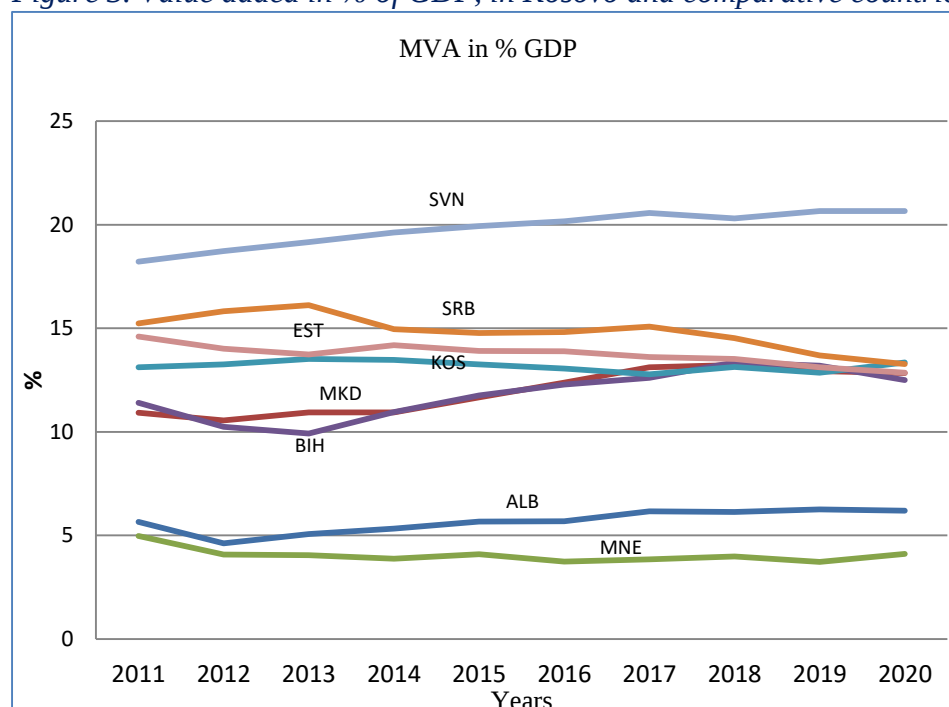
Figure 2. Lack of structural transformation in Kosovo measured by the future value of sectors as % of GDP



Kosovo **does not** exhibit any structural transformation. Contribution of the manufacturing sector **remained stable** over observation period. Manufacturing is **not** the driver of economic development but grows as fast as the overall economy

Source: WDI, (processed by DI/DIP staff)

Figure 3. Value added in % of GDP, in Kosovo and comparative countries 2011-2020

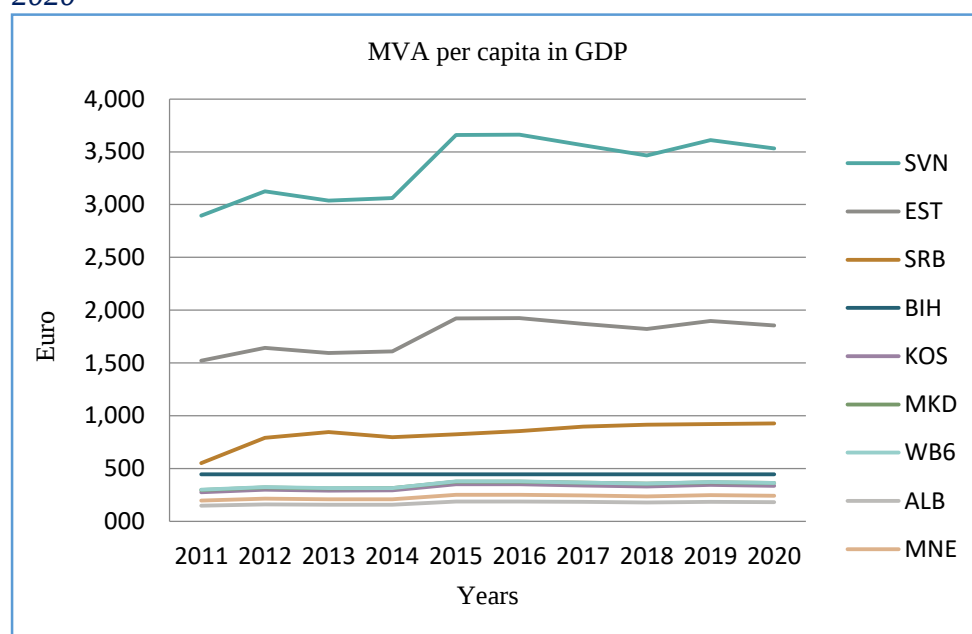


Higher level of industrialisation in Kosovo, (13%) than WB6 average (10%)

But as overall GDP per capita is lower, also the manufacturing capacity is much lower even with a high share of Manuf/ GDP

Source: WITS, KSA – (prepared by DI/DIP staff)

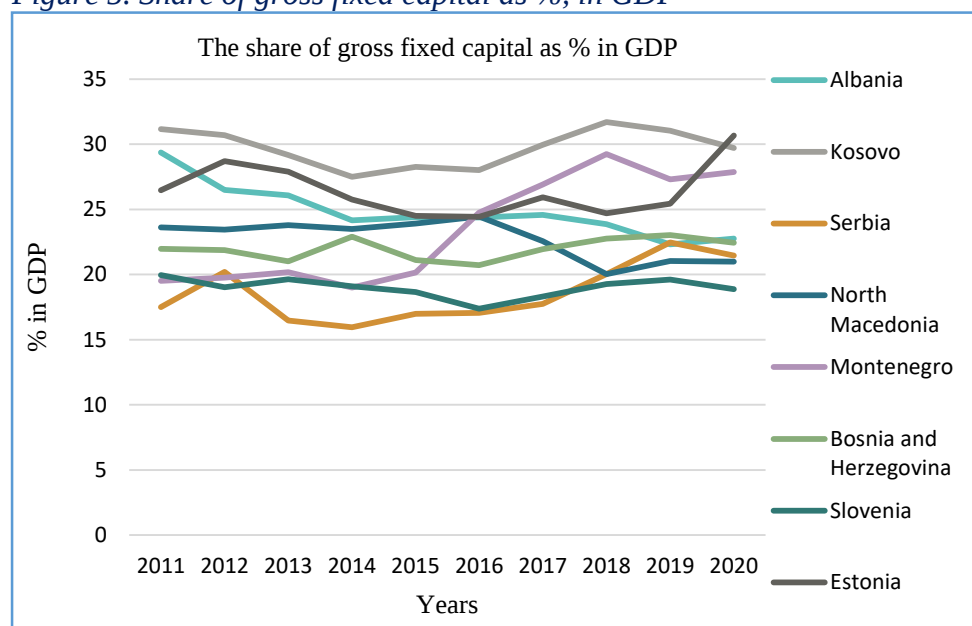
Figure 4. Value added per capita in GDP, in Kosovo compared to other countries, 2011-2020



Manufacturing capacity (EUR 338 in 2020) below the WB6 average (EUR 365). Only Albania and Montenegro have a lower capacity. Slovenia in comparison has an approximately 10 times higher production capacity than Kosovo.

Source: WITS, KSA – (prepared by DI/DIP staff)

Figure 5. Share of gross fixed capital as %, in GDP



Kosovo exhibits a **high level of investment** in new machinery and equipment measures. Kosovo reaches a GFCF of 30% of GDP in 2020, compared to 24% WB6 regional average in 2020, **which is significant.**

Source: WDI, UNIDO, KAS – (prepared by DI/DIP staff)

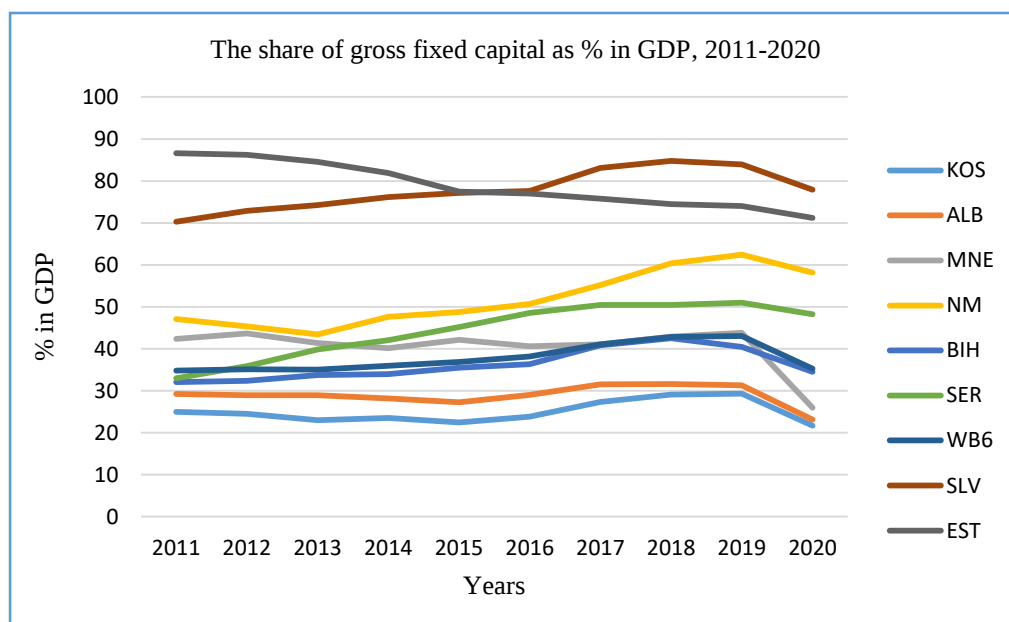
Table 1. Labor productivity

Countries	GDP per worker, 2015	GDP per worker, 2020	MVA per worker, 2015	MVA per worker, 2020
ALB	8,943	7,760	7,911	7,159
BIH	14,077	12,292	13,573	12,964
MNE	15,553	14,409	13,303	11,553
MKD	11,651	10,589	8,756	8,141
SRB	11,001	9,860	14,214	11,240
SVN	41,757	37,393	43,199	45,759
KOS	16,379	13,399	23,949	22,721
EST	29,309	26,857	26,628	28,842
WB6	11,621	10,308	12,875	10,990

Labor productivity in Kosovo's manufacturing sector has **dropped**, but it appears to be significantly better than regional peers in **relative terms**.

Source: WDI, UNIDO, KAS – (prepared by DI/DIP staff)

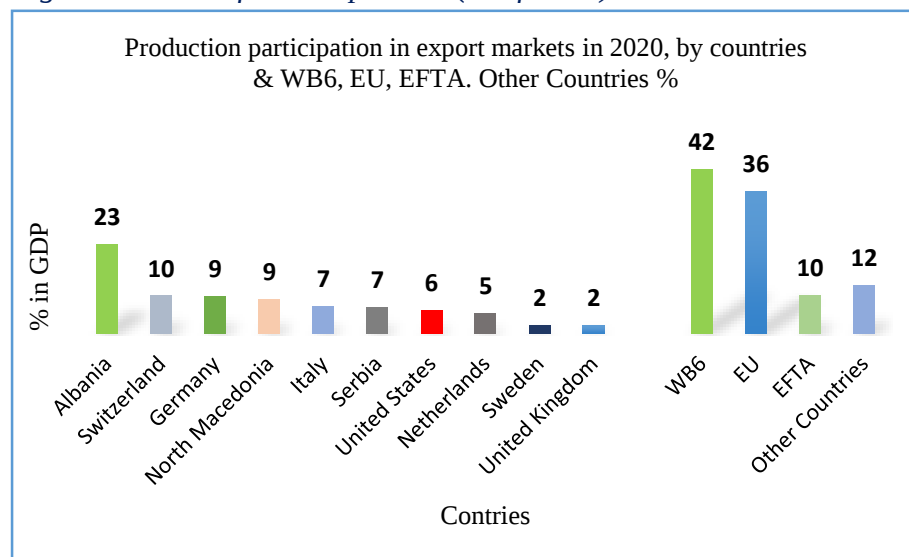
Figure 6. Share of total exports in (% of GDP), 2011-2020



Huge trade deficit, export import ratio 1:9. Kosovo has **lowest share** of exports/GDP. Majority of exports are manuf. goods-> need to boost them.

Source: WDI, (processed by DI/DIP staff)

Figure 7. Share of total exports in (% of GDP)

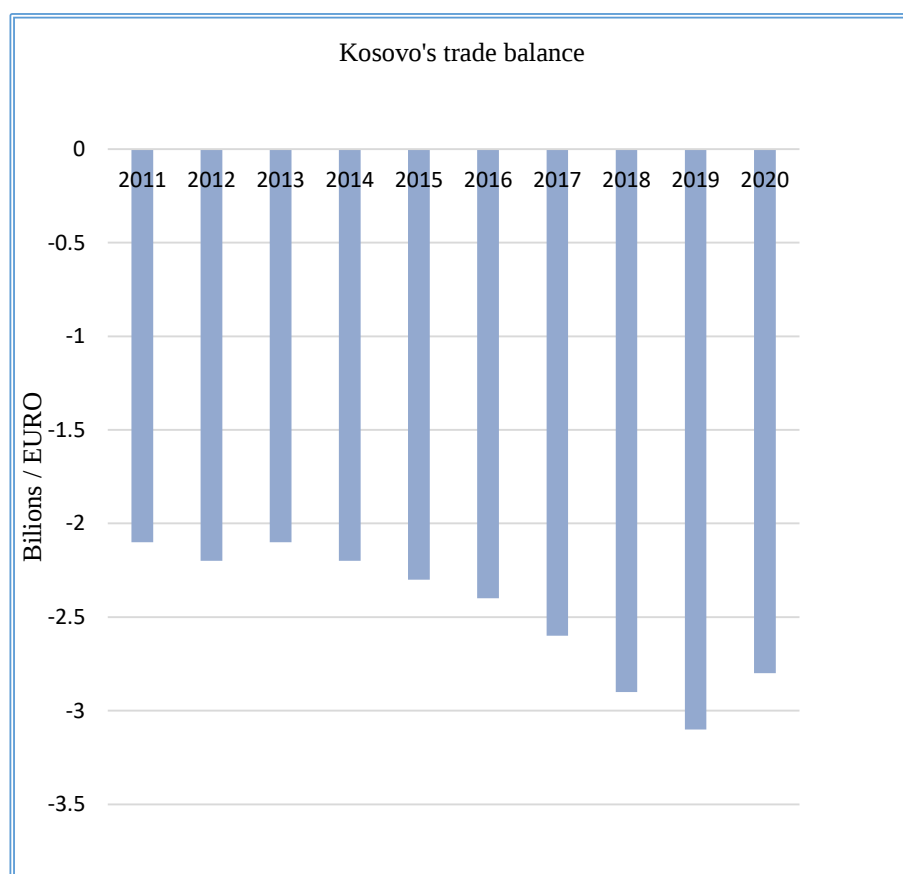


Source: KAS – (prepared by DI/DPI staff)

According to the data of 2020, the most popular markets for Kosovo's products were grown in WB6 countries, then EU countries, etc.

According to these data, the Kosovo market is small and diversified in the vicinity of 10 countries that are considered large markets.

Figure 8. Kosovo's trade balance in EURO



Source: Statistical Yearbook of Kosovo 2021 – (prepared by DI/DIP staff)

The trade balance shows the ratio between imports for the period of one year. Kosovo in 2020, if we express in values, exported 474,884 thousand euros, and imported 3,296,635 billion euros. The main data are evident that from 2011-2020, Kosovo has never had a positive trade balance but always a negative balance, the level of imports and exports in Kosovo has shown a slight increase of 14.4% of the coverage of imports with exports. from 2020, to 16.1% in 2021.

Social Dimension

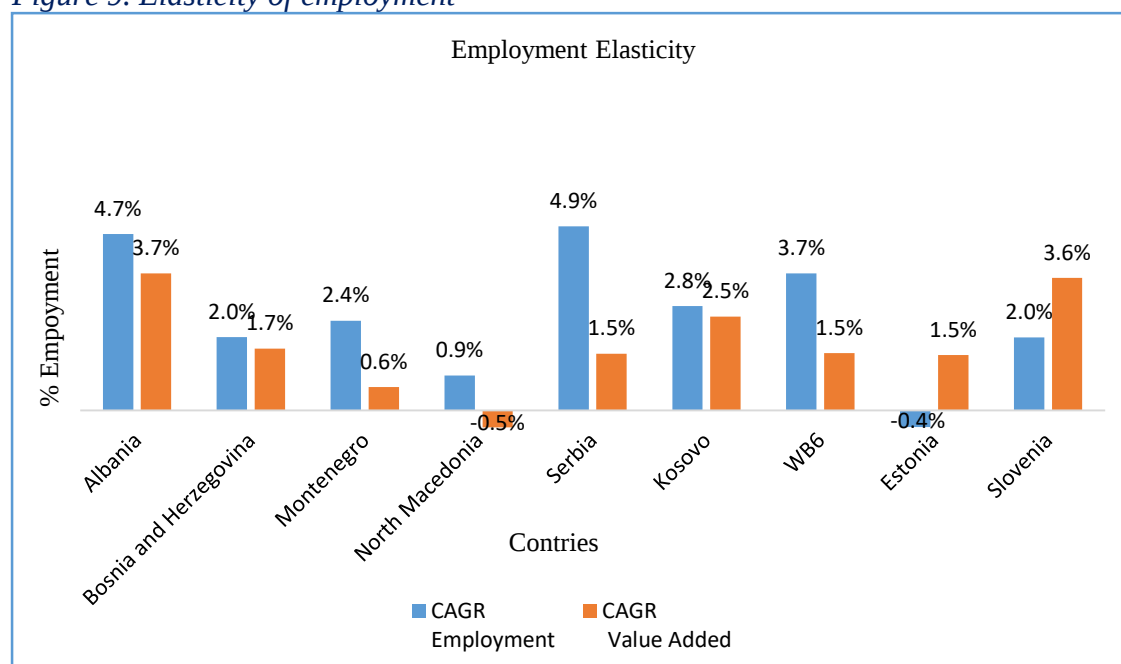
Table 2. Employment Elasticity compared to other countries

Countries	CAGR Employment	CAGR Value Added	EE	Classification
Albania	4.7%	3.7%	1.29	Employment-led
Bosnia and Herzegovina	2.0%	1.7%	1.18	Employment-led
Montenegro	2.4%	0.6%	3.84	Employment-led
North Macedonia	0.9%	-0.5%	(2.04)	Jobless growth
Serbia	4.9%	1.5%	3.25	Employment-led
Kosovo	2.8%	2.5%	1.11	Employment-led
6WB	3.7%	1.5%	2.39	Employment-led
Estonia	-0.4%	1.5%	(0.30)	Jobless growth
Slovenia	2.0%	3.6%	0.55	Productivity-led

Growth model of the manuf. sector = “employment-led”
 Mainly driven by increased labor productivity.
 Indirect job creation disregarded here.

Source: WDI, UNIDO, ILO, KAS – (prepared by DI/DIP staff)

Figure 9. Elasticity of employment



Source: WDI, UNIDO, ILO, KAS – (prepared by DI/DIP staff).

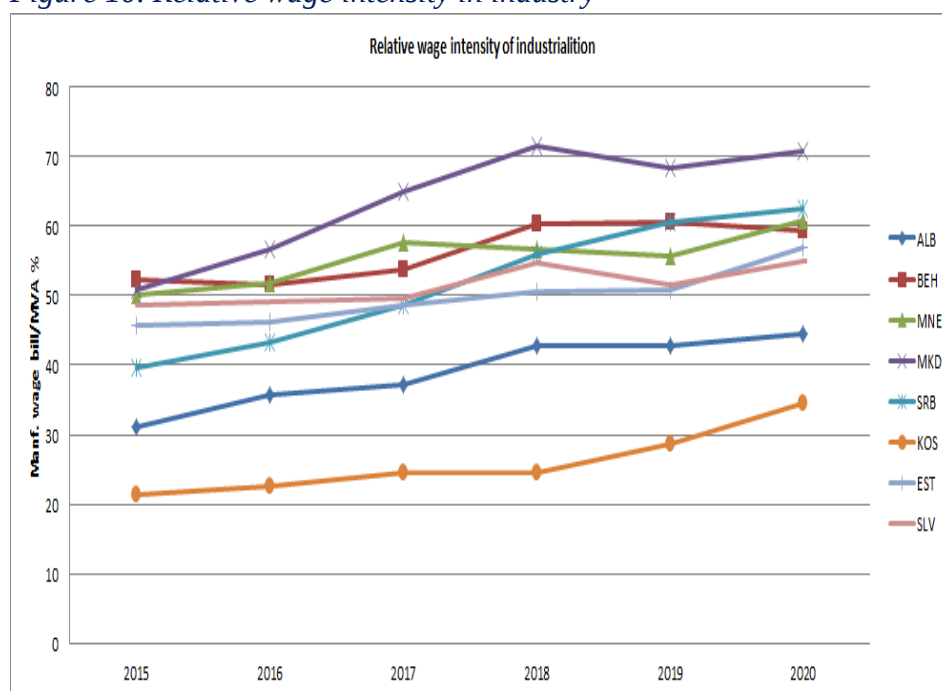
Table 3. Wages

Countries	Wage Growth Rate	Productivity Growth rate
Albania	10.10%	-1.01%
Bosnia and Hercegovina	3.81%	-0.30%
Estonia	3.96%	-1.74%
Montenegro	5.17%	-1.38%
North Makedonia	9.54%	-3.26%
Serbia	11.10%	-0.28%
Slovenia	5.21%	-0.15%
Kosovo	5.65%	1.57%

Increasing labor productivity **positively translate** into growing wages in manufacturing. While productivity grew annually by 1.6%, wages increase by 5.6%.

