Republika e Kosovës

Republika Kosova - Republic of Kosovo

Qeveria - Vlada - Government

Ministria e Industrisë, Ndërmarrësisë dhe Tregtisë

Ministarstvo Industrije, Preduzetništva i Trgovine - Ministry of Industry, Entrepreneurship and Trade

Report on the Implementation of the Strategy for Industrial Development and Business Support and the 2023-2025 Action Plan

(2023)

March, 2024

CONTENT

List of abbreviations

KAS – Kosovo Agency of Statistics

EBRD – European Bank for Reconstruction and Development

GDP – Gross Domestic Product

KAD – Kosovo Accreditation Directorate

DI – Department of Industry

GIZ – German Agency for International Cooperation

KIESA – Kosovo Investment and Enterprise Support Agency

MIET – Ministry of Industry, Entrepreneurship and Trade

MFPT – Ministry of Finance, Labor and Transfers

FTA – Free Trade Agreement

SDG – Sustainable Development Goals

PSWD – Private Sector-Led Workforce Development Activity / IREX/USAID Project

GK – Government of Kosovo

SID&BS – Strategy for Industrial Development and Business Support

NDS – National Development Strategy

UNDP – United Nations Development Program

USAID – United States Agency for International Development

VAP – Value-Added of Production

OPM- Office of the Prime Minister

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EXECUTIVE SUMMARY

The Strategy for Industrial Development and Business Support (SIDBS) 2030 and the Action Plan (2023-2025) were adopted in June 2023. The strategy was prepared by the Government of Kosovo (GK) to provide a strategic policy framework for promoting industrial development. The drafting of this strategic document highlights the importance that the GK places to the production sector in achieving a structural transformation of the Kosovo economy.
The vision of Kosovo's Industrial Policy is that "By 2030, Kosovo's industry will have transformed into a more globally integrated industry capable of producing with high added value and providing decent employment opportunities".
The Industrial Policy is developed using the established methodology "*Raising the Quality of Industrial Policies*", which is designed to assist countries in creating comprehensive industrial policies founded on strong diagnostics. The rationale behind the Industrial Policy intervention has been established by firstly identifying the key strategic objectives of the National Development Strategy (NDS 2030) that would be positively influenced by a flourishing industrial sector. Secondly, specific objectives of the Industrial Policy were formulated based on these alignments with the NDS. Thirdly, by understanding the fundamental deficiencies in the structure of industrial capacities in Kosovo, specific changes (hereinafter referred to as "sub-objectives") that are necessary to achieve the objectives of the industrial policy can be identified. Fourthly, the identified sub-objectives serve as the foundation for developing the main industrial policy actions and the overall action plan.

The objectives and sub-objectives of the Industrial Policy have been identified through a comprehensive analysis of the economic, social and environmental performance of the production sector.

In order to facilitate the unfolding of the development potential of the production sector in Kosovo and contribute to achieving the strategic goals of NDS 2030, the strategy has five policy objectives: 1) Expanding industrial production; 2) Reducing industrial trade deficit; 3) Generating decent and inclusive employment; 4) Facilitatinge growth of a green and circular industry, and 5) Maximizing internal profitability growth. Achieving these policy objectives depends on significant changes to be made in 16 specific objectives and 75 activities.

The monitoring report for the year 2023 aims to provide a summary of the implementation of the strategic objectives, specific objectives and activities of the SIDBS 2030 Action Plan.

The Strategy for Industrial Development and Business Support 2030 is horizontally interconnected with other institutions and donors. Throughout the monitoring process, there were been delays and failures in providing complete data for the implementation of activities by the institutions responsible for carrying out SIDBS activities. The adoption of the strategy on June 29, 2023, has impacted the delays in implementing some activities planned for 2023, as well as the inability to provide indicator data for the same year.

Methodology

The implementation of the activities of the Strategy for this report is solely based on the reports provided by the responsible and supporting institutions involved in their implementation. The units, departments, or institutions included in the report are aligned with the decision made on November 13, 2023, which established the Inter-Ministerial Coordinating Body responsible for ensuring regular monitoring and evaluation, conducting interim reviews, and completing the final evaluation of the Strategy.

The reporting forms have been compiled and submitted to the responsible and supporting institutions of the respective stakeholders of the Strategy who are required to report. The reporting method used by stakeholders is by sending inputs through e-mail. The Department of Industry has submitted the reporting forms (following to the structure described above) via email to all members of the inter-ministerial coordinating body for the implementation and monitoring of the Strategy. Members have been given a deadline of approximately two weeks to submit their inputs by sending the completed forms to the Department of Industry.