Source: WDI, UNIDO, KAS – (prepared by DI/DIP staff)

Figure 10. Relative wage intensity in industry

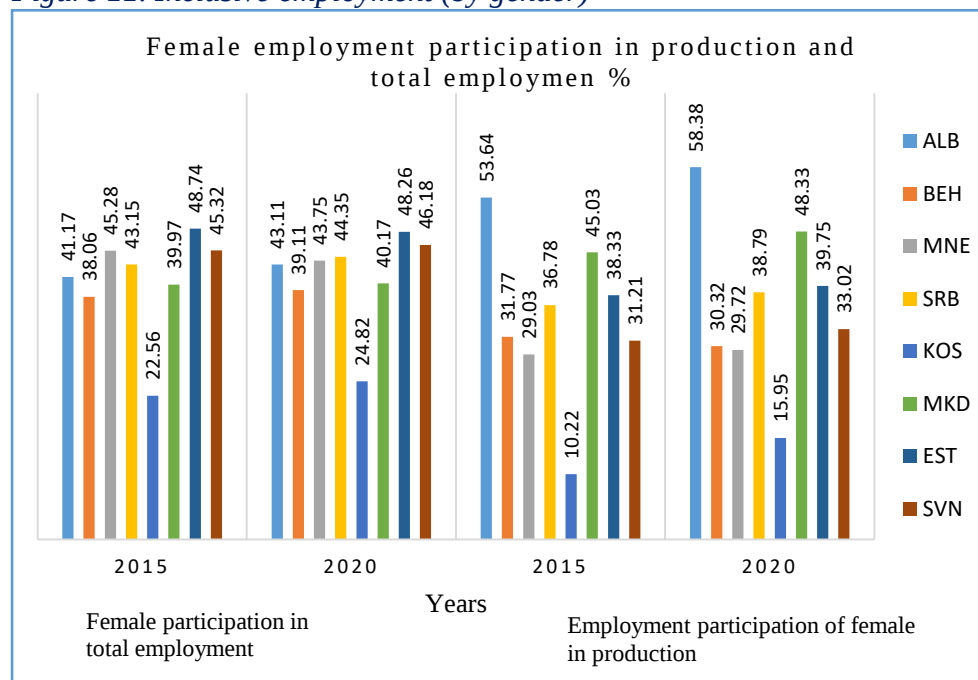


Relative wage intensity has been increasing from 21% in 2015 to 35% in 2020.

With a growing manufacturing sector, the total manufacturing wage bill grown by more than 10% during the observation period.

Source: WDI, UNIDO, KAS – (prepared by DI/DIP staff)

Figure 11. Inclusive employment (by gender)

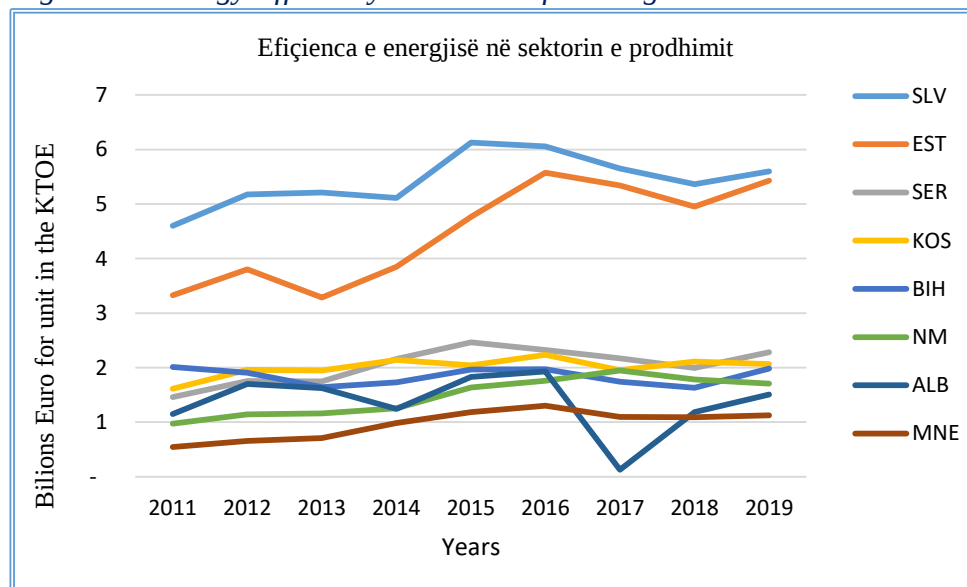


By far **lowest female participation** in labor market and in particular in manufacturing. Negative trend from 2011 to 2019.

Source: ILO - Modeled Estimates, KAS-(processed by DI/DIP)

Environmental dimension

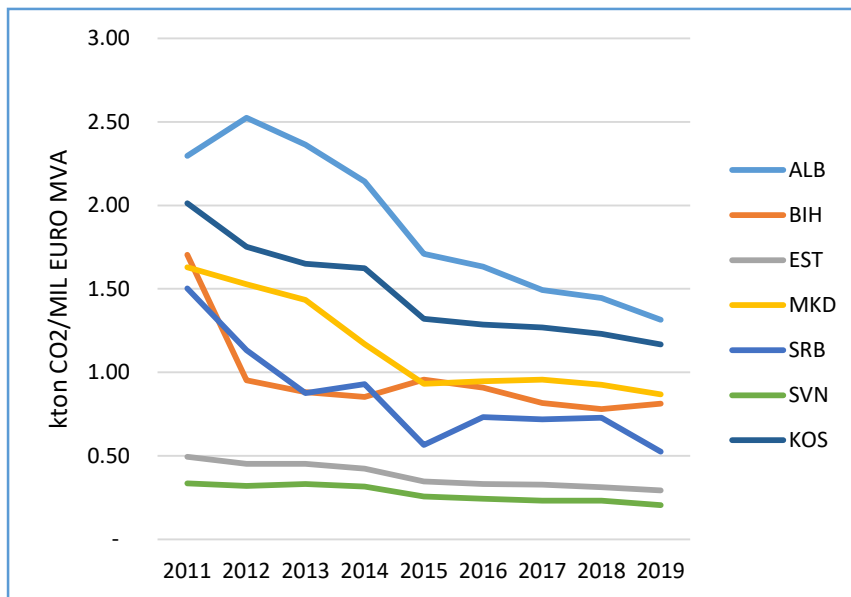
Figure 12. Energy Efficiency in the manufacturing sector



In comparison to WB6 countries, **Kosovo generated higher economic value** (EUR 2.1M) in manufacturing per KTOE, with only Serbia generating more (EUR 2.3M).

Source: International Energy Agency IEA, (prepared by DI/DIP staff),

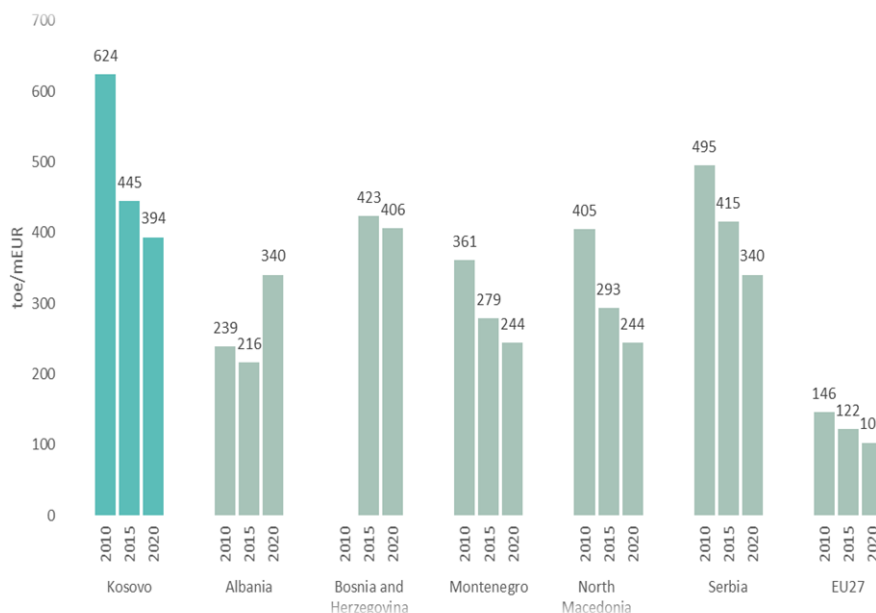
Figure 13. CO2 emissions, per 1 million euros in production value (MVA)



Kosovo's CO2 emissions in manufacturing sector **one of the lowest** in WB6 (1.1M /Ton per EUR 1Mil. in MVA), with Serbia lowest (0.6M). But Slovenia and Estonia with **significantly less emiss**

Source: International Energy Agency IEA, (prepared by DI/DIP staff)

Figure 14. Finished Intensity



Kosovo's energy intensity (amount of energy used to produce one GDP unit), **has been improving significantly** over time. But remains well below EU average.

Source: International Energy Agency IEA, (prepared by DI/DIP staff)

Annex 2

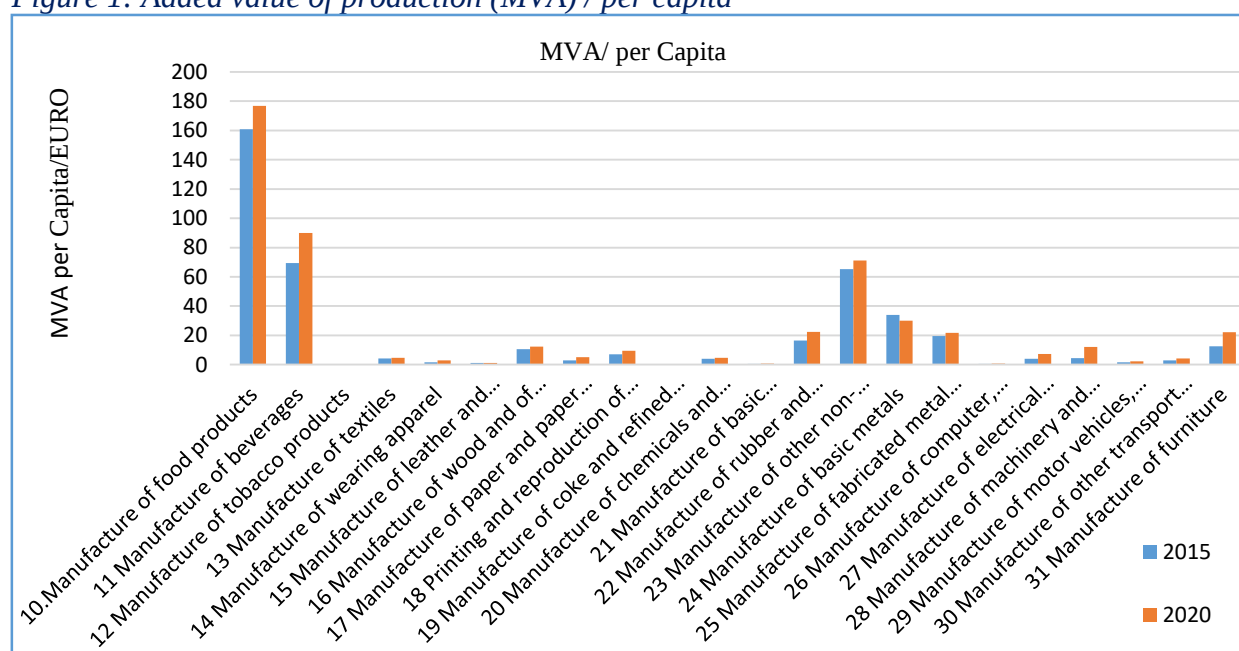
This appendix provides a problem analysis on the performance of Kosovo's sub-sectors in three main dimensions, the economic, social and environmental dimensions of Kosovo's manufacturing sector over the last 10 years, which helps to identify productive sub-sectors that have higher potential for economic development.

The processing and analysis of the Balkans was done according to the EQuIP rules, comparing Kosovo with the Western country as well as Estonia and Slovenia as model countries. The calculation of the indicators in the graphs of the works are: other values are produced, trade, employment, wages and their consumption is compared with several perspectives.

Based on the comprehensive of the sub-sectors, to give their possible contribution to the policy of some industrial objectives, according to the graphs, are responsible for the sectors of the analyzed analysis to be evaluated as in addition: Production of Food Products, Their Production . Beverages, Manufacture of Textiles, Clothing and Leather, Manufacture of Wood and Furniture, Manufacture of Rubber and Plastic Products, Manufacture of Non-Metallic Mineral Products, Manufacture of Metals and Manufacture of Fabricated Metal Products.

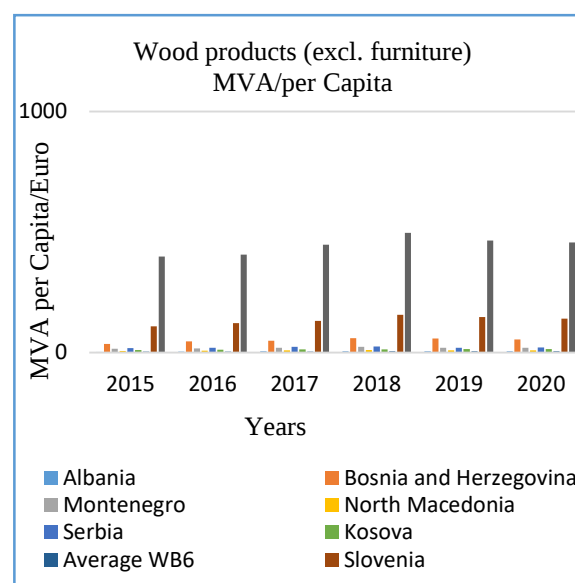
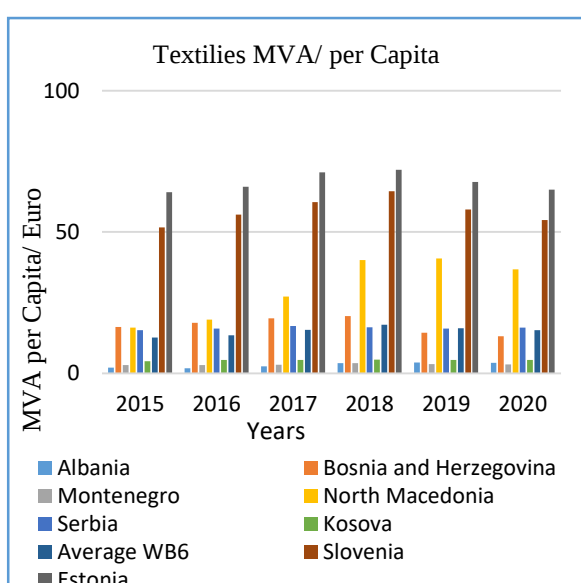
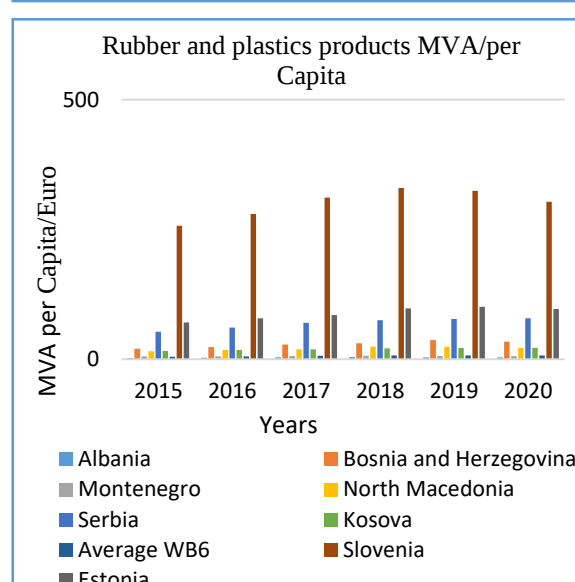
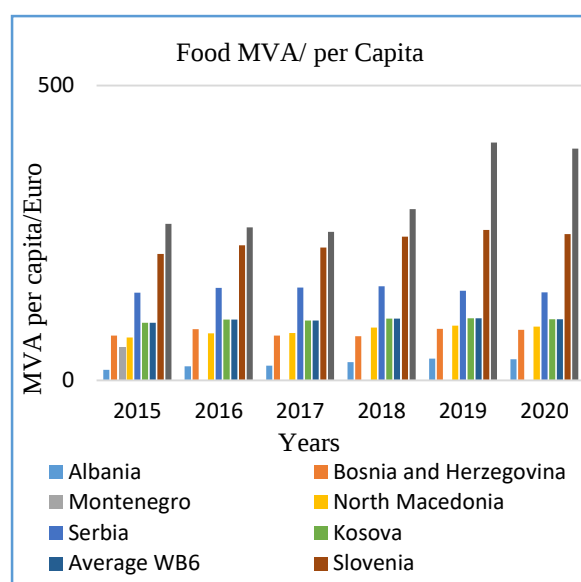
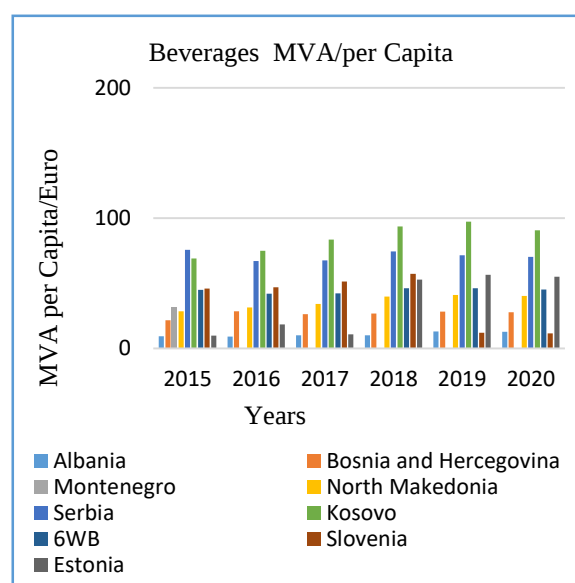
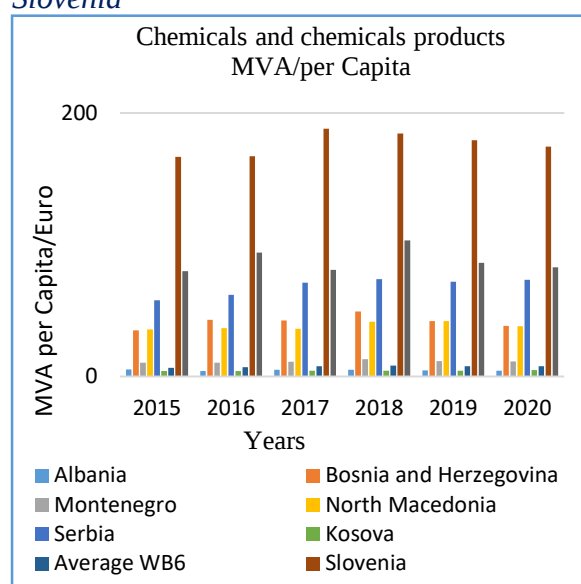
Economic dimension

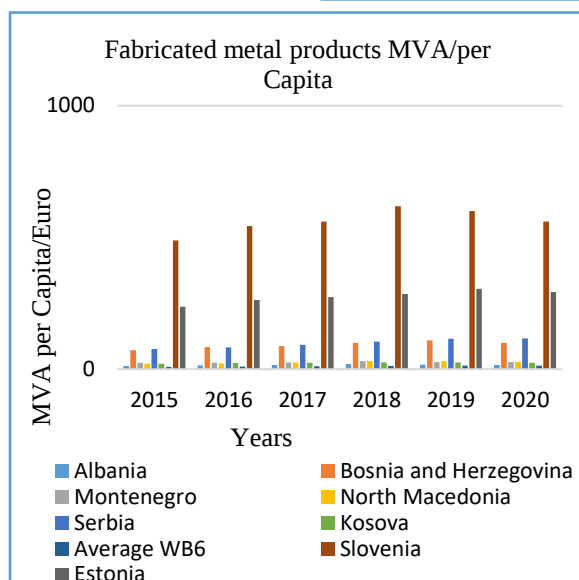
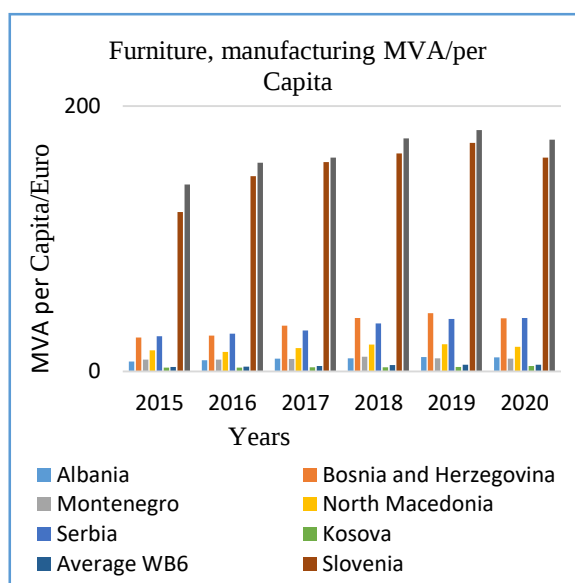
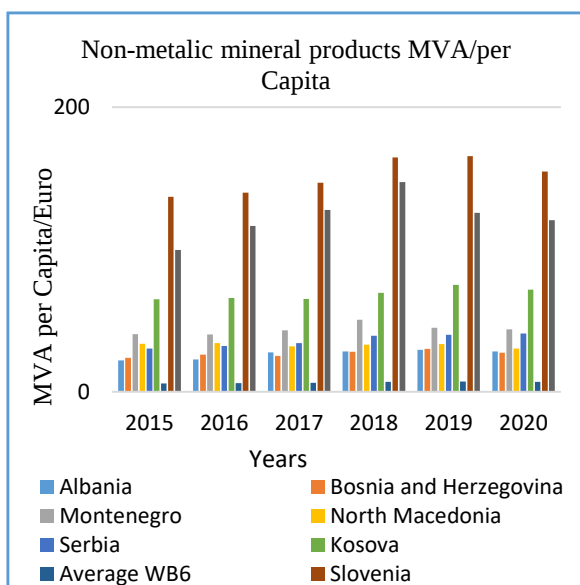
Figure 1: Added value of production (MVA) / per capita



Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

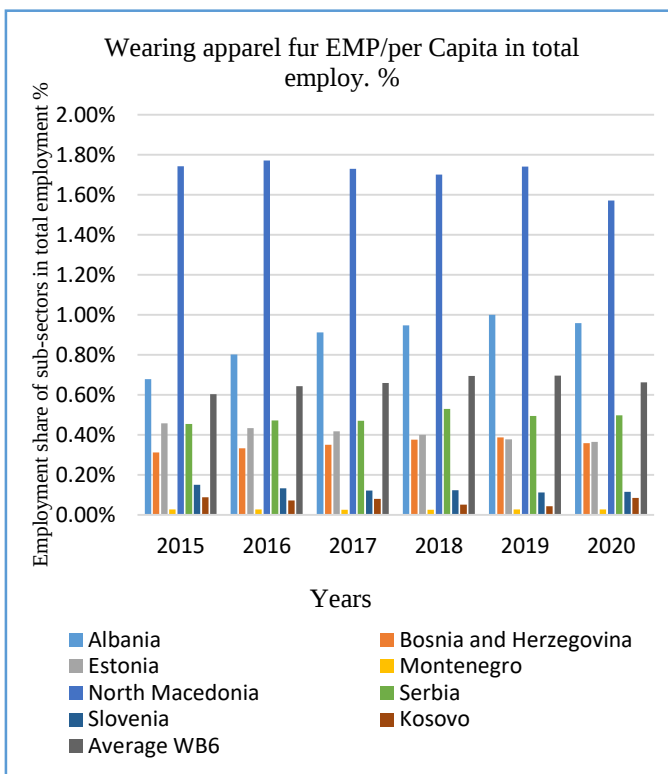
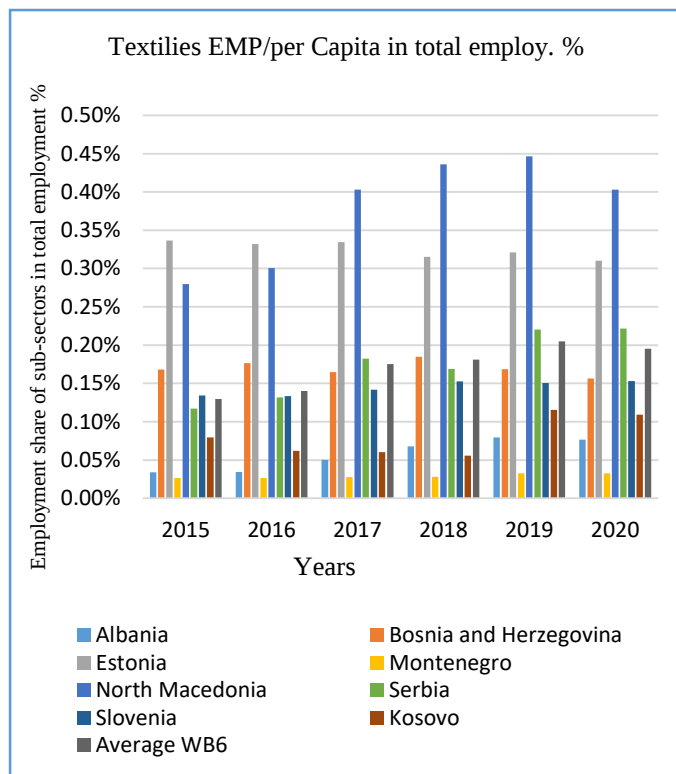
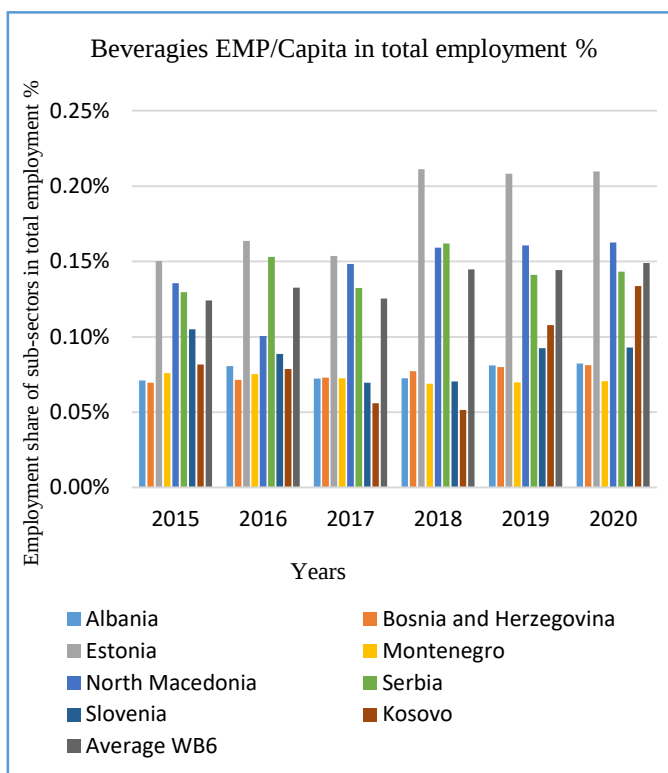
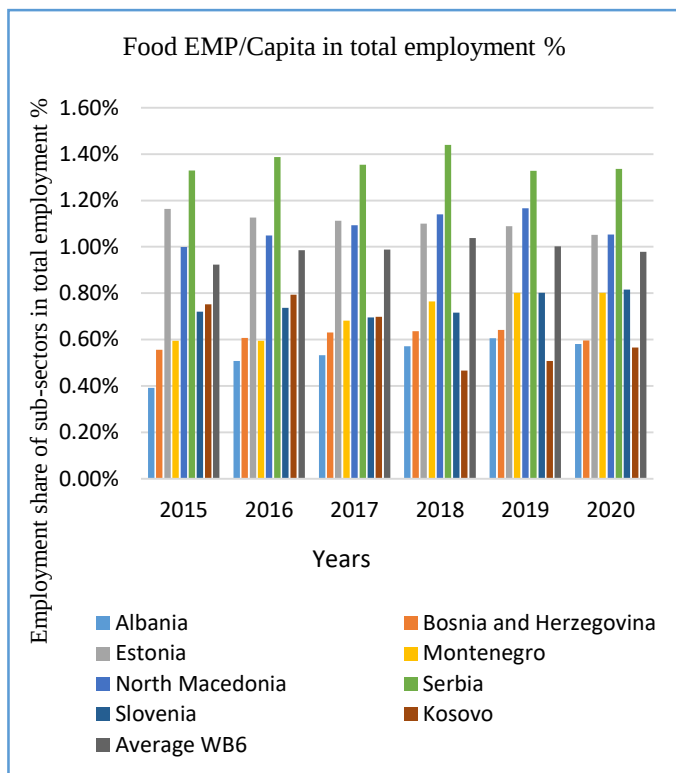
Figures 2-13. GDP/per capita - by sub-sector, compared to 6WB countries, Estonia and Slovenia

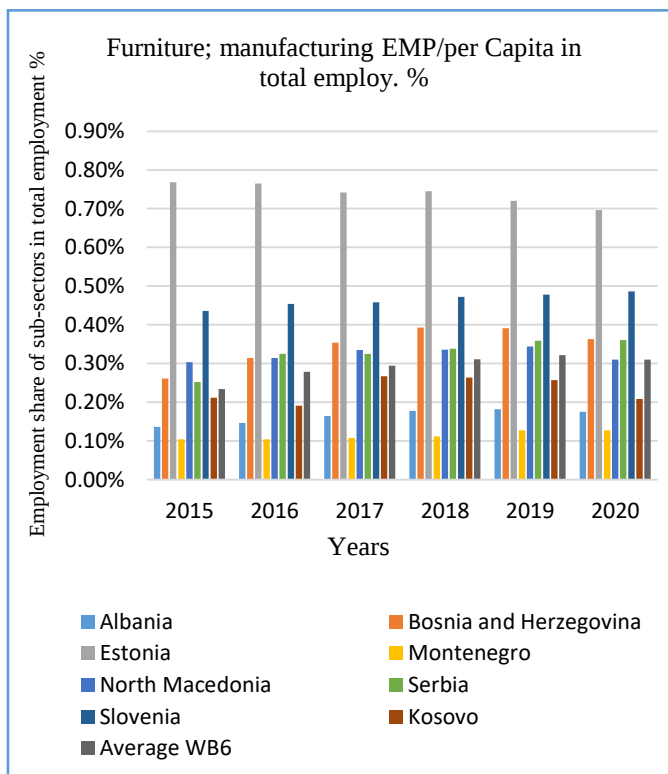
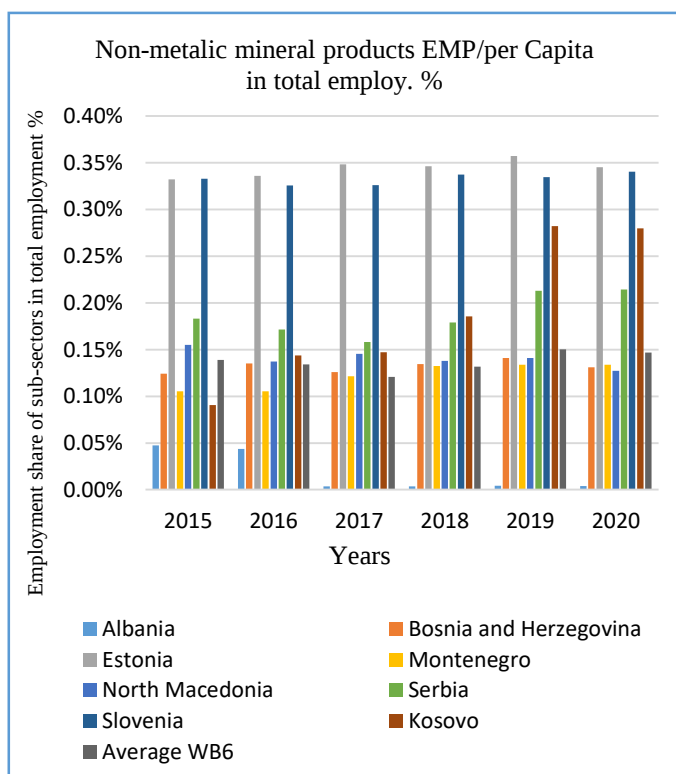
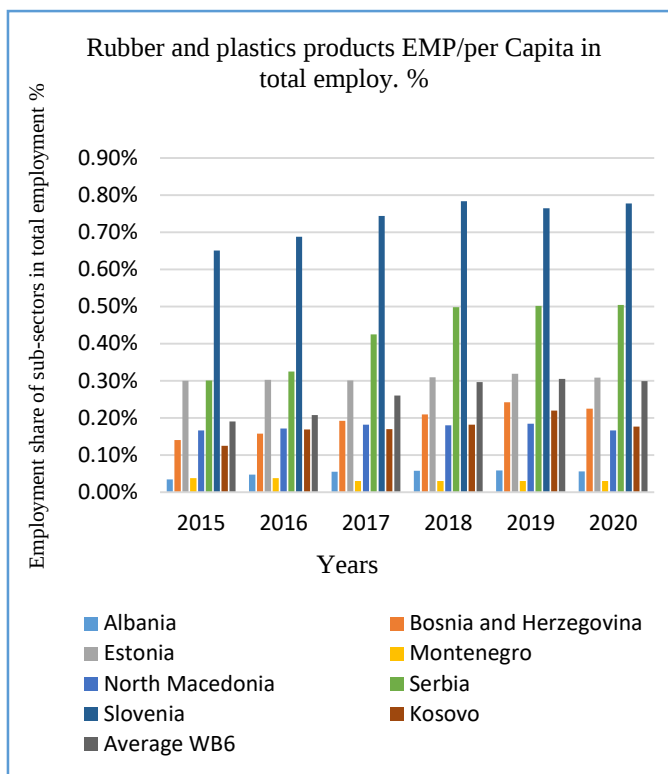
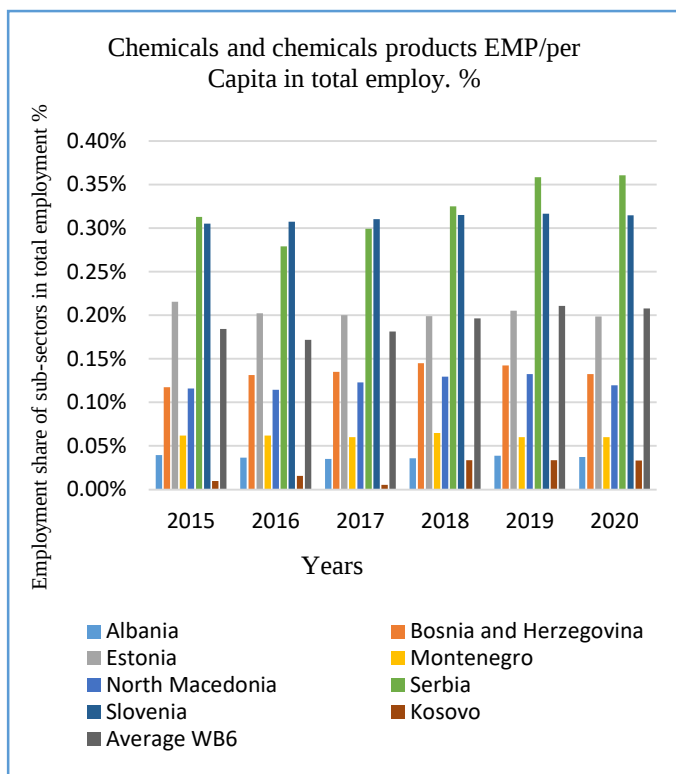




Source: MVA from UNIDO, INDSTAT 4 2022, ISIC Revision 4,(prepared by DI/DIP staff)

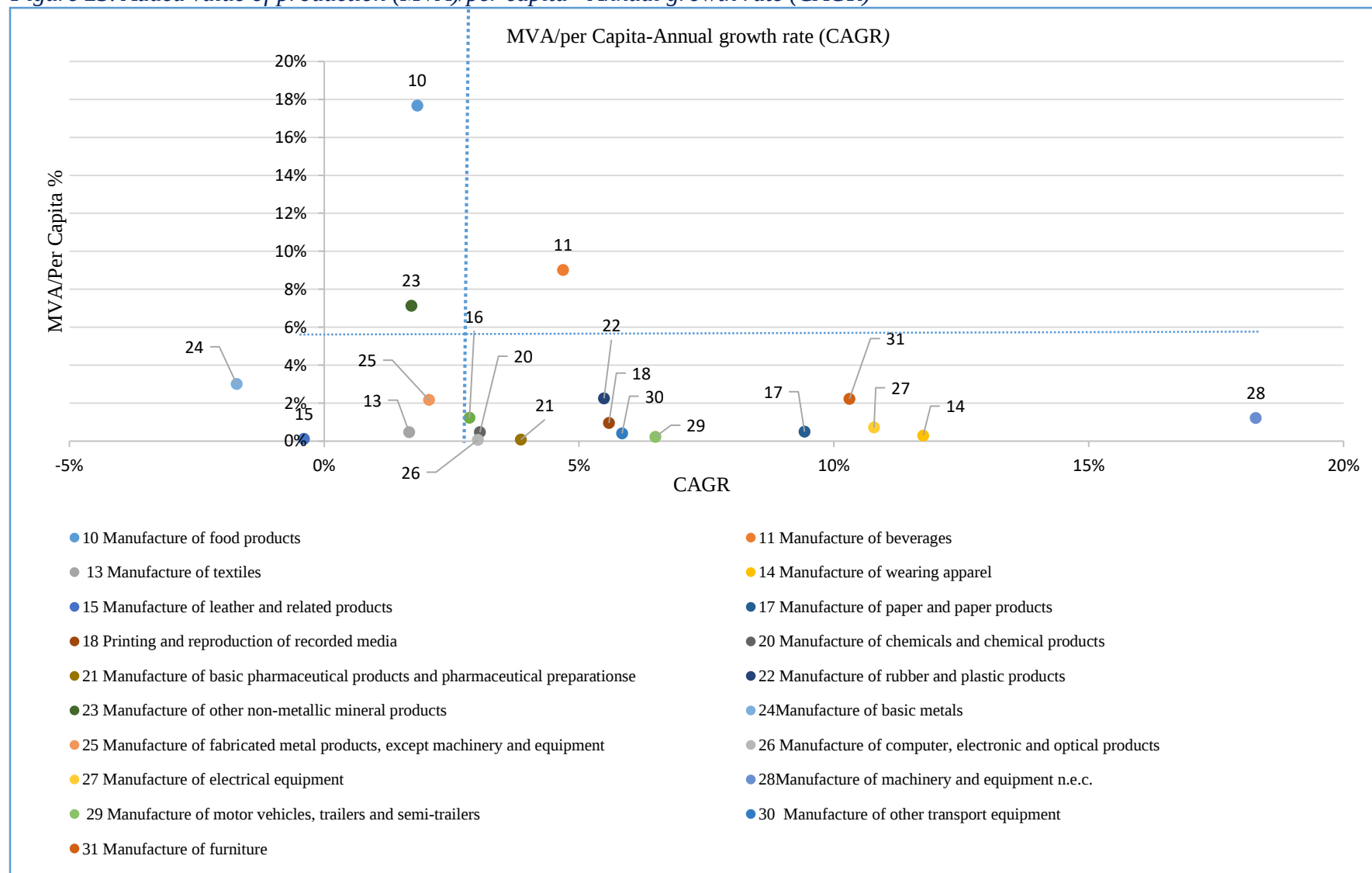
Figures 14-22. Employment by sub-sector, compared to 6WB countries, Estonia and Slovenia per capita.