After submitting the completed forms, the Department of Industry consolidated the inputs and developed the analysis. In certain cases, the analysis of the inputs was accompanied by thematic meetings with the responsible officials, as well as additional correspondence through e-mail to obtain further information for the implementation of activities. The quality of reporting needs improvement in other reports. Overall, the reporting by stakeholders is limited to detailing the implementation of activities during the year 2023, without providing the end product.

The impact of implementing the indicators has not been possible to measure since the strategy was approved on 29.06.2023. Additionally, the data for the indicators is quite complex and must be obtained from multiple sources, which have not yet been published for the year 2023.

Strategic Objectives of the Document

The objectives of the industrial policy are specific and measurable goals that outline the reasons why Kosovo is following an industrial policy and what exact changes the Government of Kosovo (GK) aims to achieve in the production sector. These objectives of the industrial policy are a crucial part of the intervention logic at the influence level.
In order to facilitate the unfolding of the development potential of the production sector in Kosovo and contribute to achieving the strategic goals of National Development Strategy 2030 (NDS 2030), the Industrial Policy will pursue five policy objectives:

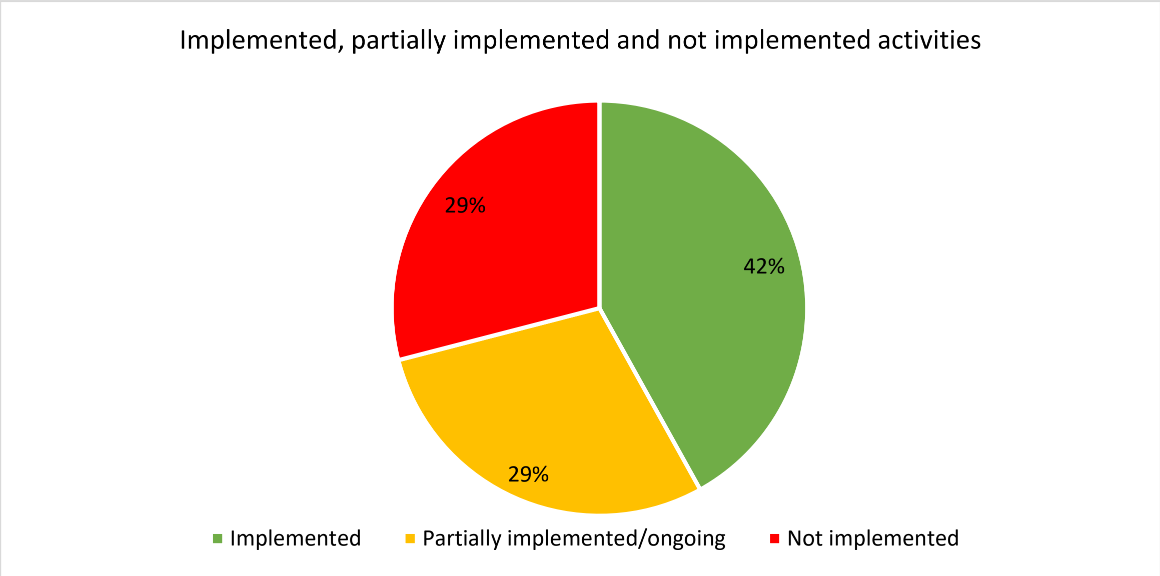
1) Expanding industrial production;
2) Reducing industrial trade deficit;
3) Generating decent and inclusive employment;
4) Facilitating growth of a green and circular industry;
5) Maximizing internal profitability growth.

Achieving these policy objectives depends on making significant changes to 16 different specific objectives, ranging from improving access to finance and product innovation, to supporting manufacturers in expanding into export markets, equipping the workforce with industry-relevant skills, improving green industry practices, and increasing the share of local inputs in production.

II. PROGRESS IN IMPLEMENTING THE STRATEGY OBJECTIVES

This section describes the implementation of the objectives outlined in the action plan of the Strategy. In the 2023-2025 action plan of the strategy, there are 31 activities planned to be implemented in 2023, with 14 continuing to be implemented in the following two years 2024 and 2025. Out of these activities, during period July- December 2023, 13 activities have been fully implemented, 9 are partially implemented/ongoing, and 9 have not yet been implemented.

Chart 1. Percentage of completed, partially completed and uncompleted activities



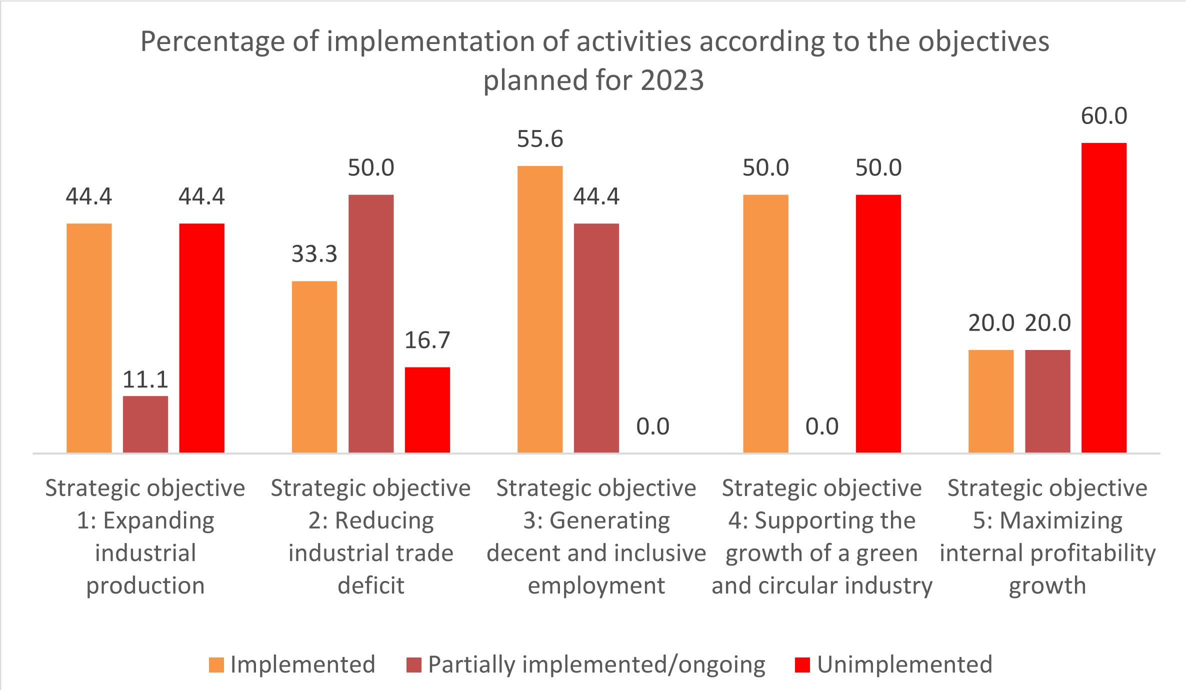
Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

It can be concluded that the delays in implementing some activities outlined in the action plan indicate the need to take concrete steps to eliminate barriers hindering their timely implementation. The role of the institutions responsible for implementing the action plan is crucial for the development and implementation of planned activities.

In this regard, the establishment of institutional cooperation to strengthen the implementation of the action plan is crucial. Creating new opportunities to support the implementation of activities by donors and attract additional funds are necessary steps that must be taken in the coming years in this direction.

The evaluation of the implementation of the activities according to this report is divided into three categories: 1) implemented; 2) partially implemented / ongoing; and 3) not implemented.

Chart 2. Activities implemented, partially implemented and not implemented during the period (July-August 2023), according to strategic objectives.



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

Strategic objective 3 represents the ideal scenario for implementing activities, while objective 5 indicates that out of 5 planned activities, 3 activities have not been implemented.

Table 1. Implementation of SIDBS activities - 2030, Action Plan 2023-2025, for the period (July - December 2023)

No.	Action/activity	Deadline	Leading institution	Leading and supporting institution	Product (Output)	Progress status	Brief explanation of progress
Strategic objective: Expanding industrial production[1]							
Specific objective 1.2: Increase investments in production							
1.2.1	Drafting of the Law on Sovereign Fund	Q4 2023	OPM	OPM	Law on the Sovereign Fund completed and approved	**Implemented**	Approved on December 15 in the Assembly of Kosovo
1.2.3	Drafting a study to evaluate the impact of existing industrial parks on job creation, exports, and economic development	Q4 2023	MIET-KIESA	MIET (KIESA, Department of Industry and GIZ (EP)	Study evaluating the impact of existing parks completed	**Partially implemented / ongoing**	The terms of reference have been prepared and the request for contracting the economic operator has been processed
1.2.6	Creating promotional videos showcasing successful FDI stories in Kosovo	Q4 2023 Q4 2024 Q4 2025	MIET-KIESA	MIET (KIESA)	Promotional videos completed	**Implemented**	During 2023, promotional videos were created for sectors with potential and success stories in those sectors. The videos are in the final stages of evaluation and will be released soon.
1.2.8	Providing corporate income tax facilititation for strategic investments	TM3 2023	MFLT	MFLT and OPM	The amended Law on Corporate Income Tax with the tax holiday included	**Not implemented**	According to MFLT, this activity should be removed. The law on Corporate Income Tax falls under the mandate of MFLT and is not expected to be implemented