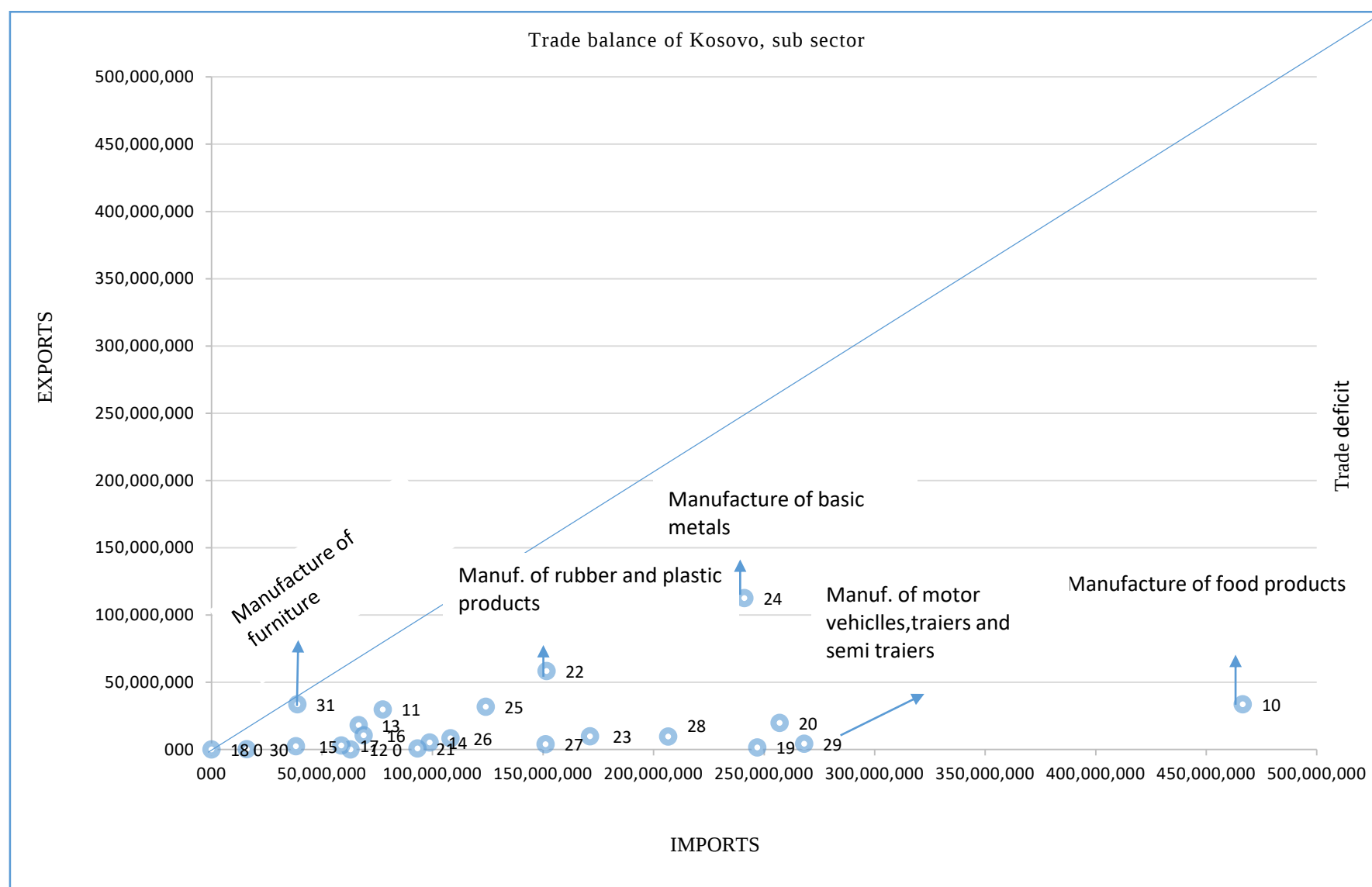
Source: UNIDO, Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 23. Added value of production (MVA)/per capita - Annual growth rate (CAGR)



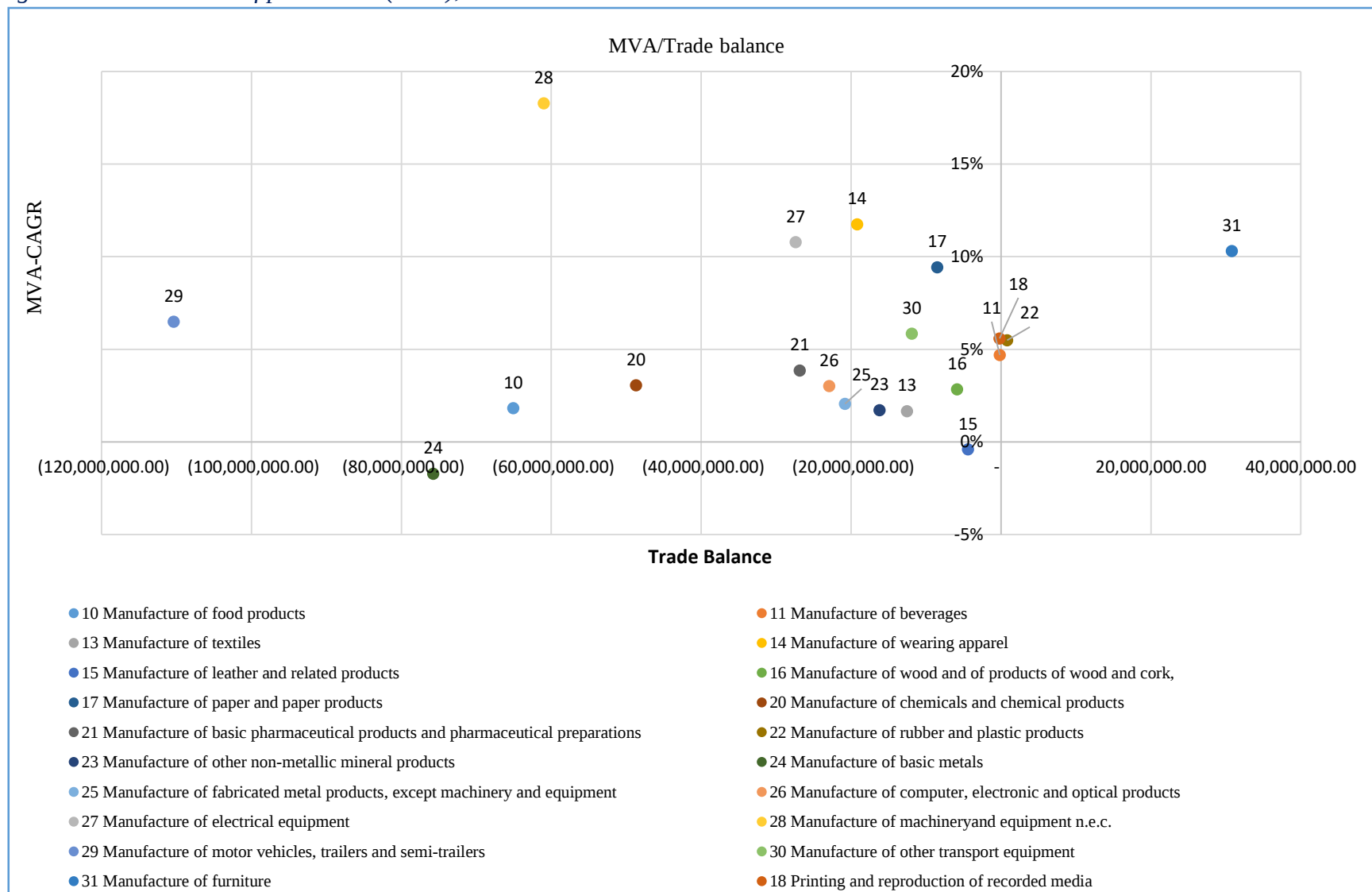
Source: MVA from UNIDO, INDSTAT 4 2022, ISIC Revision 4 (prepared by DI/DIP staff)

Figure 24. Trade balance of Kosovo, by sub-sector



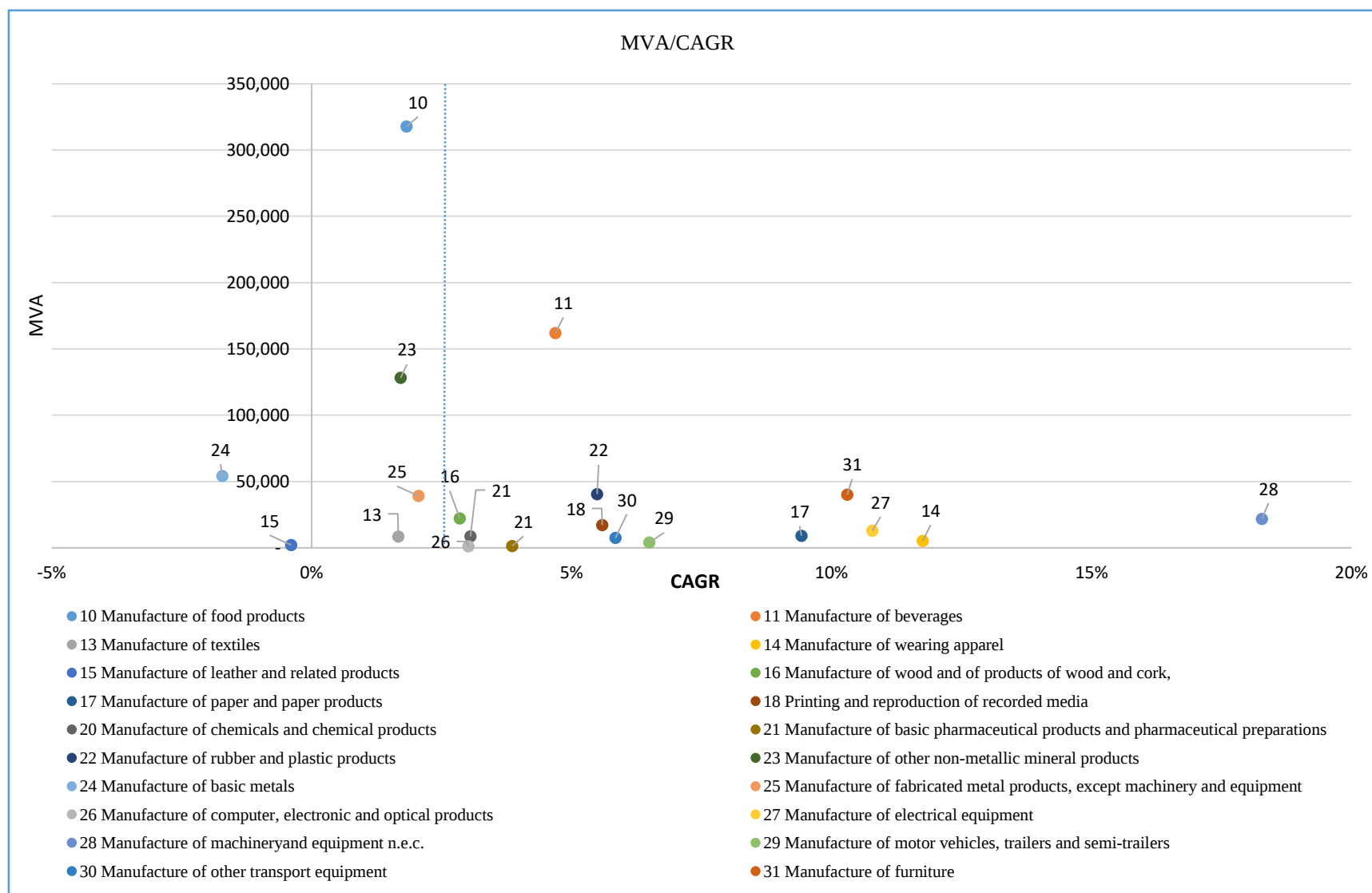
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 25. Added value of production (MVA), in relation to the trade balance



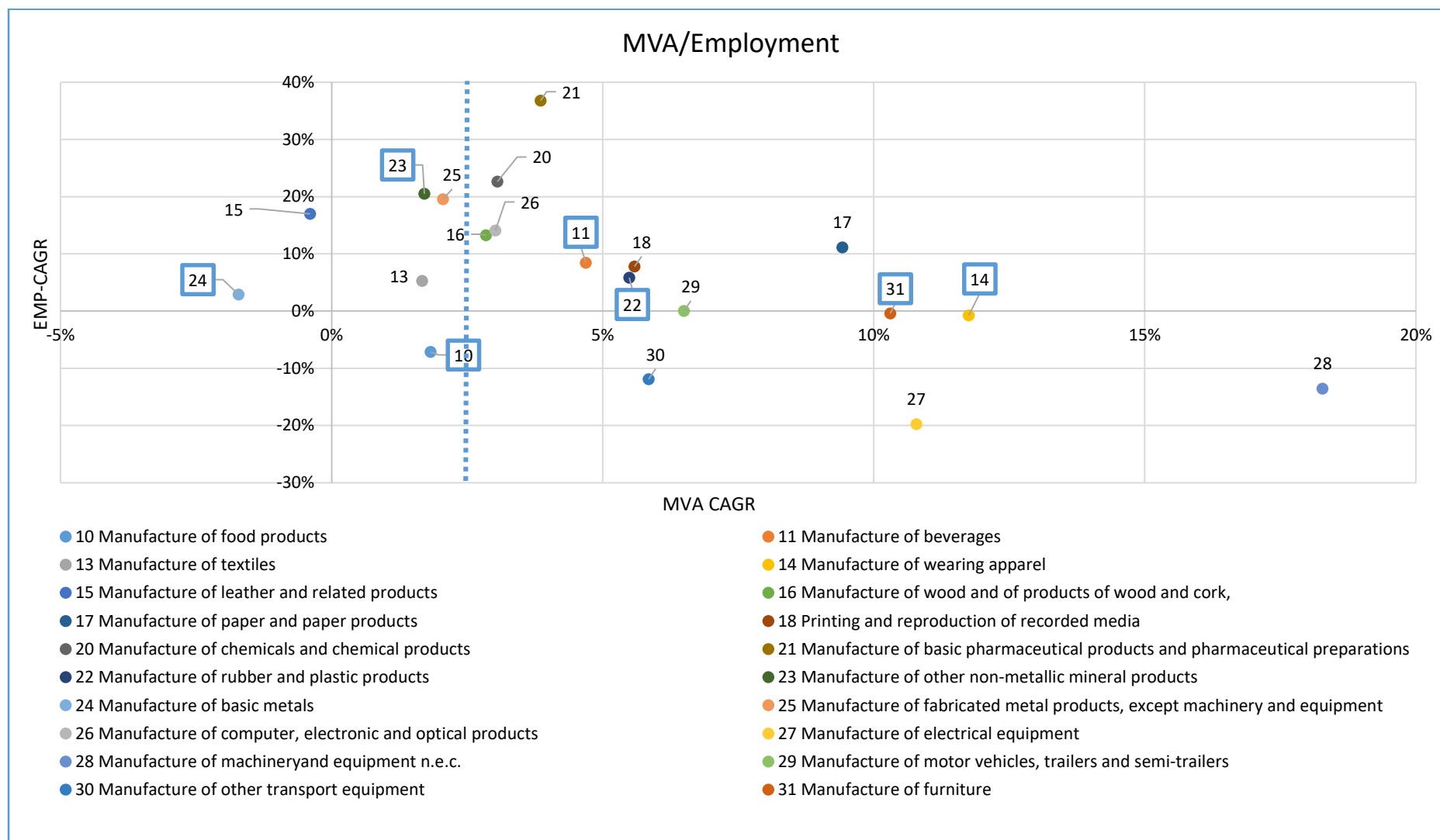
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 26. Added value of production (MVA), in relation to the annual growth rate (CAGR)



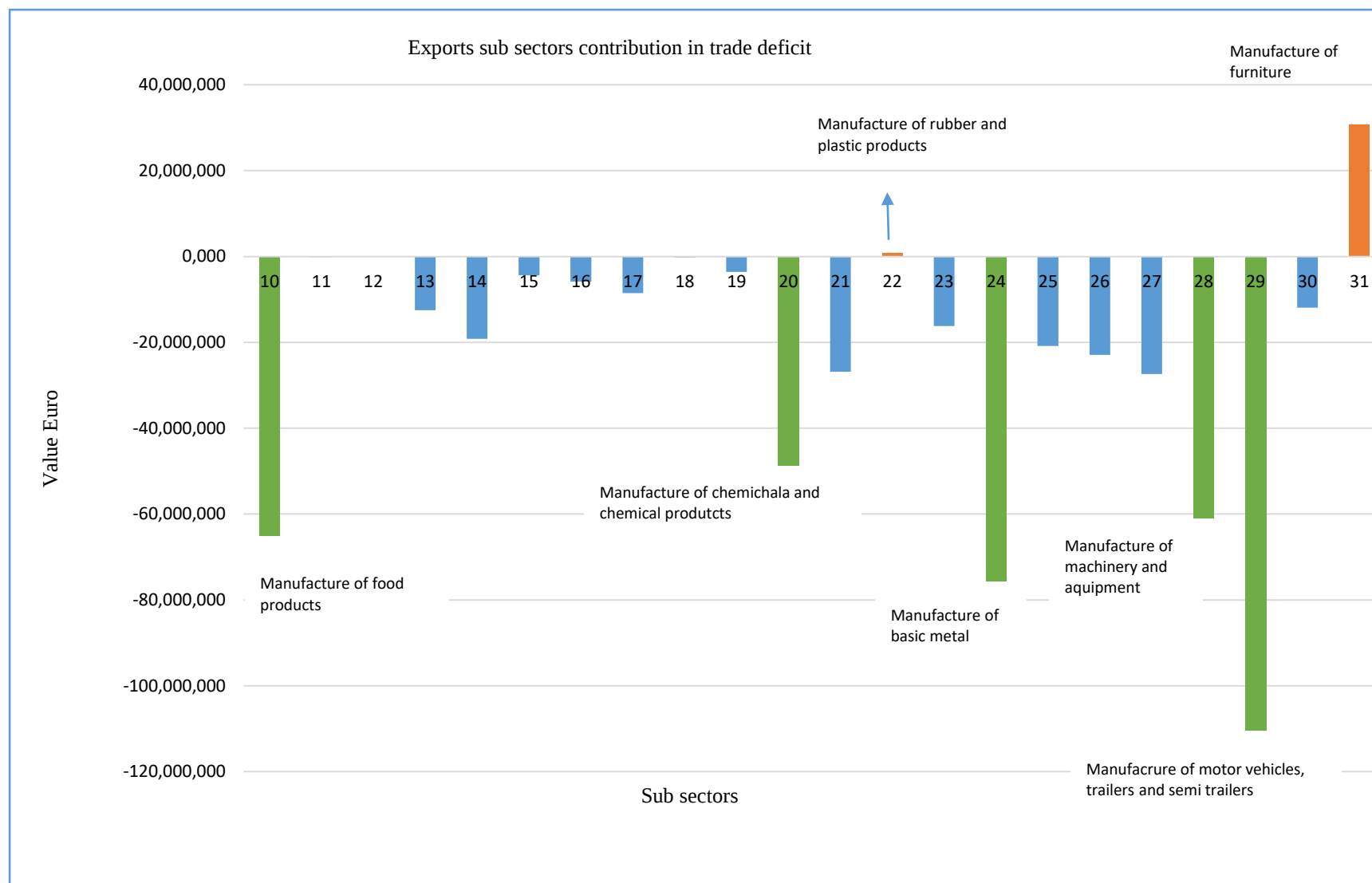
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 27. Added value of production (VAP), in relation to employment, according to subsectors



Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

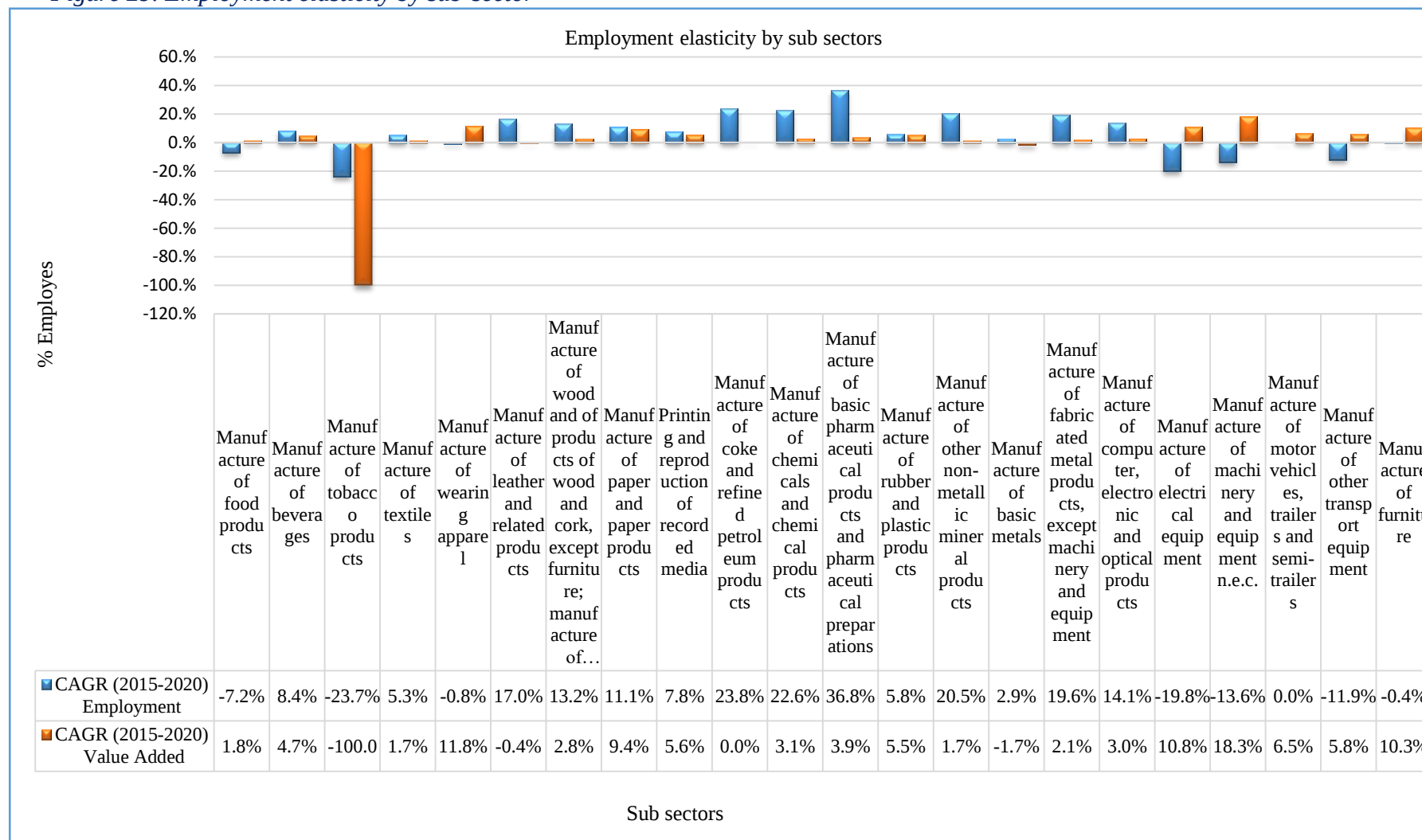
Figure 28. Contribution of Exports of sub-sectors to the market of Kosovo's deficit



Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

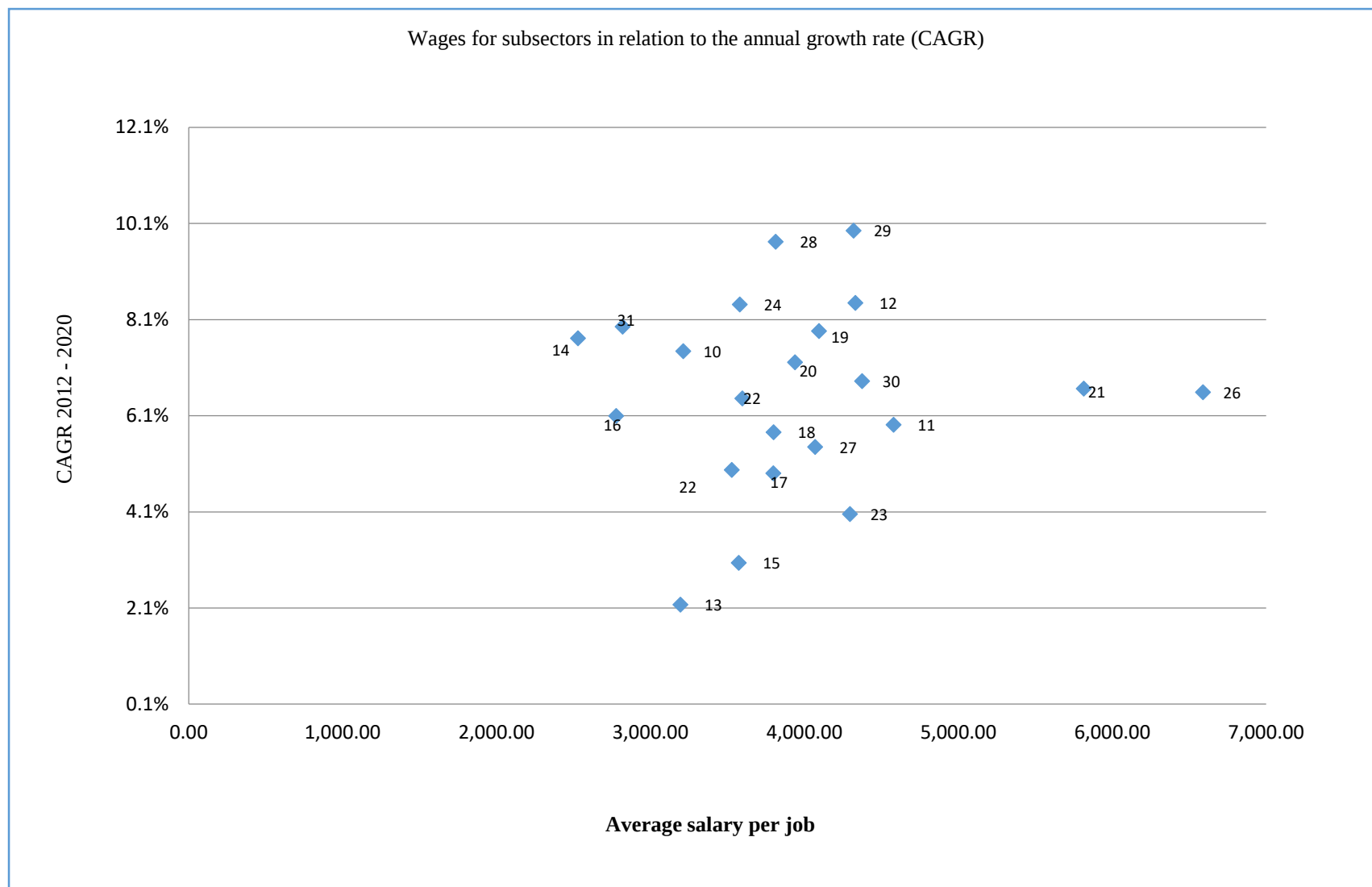
Social Dimension

Figure 29. Employment elasticity by sub-sector



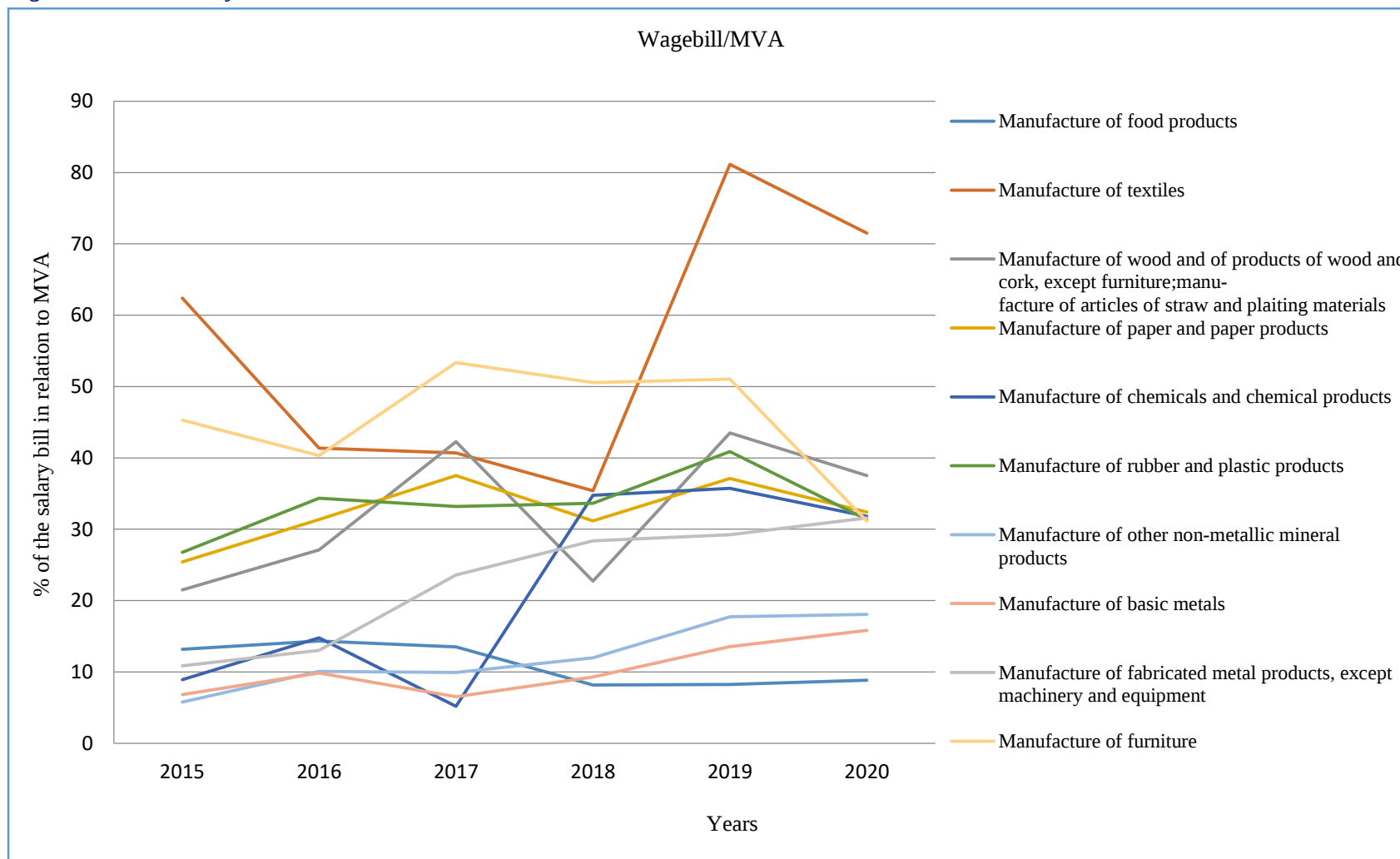
Source: WDI, Sub-sector, KAS – (prepared by DI/DIP staff)

Figure 30. Wages by sub-sector, average Wage/worker and annual growth rate (CAGR)



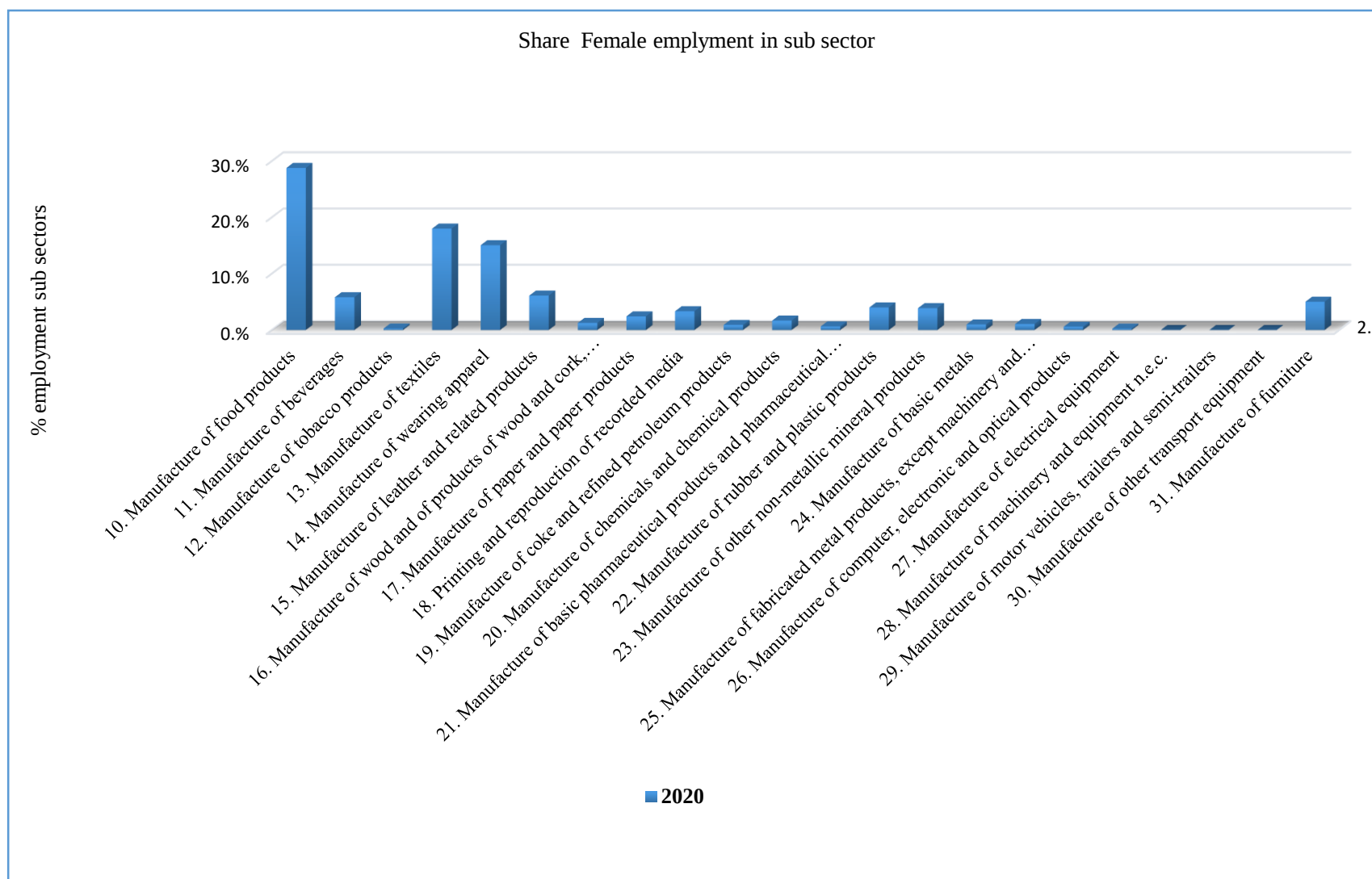
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 31. The salary bill in relation to its value



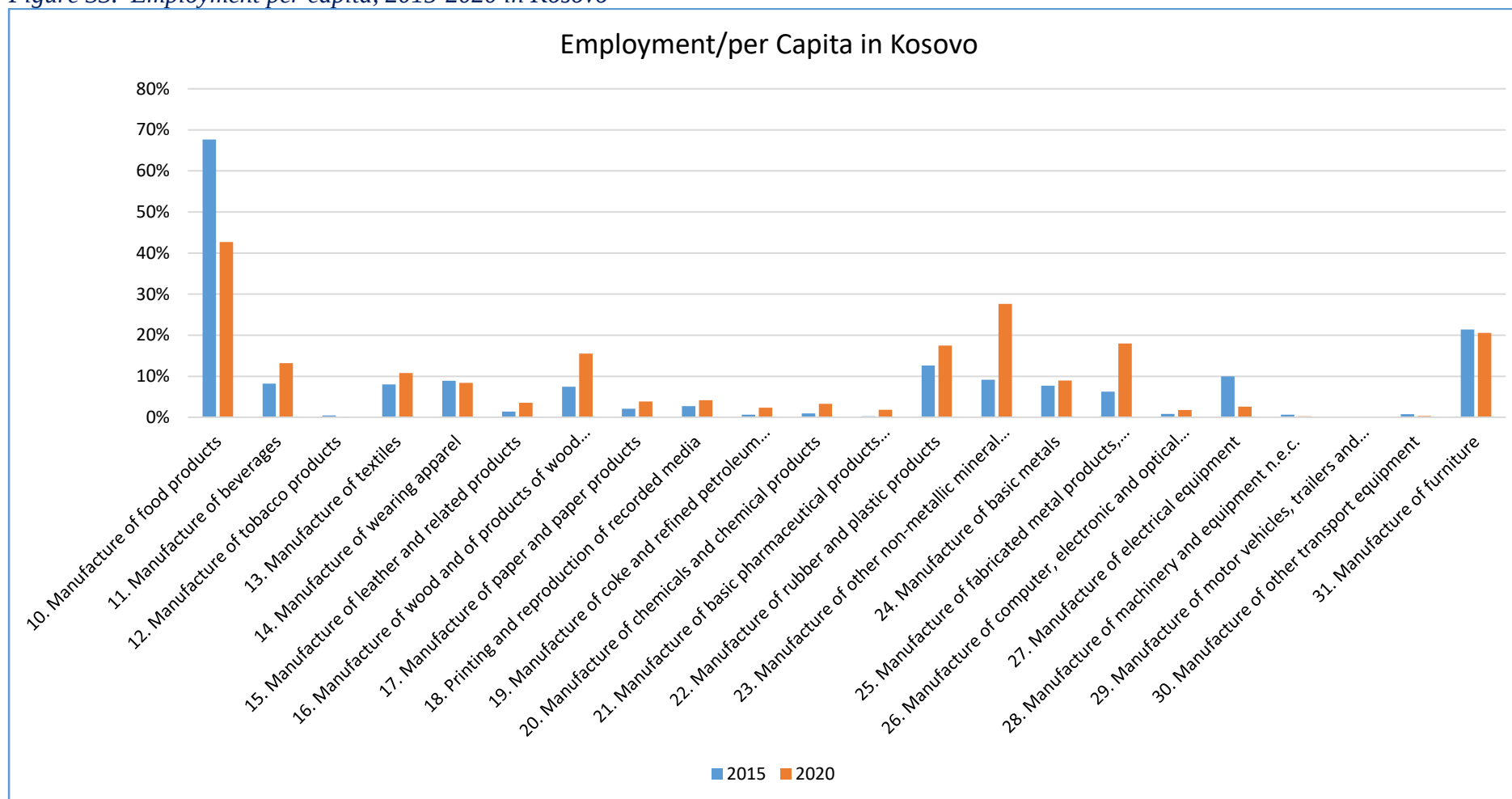
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 32. Distribution of female employment for sub-sector of Kosovo



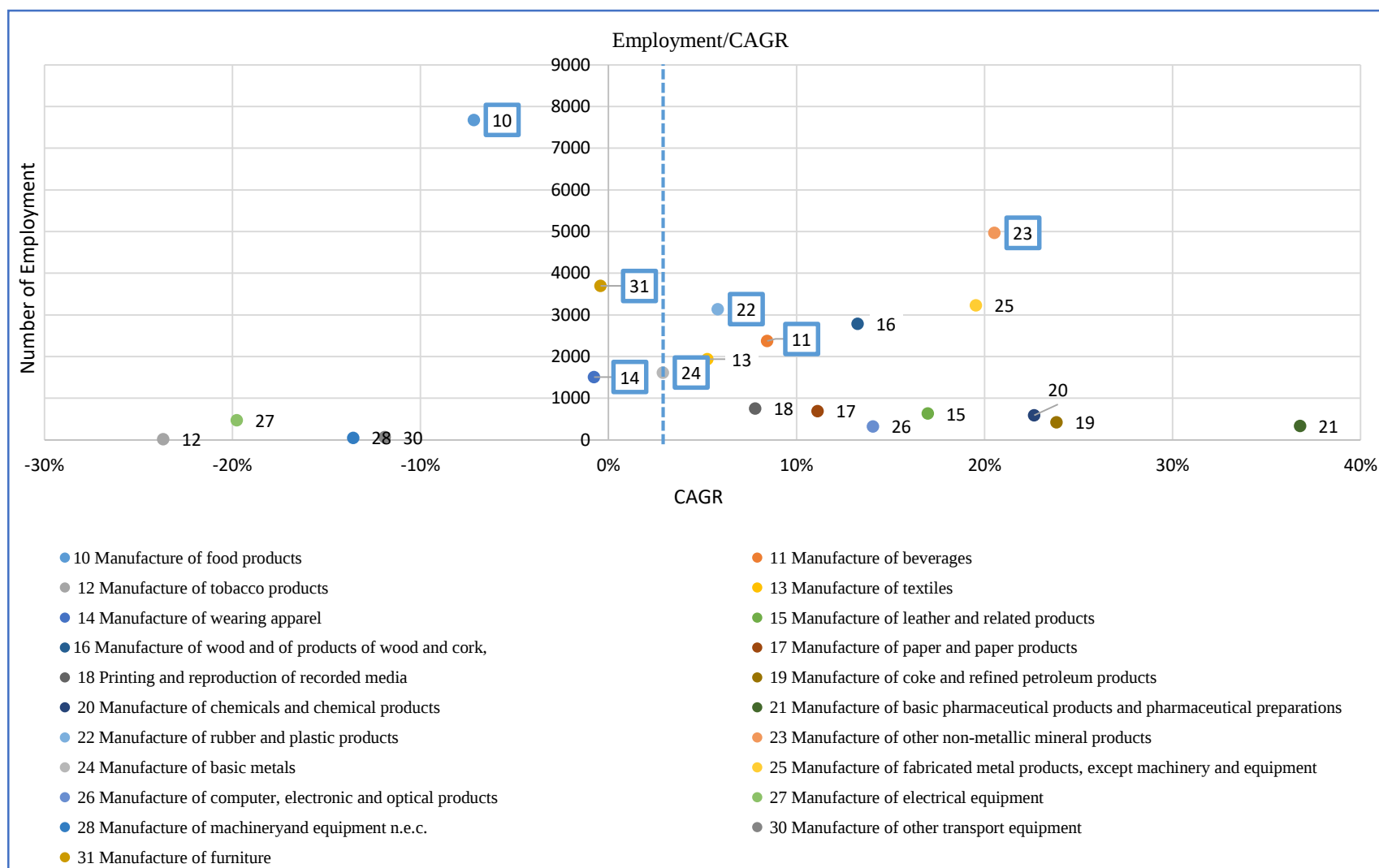
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 33. Employment per capita, 2015-2020 in Kosovo



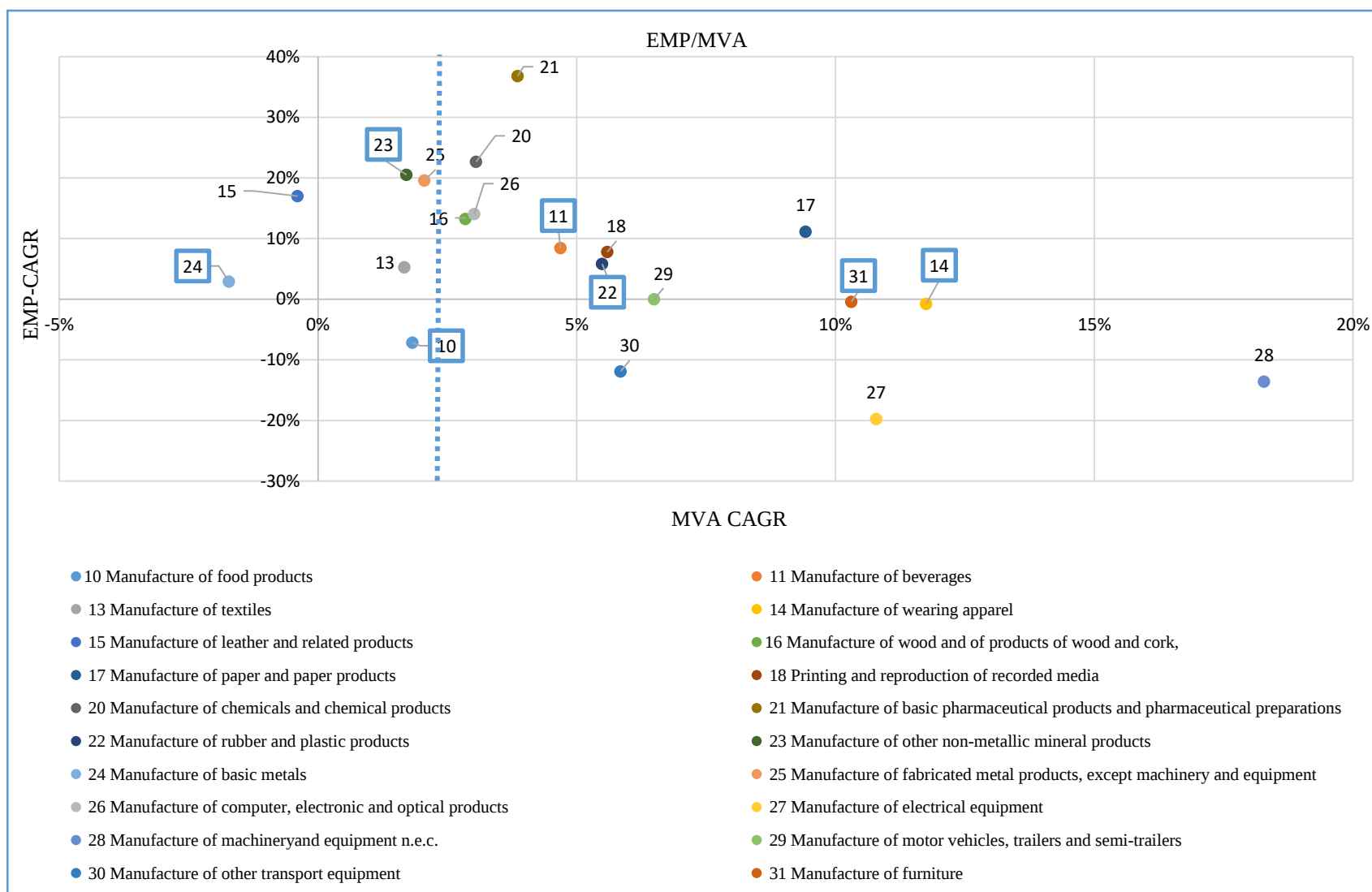
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 34. Employment by sub-sector in relation to the annual growth rate (CAGR)