[1] Specific objective 1.1. Facilitating access to finance for local producers, there were no activities planned for implementation in 2023, for this reason it was not presented in the report

Specific objective 1.3: Accelerating digitization in production							
1.3.5	Creating data protection agreement models based on relevant legislation to serve to manufacturing companies and other businesses	Q4 2023	MIET-DI	MIET (Department of Industry) and the Information and Privacy Agency	Completed personal data agreement models	**Not implemented**	After consulting with other stakeholders and businesses, it has been determined that model agreements cannot be created due to the diverse nature of businesses. This activity falls under the Information Campaign titled "Informing businesses on the Law on Protection of Personal Data and the Law on Protection of Trade Secrets". As part of the "Business Days" activities organized by KIESA, in the 7 regions of Kosovo, approximately 500 businesses will receive information about the aforementioned laws.
Specific objective 1.4: Enhancing the quality and certification of internationally recognized products							
1.4.3	Drafting an action plan that outlines the steps to be taken by the Kosovo Accreditation Directorate (KAD) to meet the requirements for full membership in the European Accreditation Organization (EA)	Q4 2023	MIET-KAD	MIET (Kosovo Accreditation Directorate)	Action plan completed	**Not implemented**	As of the reporting time, KAD has not conducted any activities outlined in the action plan, due to the fact that the Regulation on Organization and Systematization of Jobs has not been approved yet. This Regulation outlines the structure of KAD, assigns duties and responsibilities to KAD staff based on their positions, and ensures that documents for the Quality Management System are created in compliance with the ISO/IEC 17011:2017 standard.

1.4.4	Drafting the law for supervising product copatibility in the market	Q4 2023	MIET-DI	MIET (Department of Industry)	The law for supervising product conformity on the market is adopted	**Not implemented**	Government legislative plan for Q4/2025
1.4.7	Organizing workshops to implement quality infrastructure, technical legislation, and supporting standards	Q2 2023 Q2 2024 Q2 2025	MIET-DI	MIET (Department of Industry), GIZ (EP) and sectoral associations	3 workshops are organized with businesses every year	**Implemented**	3 workshops were conducted
1.4.8	Holding informative meetings with businesses to establish certification bodies for specific groups of non-food products	Q2 2023 Q2 2024 Q2 2025	MIET-DI-KIESA	MINT (Department of Industry and KIESA)	7 regional meetings are held per year with about 700 participating businesses	**Implemented**	2 workshops were conducted with the support of the GIZ Regional Project in the areas of: 1. Electrical and electronic equipment 2. Machine safety
Strategic objective: Reducing industrial trade deficit							
Specific objective 2.1: Supporting enterprises to exploit (maximize) their export potential							
2.1.3	Organizing sales missions abroad for export-ready companies in targeted sectors	Q4 2023 Q4 2024 Q4 2025	MIET-KIESA	MIET (KIESA)	At least 500 manufacturing enterprises are supported to participate in fairs	**Implemented**	In 2023, approximately 120 companies were supported at 18 international fairs across various sectors.
2.1.5	Organizing regional B2B meetings between local and regional input suppliers to foster networking opportunities	Q3 2023 Q3 2024 Q3 2025	MIET-KIESA	MIET (KIESA), GIZ (EP) and sectoral associations	3 B2B meetings are held with at least 100 participating companies	**Partially implemented / ongoing**	Economic forums have been conducted with countries including Croatia, Hungary, Italy, Sweden and Israel, and B2B meetings have been arranged between Kosovar businesses and those from the aforementioned countries. Similar events will be continued in 2024 and 2025, with plans to also organize information sessions with diaspora businesses in various countries. In total, 165 Kosovar enterprises were supported in organizing B2B meetings.