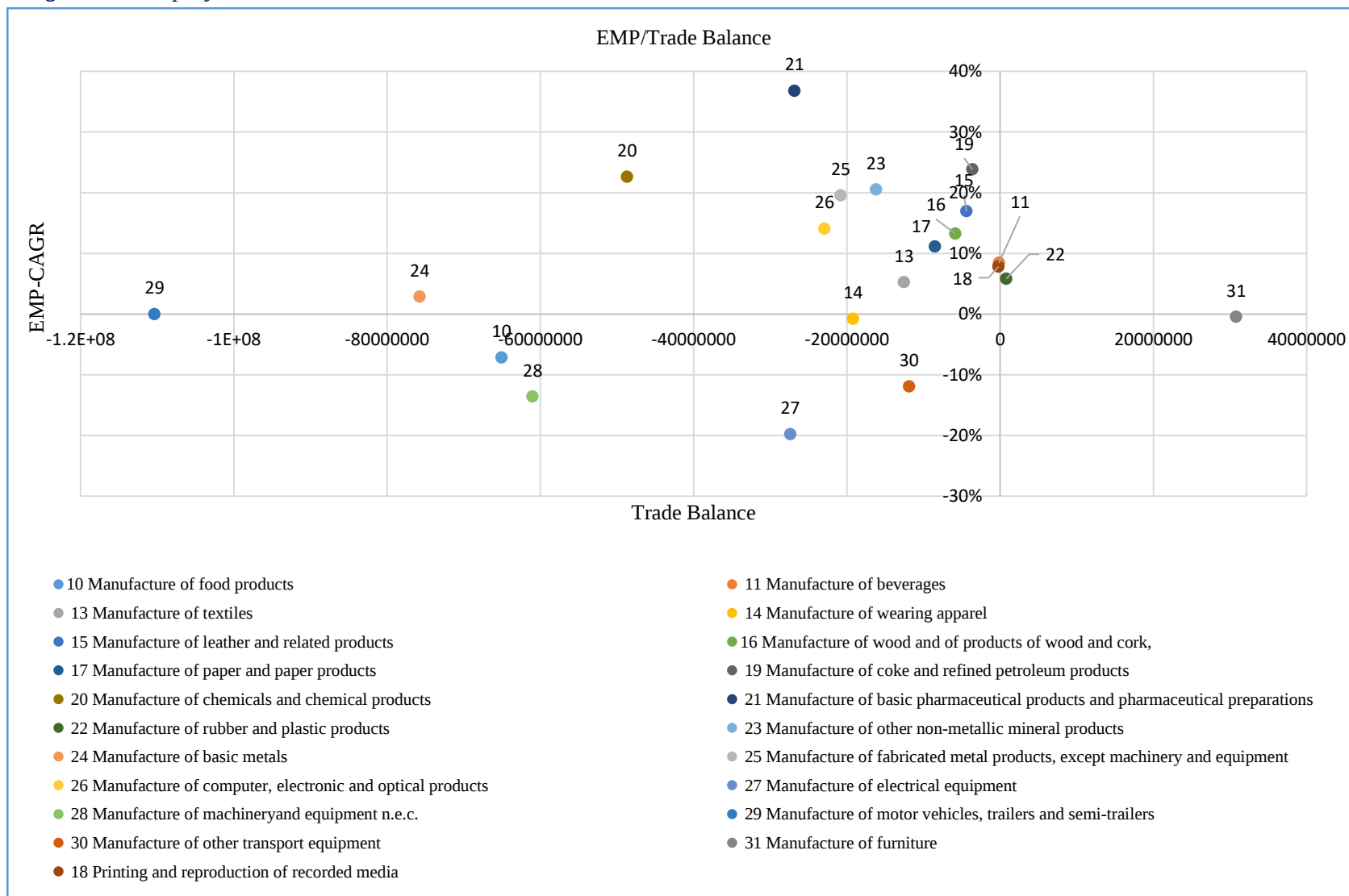
Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Figure 35. Labor with the value of products in the ratio (MVA)



Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

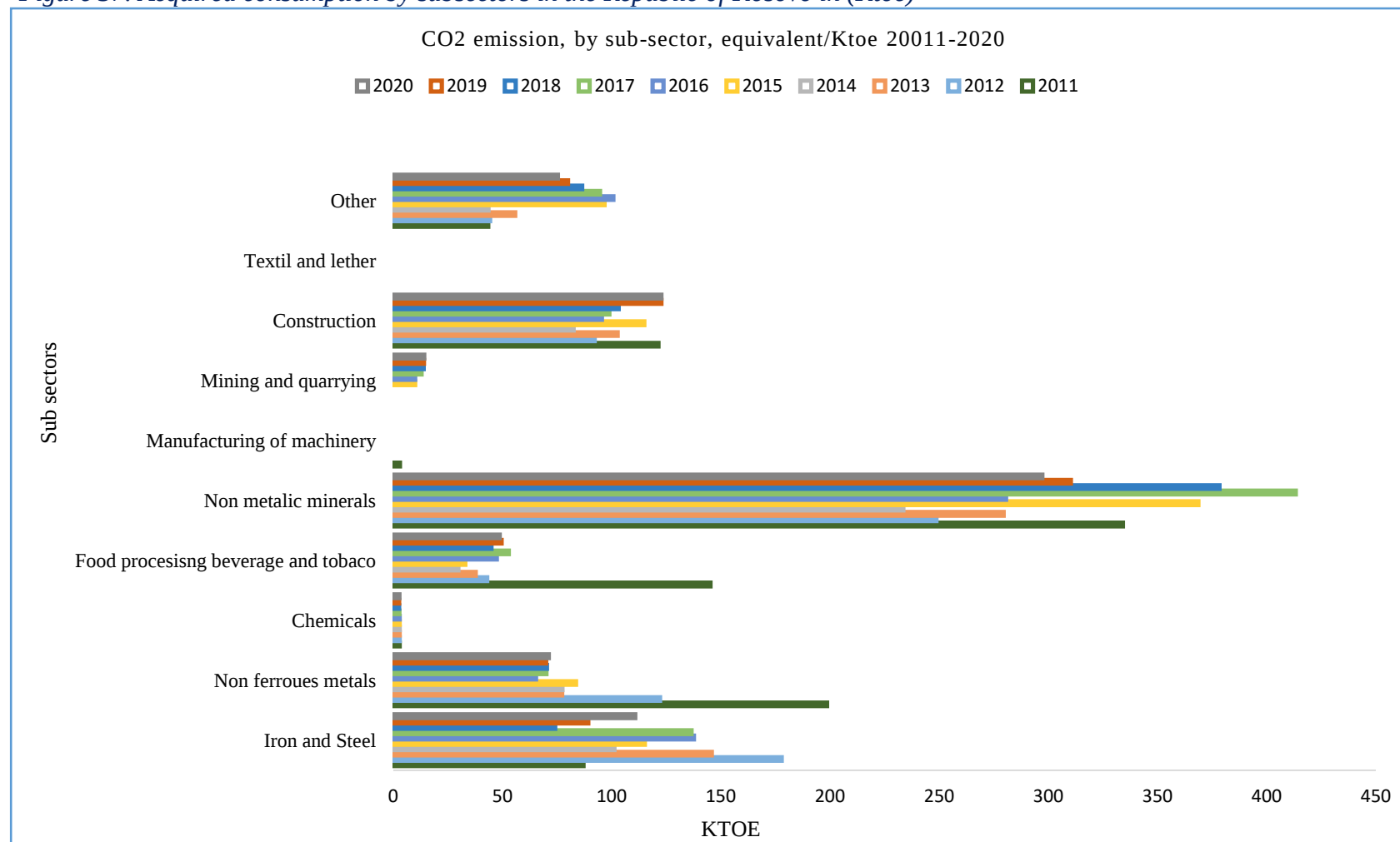
Figure 36. Employment/trade contribution



Source: Kosovo Statistics Agency – (prepared by DI/DIP staff)

Environmental dimension

Figure 37. Acquired consumption by subsectors in the Republic of Kosovo in (Ktoe)



Source: Energy Balance of Kosovo – (prepared by DI/DIP staff)

Annex 3

Scenarios

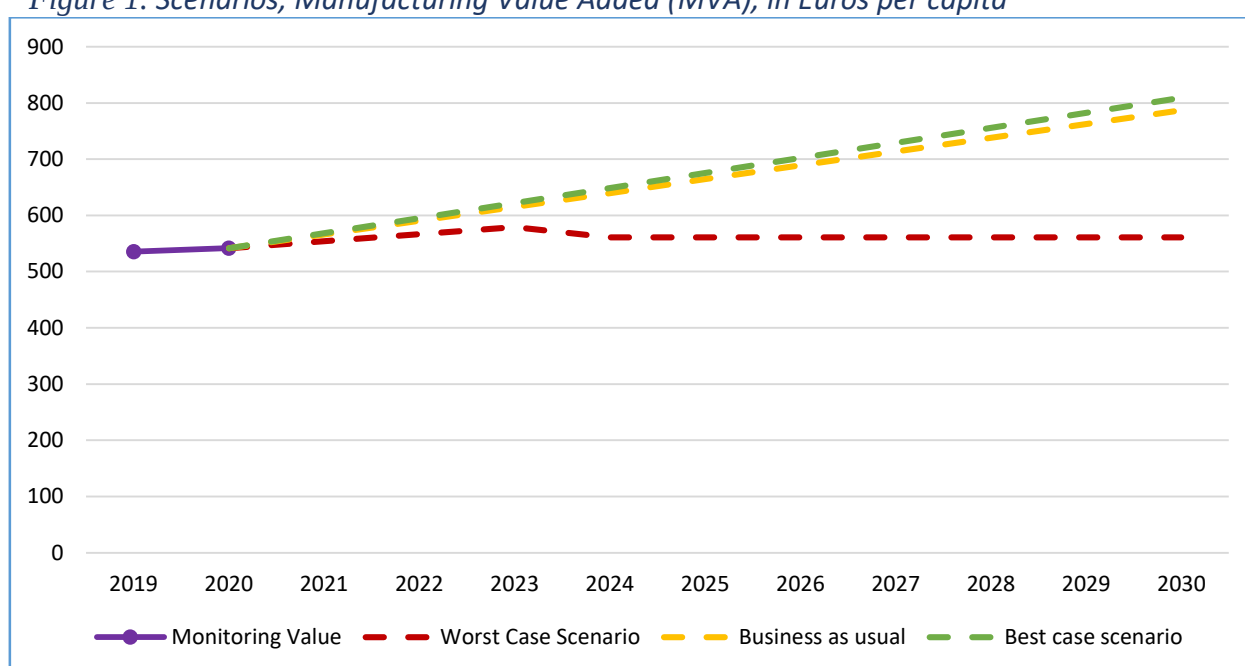
This appendix presents the intended performance of the productive sector of Kosovo in three main dimensions: economic, social and environmental, assessing the current situation from 2019-2022, as a goal in 2030.

The processing and analysis of these graphs is done according to the EQuIP method, where each graph shows the base value, the best case scenario, the usual (existing) scenario and the worst case scenario.

The calculation of the indicators in the presented graphs are: added value of production, trade balance, employment, wages and CO2 emission.

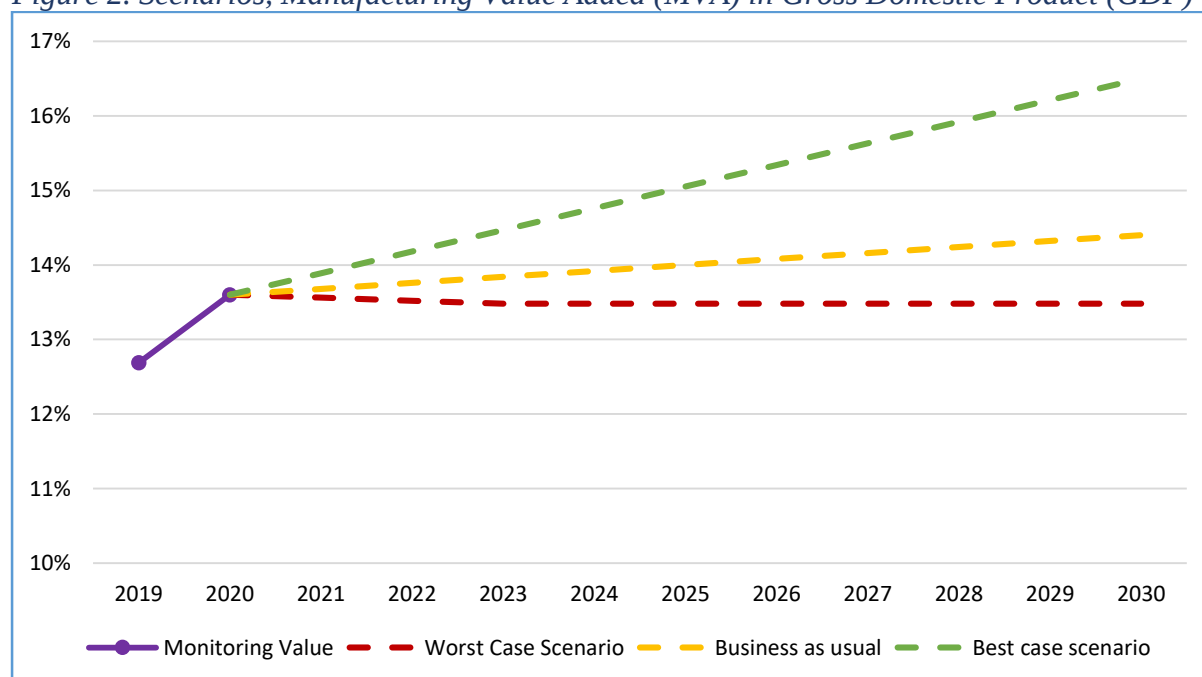
I. Economic Dimension

Figure 1. Scenarios, Manufacturing Value Added (MVA), in Euros per capita



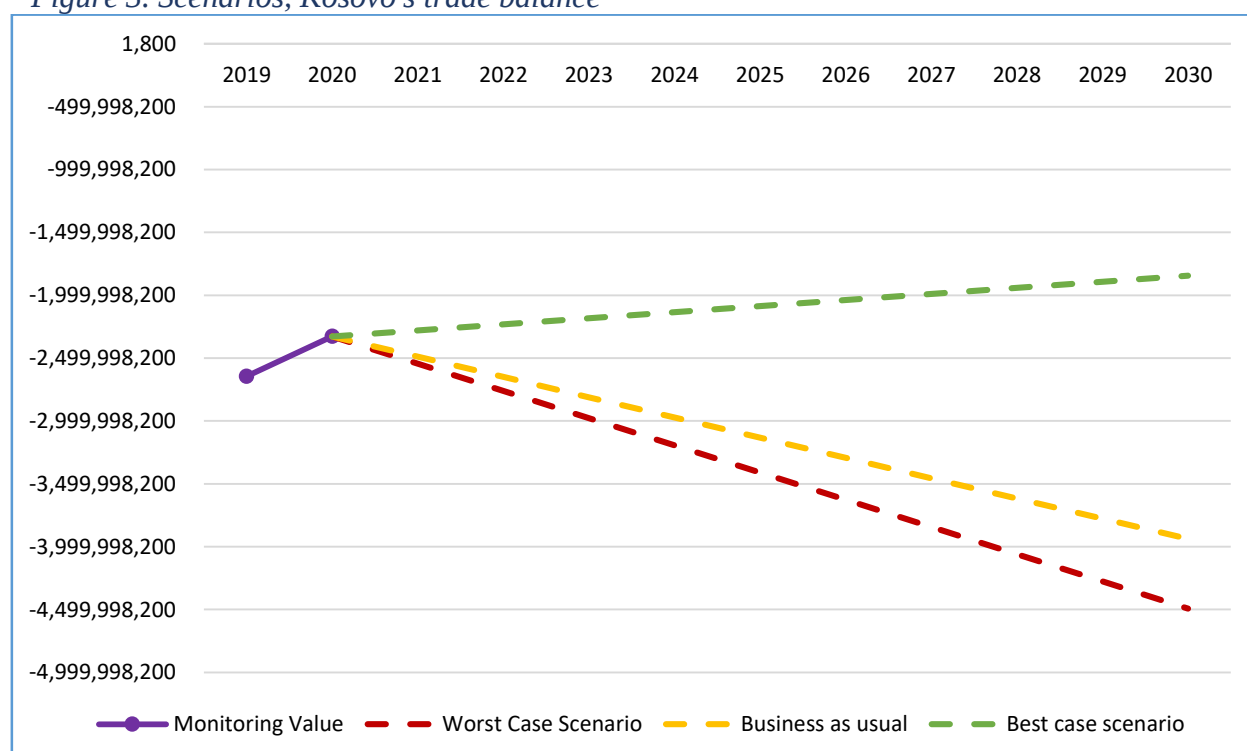
Source: WITS, KAS (processed by DI/DPI staff)

Figure 2. Scenarios, Manufacturing Value Added (MVA) in Gross Domestic Product (GDP)



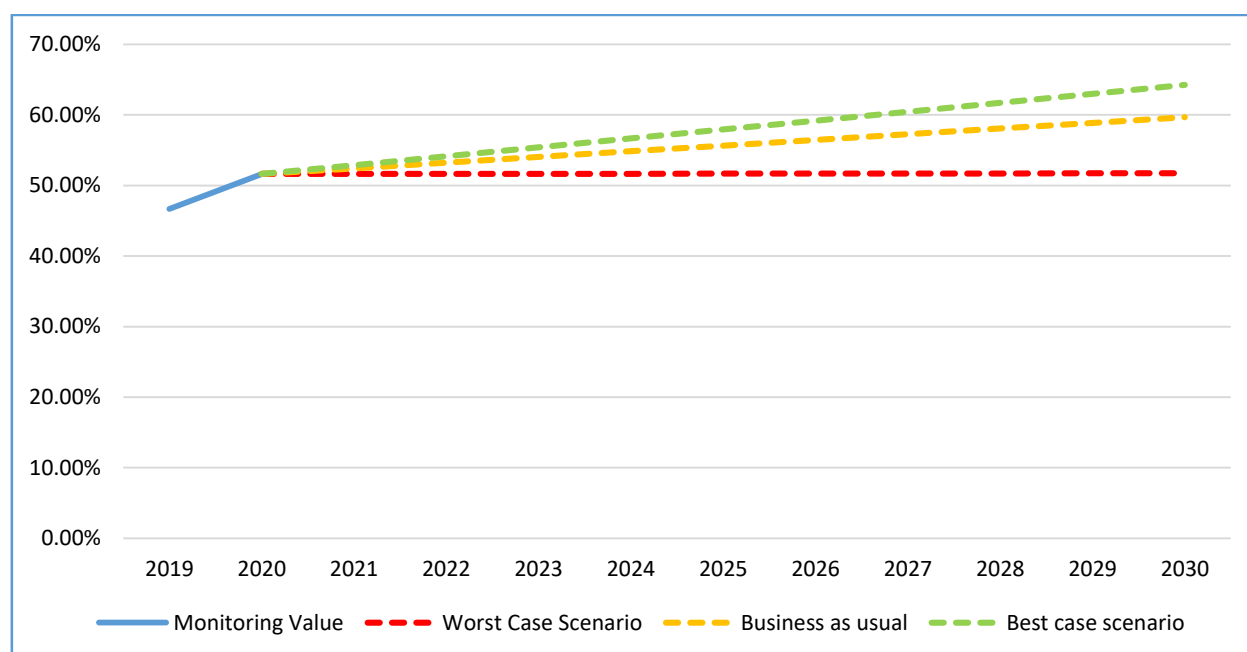
Source: WITS, KAS (processed by DI/DPI staff)

Figure 3. Scenarios, Kosovo's trade balance



Source: Kosovo Agency Statistics (processed by DI/DPI staff)

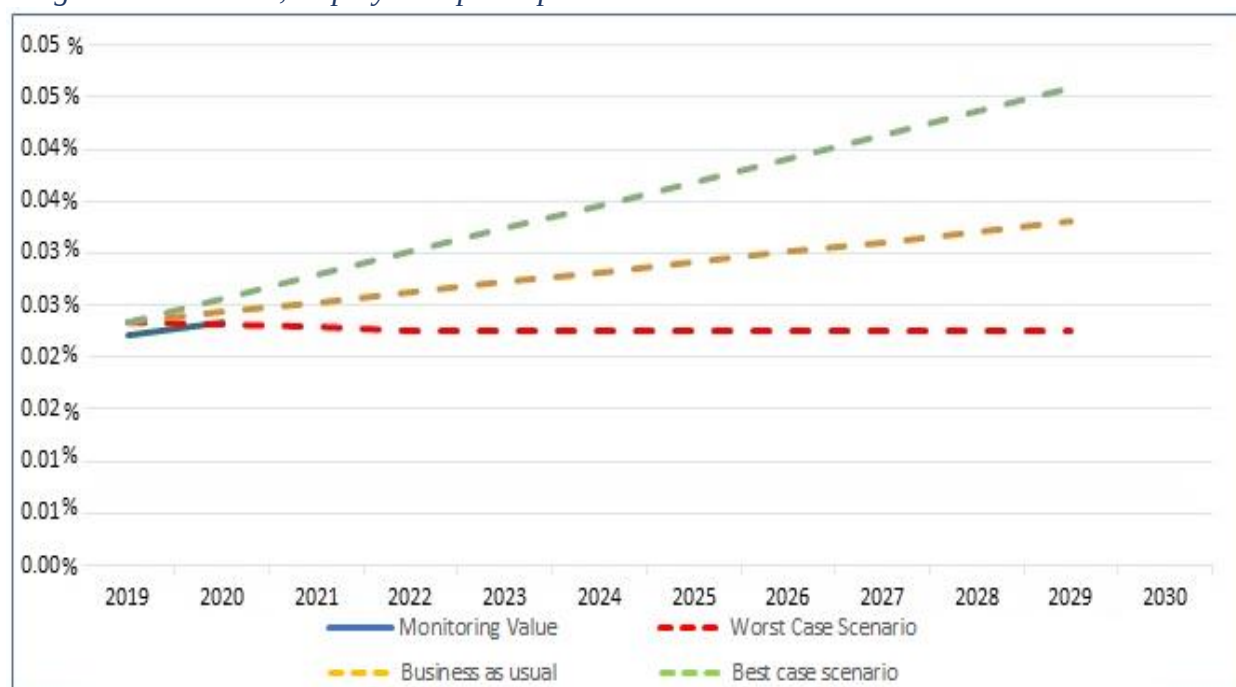
Figure 4. Scenarios, domestic credit to private sector (% in GDP)



Source: WDI (processed by DI/DPI staff)

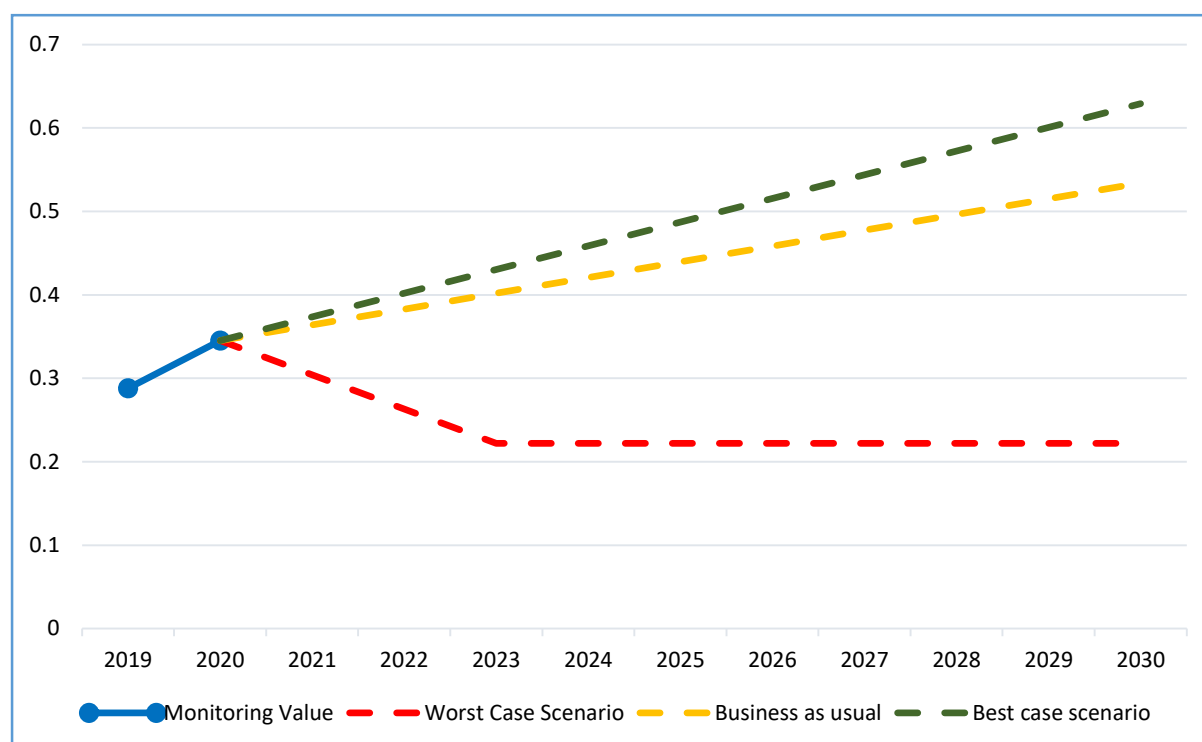
II. Social Dimension

Figure 5. Scenarios, employment per capita



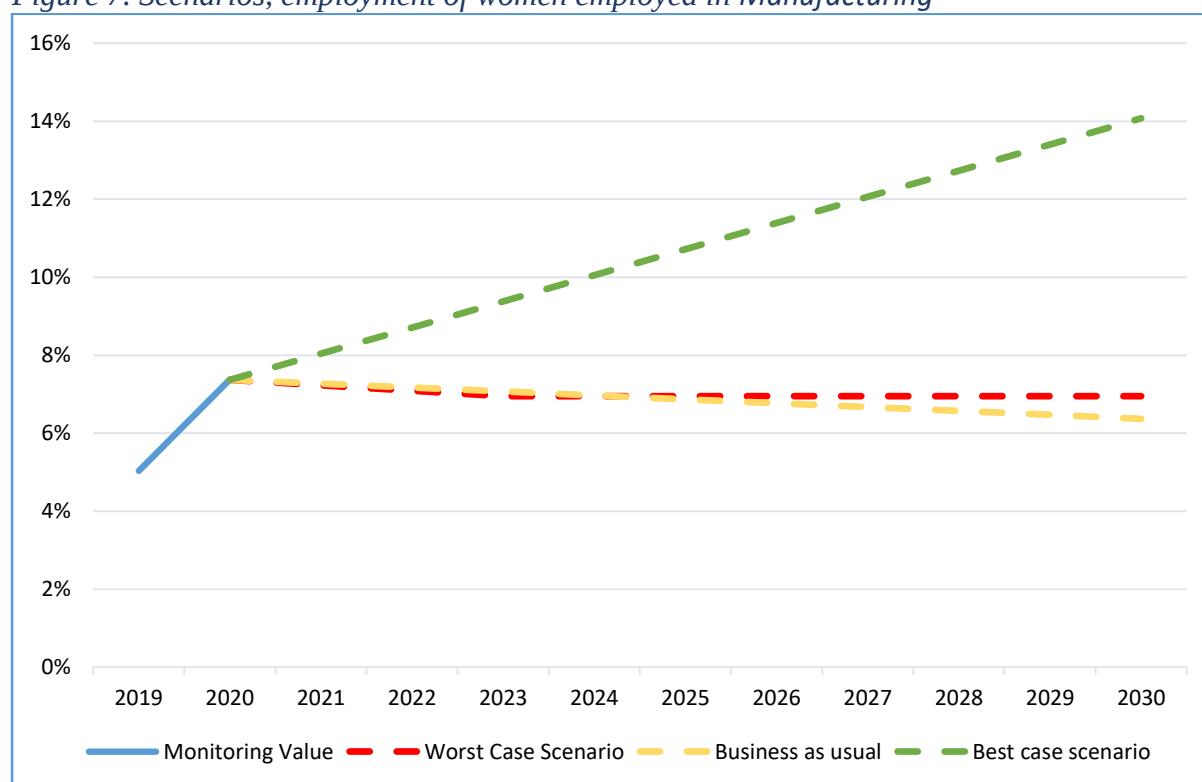
Source: WDI, UNIDO, ILO, KAS (processed by DI/DPI staff)

Figure 6. Scenarios, wage in the Manufacturing sector / VSHP



Source: WDI, UNIDO, KAS (processed by DI/DPI staff)

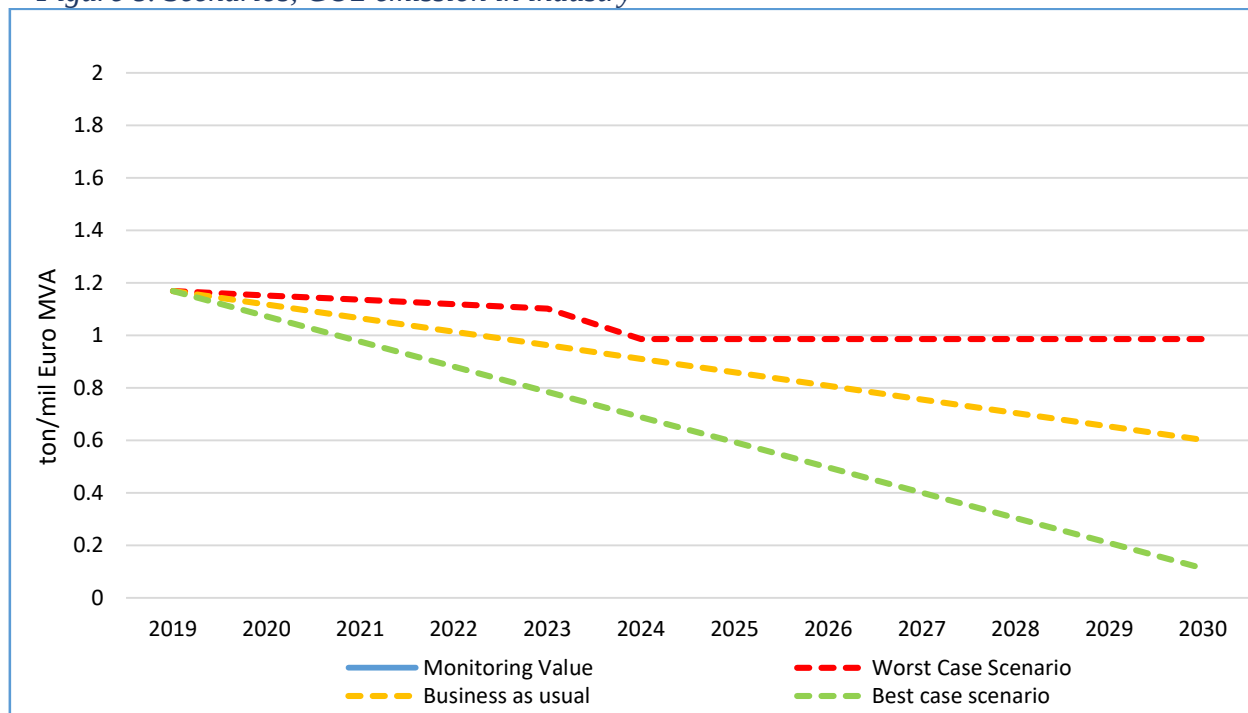
Figure 7. Scenarios, employment of women employed in Manufacturing



Source: WDI, UNIDO, ILO, KAS (processed by DI/DPI staff)

I. Environmental Dimension

Figure 8. Scenarios, CO2 emission in industry



Source: International Energy Agency (IEA) (processed by DI/DPI staff)

Annex-4

Table 1, Performance of sub-sectors, within the views (Indicators)

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
(10) Food processing	Mature sector. CAGR of MVA of 2% and lower than the average growth rate of 5% for Sector C. Average MVA per capita for 2015 – 2020 is 172. CAGR MVA (Food and Beverages): • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • NM: -0.6% • SER: -0.6% • KS: 2.7% • WB6: -0.1%	Declining sector with minus 7% CAGR but highest employment share within the Sector C. Average employment per capita for 2015 – 2020 of 0.55%. Average employment per capita for 2015-2020 (Food and Beverages) • Alb: 0.53% • BH: 0.61% • MNE: 0.71% • NM: 1.08% • SER: 1.36% • KS: 0.63% • WB6: 0.99% • SLO: 0.75% • EST: 1.11%	Subsector has substantial negative trade balance (EUR 65M). Findings from the market dynamics analysis	Share of high value added / MHT in exports and growth rate	The subsector has an energy consumption CAGR for 2015 – 2020 at negative 3.1%. 91 KTOE were consumed in 2020 compared to 110 KTO in 2015. Findings from energy efficiency and growth rate key findings	The subsector does not have positive synergies with employment and trade balance. Despite a positive growth rate of MVA, growth rate of employment has been declining, while trade deficit is significant.	Despite subsector's positive MVA growth (2%), it has faced a negative growth rate of employment (7%), with a significant negative trade balance of (65M). The subsector also has a notable declining relationship between employment and trade balance (with a negative employment CAGR of 7% and a negative trade balance of EUR 65M). However, the subsector has a significant import-substituting potential. Policies aimed at improving competitiveness of the subsector,	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	• SLO: -0.6% • EST: -0.6% Average MVA/capita (F&B): • Alb: 22.3 • BH: 118 • MNE: 100.5 • NM: 133.78 • SER: 236 • KS: 257 • WB6: 164.48 • SLO: 279 • EST: 256	Employment elasticity of -3.92, indicating jobless growth.			from benchm		including increasing firm size and scale economies, and potentially improving supply-chain integration, may act to improve its trade balance and potentially lead to labor-intensive growth. Because the subsector operates below potential, it is conceivable that capital deepening may not come at a cost of labor saving measures, thereby also expanding labor demand.	
(11) Manufacture of beverages	Rising star subsector. CAGR of MVA (5%),	Growing subsector. The employment CAGR is	The subsector is a niche. This sub-sector is stable even though it has a		The sub-sector has a CAGR of energy consumptio	The subsector has positive synergy with employment, where the CAGR of MVA is 5%,	The growth of the sub-sector (positive MVA) is not translated into a positive trade balance	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	which is the same as the average of Sector C (5%). The average GVA/inhabitant for 2015-2020 is 85. CAGR MVA (Food and Beverages): Alb: -0.6% BH: -0.6% • MNE: -0.6% • NM: -0.6% • SER: -0.6% • KS: 2.7% • WB6: -0.1% • SLO: -0.6% • EST: -0.6% Average MVA/capita (Food and Drinks): Albania: 22.3	increasing (8.4%), which is above the average of Sector C (6%). This sub-sector employs an average of 1,514, with participation in the average employment in Sector C (4%). The average employment per capita for the period 2015-2020 is 0.08%. Average employment per capita for the period 2015-2020 (Food and Beverages) • Alb: 0.53% • BH: 0.61% • MNE: 0.71%	negative trade balance (EUR 152 thousand).		n in the value of -3.1% for the years 2015-2020. 24.1 KTOE were consumed in 2020 compared to 29.2 KTOE in 2015.	while the CAGR of employment is 8.4%, which means that the elasticity of employment is positive (1.8%), which means that the growth of the subsector is based on the commitment of power worker and productivity. In fact, employment has increased from 926 people in 2018 to 2,374 in 2020, which speaks of more than double growth. The employment participation of this sub-sector in the employment of Sector C is significant (4%).	(in fact it is negative for EUR 152 thousand), but despite being negative, with certain measures, the potential exists for it to move into positive territory. Also, there is a negative correlation between employment and the trade balance: despite the growth based on employment (measured according to the employment elasticity of 1.8%), there is still work to move the sub-sector into positive territory in terms of the trade balance.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	• BH: 118 • MNE: 100.5 • MV: 133.78 • SER: 236 • KS: 257 • WB6: 164.48 • SLO: 279 • EST: 256	• NM: 1.08% • SER: 1.36% • KS: 0.63% • WB6: 0.99% • SLO: 0.75% • EST: 1.11% Employment elasticity is positive (1.8%).						
(13) Textile manufacturing	Niche subsector. The CAGR of MVA is low (1.7%), which is below the average of Sector C (5%). The average MVA/capita for 2015-2020 is 4.7. MVA CAGR: • Alb: -0.6%	Growing subsector. CAGR of employment is increasing (5.3%), which is below the average of Sector C (6%). This subsector employs an average of 1,434, with participation in the average employment in Sector C (4.2%).	This subsector has a negative trade balance (EUR 12M).		The sub-sector has a CAGR of energy consumption in the value of 2.9% for the years 2015-2020. 15.1 KTOE were consumed in 2020 compared to 12.7	The subsector has positive synergy between GVA (1.7%) and employment (5.3%). The increase in employment in 2019 (2,065) was more than double the previous year (998), although there was a decrease in 2020 (1,937) that may be related to the pandemic effect. Employment	Despite the positive growth of MVA, the sub-sector has a negative trade balance (12.5M), which speaks of limitations in competitiveness, or even a lack of capacity to find markets. However, there is considerable opportunity for import substitution, which with certain measures could lead the sector to improve its competitive	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	• BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 1.7% • WB6: -0.5% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 22.6 • BH: 22.73 • MNE: 4.12 • MV: 10.01 • SER: 9.17 • KS: 4.67 • WB6: 13.38 • SLO: 64.03 • EST: 58.39	The average employment per capita for the period 2015-2020 is 0.08%. Average employment per capita for the period 2015-2020: • Alb: 0.08% • BH: 0.16% • MNE: 0.03% • NM: 0.4% • SER: 0.22% • KS: 0.11% • WB6: 0.17% • SLO: 0.15% • EST: 0.31% Employment elasticity is positive (3.15%).			KTOE in 2015.	elasticity (3.15) gives a reasonable indication that the growth of the sub-sector is driven by the engagement of the labor force (labor-intensive, or employment-led growth). The employment participation of this sub-sector in the employment of Sector C is significant (4.2%).	capacity in export, improving the trade balance.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
(14) Manufacture of clothing	Mature subsector. The CAGR of MVA is high (12%), which is above the average of Sector C (5%). The average GVA/capita for 2015-2020 is 1.9. MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 11.8% • WB6: -0.5% • SLO: -0.6% • EST: -0.6% Average MVA/capita:	Subsector in decline. CAGR of employment is in decline (-0.8%), which is below the average of Sector C (6%). This subsector employs an average of 1,253, with participation in the average employment in Sector C (3.6%). The average employment per capita for the period 2015-2020 is 0.07%. Average employment per capita for the period 2015-2020:	The sub-sector is stable but has a negative trade balance (EUR 19M).		The sub-sector has a CAGR of energy consumption in the value of 2.9% for the years 2015-2020. 12.2 KTOE were consumed in 2020 compared to 10.3 KTOE in 2015.	The sub-sector has a high MVA, which is above the average of Sector C. This indicates a relatively mature sector. However, it should be borne in mind that despite the negative CAGR in employment for the period 2015-2020, in the last year (2020), employment has increased to 1,510 from 768 in 2019. This may speak of a positive trend of employment growth. , which should also be monitored for the years 2021 and 2022 when the data is available. The employment participation of	The subsector has a negative employment CAGR, despite the high MVA, but care must be taken to monitor the new data for the years 2021 and 2022, because the employment growth in 2020 (1,510) was almost doubled compared to 2019 (768). . According to the elasticity of employment, the increase in MVA "jobless" (-0.07%). Meanwhile, despite the high MVA, the trade balance is negative (19.1M), which indicates the limitations in export competitiveness, but also the fact that this subsector has considerable capacity for import substitution,	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	• Alb: 24.2 • BH: 19.2 • MNE: 1.8 • MV: 85.6 • SER: 33 • SC: 1.9 • WB6: 30.9 • SLO: 47.4 • EST: 61	• Alb: 0.88% • BH: 0.35% • MNE: 0.03% • NM: 1.71% • SER: 0.49% • KS: 0.07% • WB6: 0.66% • SLO: 0.13% • EST: 0.41% Employment elasticity is negative (0.07%).				this sub-sector in the employment of Sector C is significant (3.6%).	depending on the measures that can be used for intervention.	
(15) Production of leather and similar products	Subsector in decline. CAGR of MVA (-0.4%), which is below the average of Sector C (5%). The average GVA/capita	Subsector in significant growth. The CAGR of employment is increasing significantly (17%), which is above the average of Sector C (6%). This subsector employs an	The sub-sector is in decline. This sub-sector is unstable and has a negative trade balance (EUR 4M).		The sub-sector has a CAGR of energy consumption in the value of 2.9% for the years 2015-2020. 22.3 KTOE were consumed	Currently, the subsector has a negative MVA, although employment is high (17%), including high employment elasticity (43), which speaks of growth based on the commitment of the workforce, although there is	Despite the decrease in the CAGR of MVA for the period 2015-2020, there is a positive impact on employment generation. However, care must be taken because the high CAGR of employment is presented as such considering the low base of employment	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	for 2015-2020 is 1.3. MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: -0.4% • WB6: -0.6% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 24.8 • BH: 23.7 • MNE: 0.81 • MV: 9.2 • SER: 14.3 • SC: 1.3 • WB6: 15.4 • SLO: 48.7 • EST: 14.6	average of 554, with participation in the average employment in Sector C (1.6%). Average employment per capita for the period 2015-2020 is 0.03%. Average employment per capita for the period 2015-2020: • Alb: 0.81% • BH: 0.47% • MNE: 0.01% • NM: 0.22% • SER: 0.23% • KS: 0.03% • WB6: 0.37% • SLO: 0.17% • EST: 0.07%			in 2020 compared to 18.8 KTOE in 2015.	a negative trade deficit (EUR 4M).	in 2015 (247), while employment has decreased from 855 in 2019 to 633 in 2020. The latter may be affected by the pandemic. However, the relatively considerable commitment of the labor force (according to employment elasticity) but its limited translation in the MVA of the sub-sector may give indications of limited productivity of workers, or even low profit margins for companies due to competition in market, and other factors.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		Employment elasticity is negative (43%).						
(16) Manufacture of wood, cork, etc., except furniture	Niche subsector. CAGR of MVA (2.8%), which is below the average of Sector C (5%). The average GVA/capita for 2015-2020 is 11.4. MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 2.8% • WB6: -0.4% • SLO: -0.6% • EST: -0.6%	Niche subsector. The employment CAGR is increasing (13.2%), which is above the average of Sector C (6%). This subsector employs an average of 2,246, with participation in the average employment in Sector C (6.5%). Average employment per capita for the period 2015-2020 is 0.13%. Average employment per capita for the	Niche subsector. has a negative trade balance (EUR 5.8M).		Consumption 0.	The subsector has positive synergy between MVA (2.8%) and employment (13.2%). The considerable elasticity of employment (4.7%) speaks for the growth model of the subsector based on the commitment of the workforce (employment-led). However, the data show significant fluctuations in employment during the period 2015-2020, which should be analyzed further. The employment participation of	The sub-sector indicates a lack of competitiveness in export, based on the negative trade balance (EUR 5.8M). The reason why it should be considered if it is worth supporting the sub-sector is that its growth can create new jobs (assuming the same growth model of the sub-sector, based on labor force engagement).	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	Average MVA/capita: • Alb: 3.3 • BH: 33.3 • MNE: 18.1 • MV: 6.35 • SER: 18.2 • SC: 11.4 • WB6: 16.5 • SLO: 108.5 • EST: 307.8	period 2015-2020: • Alb: 0.05% • BH: 0.42% • MNE: 0.28% • NM: 0.14% • SER: 0.22% • KS: 0.13% • WB6: 0.22% • SLO: 0.35% • EST: 1.3% Employment elasticity is positive (4.7%).				this sub-sector in the employment of Sector C is significant (6.5%).		
(17) Production of paper and paper products	Mature subsector. The CAGR of MVA is high (9.4%), which is above the average of Sector C (5%). The average GVA/capita	Niche subsector. CAGR of employment is increasing (11.1%), which is above the average of Sector C (6%). This subsector employs an average of 534, with	This subsector has a negative trade balance (EUR 8.5M).		Consumption 0.	The subsector creates synergy between MVA (9.4%) and employment (11.1%). The increase in employment is evident from the low base in 2015 (368) to 2020 (693). According to the	Despite the MVA and considerable employment, the subsector has a negative trade balance (EUR 8.5M). This may indicate a lack of competitiveness, the nature of trade policies, and other factors. However, the fact that the subsector	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	for 2015-2020 is 3.7.	participation in the average employment in Sector C (1.6%). Average employment per capita for the period 2015-2020 is 0.03%. Employment elasticity is positive (1.18%).				employment elasticity of (1.18%), there is talk of growth in the subsector based on a combination of workforce engagement and productivity (employment-led and productivity-led growth).	is mature and engages the workforce, but also seems to have reached maturity through the fact that growth is also based on productivity, measures should be taken to at least keep this subsector mature, avoiding its scenario that gradually to start to decline due to the improvement of competitive capacity by foreign competitors.	
(18) Printing and reproduction of recorded media	Rising star subsector. The CAGR of MVA is high (5.6%), which is above the average of Sector C (5%). The average GVA/capita	Niche subsector. CAGR of employment is increasing (7.8%), which is above the average of Sector C (6%). This subsector employs an average of 436,	Rising star subsector. The sub-sector is stable and why it has a negative trade balance (EUR 211 thousand).		Consumption 0.	The subsector has positive synergy between GVA (5.6%) and employment (7.8). This speaks of a growth model of the subsector based on the commitment of the workforce and productivity growth	Despite MVA and positive employment, the subsector has a negative trade balance (EUR 211 thousand). However, the degree of the negative balance is not deep and can be considered instruments to help the sector in the direction of	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	for 2015-2020 is 8.3.	with participation in the average employment in Sector C (1.3%). The average employment per capita for the period 2015-2020 is 0.02%. Employment elasticity is positive (1.4%).				(employment-led and productivity-led growth). This is evident from the fact that the employment elasticity is 1.4%. Despite the pandemic year, employment in the subsector increased in 2020 (752) compared to 2019 (649).	improving the competitive capacity in export.	
(20) Production of chemicals and chemical products	Niche subsector. CAGR of MVA is (3.1%), which is below the average of Sector C (5%). The average MVA/capita for 2015-2020 is 4.3.	Matura subsector. The CAGR of employment is increasing (22.6%), which is significantly above the average of Sector C (6%). This subsector employs an average of 390,	The sub-sector has a significant negative trade balance (EUR 48.5M).		The sub-sector has a CAGR of energy consumption in the value of 3.3% for the years 2015-2020. 0.68 KTOE were consumed in 2020	There is significant synergy between MVA (3.1%) and employment (22.6%). According to the high elasticity of employment (7.4%), the growth model of the subsector is based on employment-led growth. The	The sub-sector has a deep negative trade balance. This balance highlights the lack of competitiveness of the sub-sector in relation to imports. However, addressing this gap must be seen in the context of the fact that the growth of the sub-sector generates considerable employment. The	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 3.1% • WB6: -0.5% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 14.2 • BH: 25.8 • MNE: 13.5 • MV: 40.8 • SER: 53 • SC: 4.3 • WB6: 33.8 • SLO: 611.6 • EST: 101.7	with participation in the average employment in Sector C (1.1%). The average employment per capita for the period 2015-2020 is 0.02%. Average employment per capita for the period 2015-2020: • Alb: 0.04% • BH: 0.13% • MNE: 0.06% • NM: 1.12% • SER: 0.32% • KS: 0.02% • WB6: 0.19% • SLO: 0.31% • EST: 0.2%			compared to 0.56 KTOE in 2015.	increase in employment in this sub-sector has been stable during the years 2018-2020. The employment participation of this sub-sector in Sector C is significant (6%).	measures that can lead to the improvement of competitiveness can further increase the commitment of the labor force, but also the improvement of the productivity of the worker, thus increasing the competitive capacity in foreign markets.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		Employment elasticity is positive (7.4%).						
(21) Production of basic pharmaceutical products	Niche subsector. The CAGR of MVA is (3.9%), which is below the average of Sector C (5%). The average of MVA/capita for 2015-2020 is 0.6.	Growing subsector. CAGR of employment is increasing (36.8%), which is above the average of Sector C (6%). This subsector employs an average of 116, with participation in the average employment in Sector C (0.3%). Average employment per capita for the period 2015-2020 is 0.01%.	The sub-sector has a pronounced negative trade balance (EUR 26M).		There is no data.	The subsector has positive synergy between MVA (3.9%) and employment (36.8%). The employment elasticity speaks for the growth of MVA based on the commitment of the workforce (employment-led growth). The significant figure of this elasticity, however, may give indications of limited productivity of workers in this sub-sector. However, it should be borne in mind that the sub-sector currently employs	The negative trade balance of EUR 26M indicates limitations in export competitiveness. This sub-sector has a high import and it should be considered if it is worth designing measures to support the sub-sector, considering that external competition is high. Also, the sub-sector employs only 0.3% of all employment in Sector C, so intervention measures must take into account which specific objective of the government is being targeted. Also, the high elasticity of employment shows that growth in the sub-sector comes to a	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		Employment elasticity is positive (9.53%).				less than 1% of all employment in Sector C.	significant extent from the commitment of the workforce, which may give indications that the low productivity of female workers may be a reason that feeds external non-competitiveness, manifesting itself in the balance considerable commercial negative.	
(22) Manufacture of rubber and plastics	Rising star subsector. The CAGR of MVA is (5.5%), which is above the average of Sector C (5%). The average MVA/capita for 2015-2020 is 20.	Niche subsector. The employment CAGR is in decline (5.8%), which is below the average of Sector C (6%). This sub-sector employs an average of 3,100, with participation in the average	Large star subsector. This sub-sector is stable and has a positive trade balance (EUR 804 thousand).		There is no data.	The subsector has positive synergy between GVA (5.5%), employment (5.8%), and positive trade balance (EUR 804 thousand). The sub-sector has employment elasticity of 1.06%, which speaks of the sub-sector's growth model based on	This sector does not create "trade-offs". This could mean that policymakers should take into account support measures that maintain the competitiveness of the sub-sector, aiming through the relevant measures to deepen the positive trade balance. This could include improved access to export markets, technical	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 5.5% • WB6: -0.2% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 2.6 • BH: 20.6 • MNE: 5 • MV: 19.5 • SER: 49.9 • KS: 20 • WB6: 28.6 • SLO: 249.2 • EST: 80.6	employment in Sector C (9%). The average employment per capita for the period 2015-2020 is 0.17%. Average employment per capita for the period 2015-2020: • Alb: 0.05% • BH: 0.19% • MNE: 0.03% • NM: 0.17% • SER: 0.43% • KS: 0.17% • WB6: 0.26% • SLO: 0.73% • EST: 0.31% Employment elasticity is				the commitment of the workforce but also productivity, which may be the reason why the sub-sector has a positive trade balance. It is worth noting that the participation of the employment of the sub-sector in the employment of the entire Sector C is significant (9%). However, it should be noted that employment in this sub-sector in 2020 has decreased (3,138) compared to a year ago (3,922) - probably influenced by the pandemic effect.	support to further improve worker productivity through skills development schemes, and similar measures.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		positive (1.06%).						
(23) Production of other non-metallic mineral products	Niche subsector. CAGR of MVA (1.7%), which is below the average of Sector C (5%). The average MVA/capita for 2015-2020 is 68.7. MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 1.7% • WB6: -0.2% • SLO: -0.6% • EST: -0.6%	Subsector large star. The employment CAGR is increasing (20.5%), which is above the average of Sector C (6%). This subsector employs an average of 3,361, with participation in the average employment in Sector C (9.8%). The average employment per capita for the period 2015-2020 is 0.19%. Average employment per	The subsector has a negative trade balance (EUR 16M).		The subsector has a CAGR of energy consumption in the value of 2.9% for the years 2015-2020. 21.9 KTOE were consumed in 2020 compared to 18.4 KTOE in 2015.	The subsector has positive synergy between MVA (1.7%) and employment (20.5%). The high elasticity of employment (12%) shows that the growth model of the subsector originates to a significant extent from the engagement of the workforce. Also, the participation of the employment of this sub-sector in the total employment of Sector C is significant (about 10%). This shows that this sub-sector, despite the negative trade	The sub-sector has a considerable negative trade balance (EUR 16M). This negative balance may indicate that the demand of the industries in Kosovo is high, which must be covered by imports. So, in itself, the negative trade balance in this sub-sector does not mean that the sub-sector lacks competitiveness, but it may be related to the fact that the demand for the products of this sub-sector is high. However, the measures for this sub-sector should take into account the fact that the sub-sector is an important source	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	Average MVA/capita: • Alb: 21 • BH: 31.1 • MNE: 36.7 • MV: 52.4 • SER: 42.4 • SC: 68.7 • WB6: 40.4 • SLO: 141.3 • EST: 107.9	capita for the period 2015-2020: • Alb: 0.02% • BH: 0.13% • MNE: 0.12% • NM: 0.14% • SER: 0.19% • KS: 0.19% • WB6: 0.14% • SLO: 0.33% • EST: 0.34% Employment elasticity is positive (12%).				balance, is an important source of employment in the country. Despite the pandemic effect, employment in this subsector in 2020 was similar (4,970) compared to 2019 (5,052), with a slight decrease. Otherwise, the employment CAGR indicates a significant increase in employment in this subsector.	of employment and deepening the engagement of the workforce, aiming at its additional skill, can also lead to the improvement of the trade balance.	
(24) Base metals	Subsector in decline. CAGR of MVA is (-1.7%), which is below the average of Sector C (5%).	Niche subsector. The employment CAGR is positive (2.9%), which is below the average of Sector C (6%).	This subsector is unstable and has a negative trade balance (EUR 75M).		The sub-sector has a CAGR of energy consumption in the value of -3.1% for the years 2015-2020.	The sub-sector currently does not create synergy between employment (2.9%) or GVA (-1.7%), or between employment (2.9%) and trade balance (75M).	Despite the positive growth of employment CAGR (2.9%), the subsector is in decline (MVA is -1.7%). Also, the decrease in MVA coincides with a significant negative trade balance of 75M.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	The average MVA/capita for 2015-2020 is 32.	This subsector employs an average of 1,423, with participation in the average employment in Sector C (4.1%). The average employment per capita for the period 2015-2020 is 0.08%. Employment elasticity is negative (1.68%).			99.8 KTOE were consumed in 2020 compared to 120.7 KTOE in 2015.	The sub-sector has a significant participation in the total employment of Sector C (4.1%), while the negative elasticity of employment (-1.68%) indicates that the growth model is based on employment-led growth, but productivity seems to be very low. However, the employment of this sector, despite the positive CAGR of employment (2.9%), is similar in 2020 (1,616) to the employment in 2016 (1,608), which may indicate that we	This sub-sector has significant challenges, taking into account the fact that the MVA in decline and the pronounced trade balance indicate serious problems in external competitiveness.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
						do not have a significant increase in employment. as well as there are employment fluctuations within the years 2015-2020.		
(25) Manufacture of fabricated metal products except machinery and equipment	Niche subsector. CAGR of MVA (2.1%), which is below the average of Sector C (5%). The average GVA/capita	Rising star subsector. The employment CAGR is increasing (19.6%), which is above the average of Sector C (6%). This subsector employs an average of	The sub-sector has a negative trade balance (EUR 20.8M).		The sub-sector has a CAGR of energy consumption in the value of -2.9% for the years 2015-2020. 3.6 KTOE were consumed	The subsector has positive synergy between MVA (2.1%) and employment (19.6%). The participation of the employment of the sub-sector in the total employment of Sector C is considerable (nearly 7%).	The positive growth of GVA and employment coincides with a negative trade balance (20.8M). However, the fact that the sub-sector is an important source of employment, the eventual measures should be taken into account as the increase in	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	for 2015-2020 is 21.7. MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 2.1% • WB6: -0.5% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 12.6 • BH: 54.6 • MNE: 29.3 • MV: 28.5 • SER: 75.3 • SC: 21.7 • WB6: 48.7 • SLO: 503.6 • EST: 235.6	2,382, with participation in the average employment in Sector C (6.9%). Average employment per capita for the period 2015-2020 is 0.13%. Average employment per capita for the period 2015-2020: • Alb: 0.18% • BH: 0.56% • MNE: 0.15% • NM: 0.32% • SER: 0.66% • KS: 0.13% • WB6: 0.48% • SLO: 1.51% • EST: 0.99%			in 2020 compared to 4.3 KTOE in 2015.	Meanwhile, employment elasticity shows that the employment growth model is based on employment-led growth. CAGR of employment shows that employment has tripled from 1,17 in 2015 to 3,232 in 2020.	productivity can lead to the increase in export competitiveness, and thus to the improvement of the trade balance.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		Employment elasticity is positive (9.51%).						
(27) Manufacture of electrical equipment	Mature subsector. CAGR of MVA (10.8%), which is above the average of Sector C (5%). The average MVA/capita for 2015-2020 is 5.	Subsector in decline. The employment CAGR is in decline (-19.8%), which is below the average of Sector C (6%). This sub-sector employs an average of 970, with participation in the average employment in Sector C (2.8%). Average employment per capita for the period 2015-2020 is 0.05%.	sub-sector has a negative trade balance (EUR 27 M).		The sub-sector has a CAGR of energy consumption in the value of -3.7% for the years 2015-2020. 0.48 KTOE were consumed in 2020 compared to 0.6 KTOE in 2015.	Although the subsector has a higher MVA than the average of Sector C (10.8% against 5%), employment is in decline (~20%). According to the data, employment in this subsector in 2020 was 472 compared to 2,087 in 2019, which may have been affected by the pandemic. However, even compared to the base year of 2015 where employment was 1,770, this significant decrease in employment is a	The positive growth of the subsector according to MVA (10.8%) is associated with a significant decrease in employment CAGR (about 20%), as well as negative employment elasticity of 1.83%, which indicates that the growth model of the subsector is "jobless growth". Also, the decrease in employment (-19.8%) as well as the negative trade balance (EUR 27M), indicate not only the trade-off between employment and the trade balance, but also a decline.	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
		Employment elasticity is negative (1.83%).				signal that should be taken seriously to understand more deeply the reasons for this development. The employment participation of this sub-sector in the total employment of Sector C is not insignificant (2.8%). According to employment elasticity, the growth model of the subsector based on positive MVA is through "jobless growth".	The reasons why the sub-sector has achieved an increase in MVA in recent years, while reducing the workforce, should be analyzed in more depth. The reasons may be the automation of processes, capital deepening, or other reasons, which may help in considering policies that may be suitable for this subsector, especially regarding the trade balance.	
(28) Machinery	Mature subsector.	Subsector in decline.	sub-sector		The sub-sector has a	The sub-sector does not generate	The sub-sector has a "trade-off" between	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
and equipment pkt	CAGR of MVA (18.3%), which is above the average of Sector C (5%). The average GVA/capita for 2015-2020 is 6.3.	The employment CAGR is in decline (-13.6%), which is below the average of Sector C (6%). This subsector employs an average of 78, with participation in the average employment in Sector C (0.2%). The average employment per capita for the period 2015-2020 is 0.0000. Employment elasticity is negative (0.74%).	has a negative trade balance (EUR 61M).		CAGR of energy consumption in the value of -3.6% for the years 2015-2020. 0.33 KTOE were consumed in 2020 compared to 0.41 KTOE in 2015.	synergy between GVA (18.3%), or employment (-13.6%), or negative trade balance (61M). The participation of the employment of the sub-sector in the total employment of Sector C is very low (0.2%). Meanwhile, employment elasticity speaks for the growth model of the subsector through "jobless growth" (-0.74).	MVA (18.3%) and employment (-13.6%). The sub-sector employs relatively few female workers compared to the participation of other sub-sectors of Sector C (0.2%). The elasticity of employment speaks of the growth of the MVA of the sector through "jobless growth", which means that the sub-sector is not growing due to the commitment of the workforce. It is necessary to analyze the reasons why the sub-sector is growing despite the decrease in the level of employment, and the reasons can be many, from automation, to the increase in	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
							productivity, or other factors. The sub-sector also has a pronounced negative trade balance, which speaks of the fact that import is dominant. However, this may also give indications for the eventual possibility of import substitution.	
(31) Manufacture of furniture	Mature subsector. The CAGR of MVA is high (10%), which is above the average of Sector C (5%). The average GVA/capita for 2015-2020 is 16.3.	Subsector in decline. CAGR of employment is in decline (-0.4%), which is below the average of Sector C (6%). This subsector employs an average of 4,163, with participation in the average	The subsector is a big star. This subsector contributes significantly positively to the trade balance (EUR 30.1M).		The sub-sector has a CAGR of energy consumption in the value of -3.8% for the years 2015-2020. 25.2 KTOE were consumed in 2020 compared	The sub-sector has positive synergy between MVA and trade balance (high MVA of 10% and apparently positive trade balance of EUR 30.1M). The growth of the sector according to added value is positively related to the trade balance. This	Despite the positive GVA and the positive trade balance, there is a negative correlation between GVA and employment (with a decrease in employment CAGR of 0.4%. However, the number of employment in the subsector has been increasing in 2017-2018 (4,774 from 3,398 in 2016), however, there was a	

Subsector	Growth (MVA)	Employment (Man L)	Trade deficit	Domestic benefit	Energy efficiency	Synergies	Recommendations on trade-offs	Domestic input
	MVA CAGR: • Alb: -0.6% • BH: -0.6% • MNE: -0.6% • MV: -0.6% • SER: -0.6% • KS: 5.8% • WB6: -0.5% • SLO: -0.6% • EST: -0.6% Average MVA/capita: • Alb: 5.8 • BH: 19.9 • MNE: 10.9 • MV: 13.2 • SER: 32 • SC: 3.3 • WB6: 19.6 • SLO: 147.3 • EST: 133.8	employment in Sector C (12%). Average employment per capita for the period 2015-2020 is 0.23%. Average employment per capita for the period 2015-2020: • Alb: 0.16% • BH: 0.35% • MNE: 0.11% • NM: 0.32% • SER: 0.33% • KS: 0.23% • WB6: 0.29% • SLO: 0.46% • EST: 0.74% Employment elasticity is negative (0.04%).			to 31.8 KTOE in 2015.	speaks for the competitiveness of the export sector. The employment participation of this sub-sector in the employment of Sector C is significant (12%).	small decrease in 2019 (4,593 compared to 4,730 in 2018) and a significant decrease in 2020 (probably due to the pandemic). This means that the effect of the growth of the subsector can to be positive even in employment if the last year of the analysis (2020) is removed as the basis.	

Annex 5

List of indicators for which data is missing

No.	Indicator	Description	Responsible Institution
1.	Circular material use rate	The indicator measures the share of material recycled and fed back into the economy - thus saving extraction of primary raw materials - in overall material use. The circular material use, also known as circularity rate is defined as the ratio of the circular use of materials to the overall material use.	Kosovo Agency of Statistics Check: Eurostat
2.	Market share of environmentally friendly products (%)	The indicator measures the market share of products with official eco-label.	Kosovo Agency of Statistics Check: Germany's Sustainable Development Strategy
3.	Percentage of citizens often buying environmentally friendly products	The indicator shows the percentage of citizens often buying environmentally friendly products based on a public opinion poll.	Kosovo Agency of Statistics Check: Eurobarometer
4.	Domestic services purchased by industries	The indicator measures the share of domestic services industry turnover generated by manufacturing.	Kosovo Agency of Statistics Note: It could be generated once input output tables are developed.

No.	Activity	Description	Responsible Institution
1	Input-output tables	Develop input-output tables to understand the structure of inputs used in industry, which can be replaced by domestic resources (untapped resources and resources extracted and exported in low value).	Kosovo Agency of Statistics See: https://ec.europa.eu/eurostat/web/esa-supply-use-input-tables/overview
2	EU Taxonomy for sustainable activities	Adopt the EU taxonomy, the classification system for establishing sustainable (green) economic activities, to help companies and investors make sustainable investment decisions by having a shared understanding of what is green.	Kosovo Agency of Statistics See: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en