2.1.6	Conducting an analysis to assess the impact of export promotion activities	Q4 2023 Q4 2024 Q4 2025	MIET-KIESA	MIET (KIESA)	Analysis completed annually	**Partially implemented / ongoing**	The analysis is currently in progress, surveys are being conducted with businesses that participated in the fair.
Specific objective 2.2: Diversifying export markets							
2.2.1	Preparing an analysis to identify a list of strategic manufacturing products with potential for export	Q4 2023	MIET-DT	MINT/Department of Trade and Department of Industry	Analysis for strategic export products completed	**Implemented**	The analysis titled "Identification of products with potential for export" has been finalized. https://mint.rks-gov.net/desk/inc/media/7E935F6E-1015-4DF3-985F-94FFFF968295.pdf
Specific objective 2.3: Replacing imports of intermediate and final products with local products and promoting local products							
2.3.2	Improving the import tariff regime to provide protection for strategic products	TM4 2023	MFLT	MINT (Department of Trade), MFLT and Kosovo Customs	Imports tariff regime updated	**Not implemented**	According to MFLT, this activity can likely be carried out, but it should always be taken into account that we have other FTAs in force that should not be affected. Additionally, the steps taken in this direction must be in line with EU practices.
2.3.6	Drafting a trade policy (trade program)	TM4 2023	MIET-DT	MIET (Department of Trade)	Trade program completed	**Partially implemented / ongoing**	Meetings and workshops have been held with the Working Group regarding the drafting of the Trade Policy document and a draft was prepared.
Strategic objective 3: Generating decent and inclusive employment							
Specific objective 3.1: Qualification and certification of technical workforce and enterprise managers							

3.1.1	Applying comprehensive research to pinpoint the skills lacking in the industry's labor market and to grasp the challenges employers face in finding qualified workers	Q4 2023	MIET-DI	MIET (Department of Industry), USAID (PSWD) and GIZ	Research report completed	**Partially implemented / ongoing**	1. The Terms of Reference have been drafted for Q4 2023, 2. The research will be completed in Q2 2024
3.1.2	Providing financial aid to producer associations to effectively oversee sectoral works councils	Q4 2023 Q4 2024 Q4 2025	USAID/IREX	USAID (PSWD) and Sectoral Associations	Sectoral work councils have been established and are operational for the wood sector, agro-processing and a third industrial sector which is yet to be determined	**Implemented**	Sectoral Workforce Councils are currently operational in the information and communication technology (ICT), woodworking and agribusiness sectors. In 2024, PSWD will establish a Workforce Council in the energy sector as well.
3.1.4	Establishing an employment program in production as part of Active Labor Market Measures (measures: internships and wage subsidies)	Q4 2023 Q4 2024 Q4 2025	MFLT – Employment Agency	MPLT (Employment Agency)	At least 1,200 beneficiaries of the manufacturing employment program each year	**Partially implemented / ongoing**	Through the Super Work Project, 9,394 jobseekers have benefited from wage subsidies for a period of 6 months. However, there is a lack of data on how many have benefited in the productive sector. Additionally, there are benefits for families through the Government. On-the-job training is currently developed only in institutions and not in manufacturing enterprises.
3.1.7	Assisting in the development of training programs aimed at enhancing skills within the industry	Q4 2023 Q4 2024 Q4 2025	USAID-MEST	MESTI (National Qualifications Authority) and USAID (PSWD)	15 new training programs have been created	**Partially implemented / ongoing**	From the first call for grants announced in 2023 by PSWD, USAID/IREX expects that during the grant implementation period in 2024 and 2025, 12 programs will be developed in ICT, 2 in agribusiness, and 3 in the wood processing sector. In total there will be 17 programs, 14 of which are new and 3 are advanced.
Specific objective 3.2: Promoting the creation of decent jobs in industry							

3.2.1	Designing an analysis to evaluate the level of informality in employment based on industry activities	Q4 2023	MIET-DI	MIET (Department of Industry)	Analysis of informality in industry finalized	**Implemented**	Completed in Q4 2023 https://mint.rks-gov.net/desk/inc/media/775DAC64-CDC0-4F65-A74F-A3AFCB406FB3.pdf
3.2.2	Establishing a decent wage threshold within the industry (an income threshold above the minimum wage that is not mandatory) and providing recognition to companies that pay wages above this threshold	Q4 2023 Q4 2024 Q4 2025	MIET-DI	MIET (Department of Industry) and MFLT	Decent wage determined and offering recognition to companies	**Implemented**	Completed in Q4 2023 https://mint.rks-gov.net/desk/inc/media/D13AE9DA-B21A-425F-8D4C-1EEEDF4E3699.pdf
Specific objective 3.3: Integration of women and youth into the labor market and business							
3.3.1	Organizing Women's Week in Industry	Q4 2023 Q4 2024 Q4 2025	MIET-KIESA	MIET (KIESA)	150 women beneficiaries	**Partially implemented / ongoing**	The Women's Fair, which is now a traditional event, was organized and not the Women's Entrepreneurship Week.
3.3.2	Supporting career centers in high schools and universities to establish collaborative links with industry associations	Q4 2023		MESTI and MIET (Department of Industry), Associations	10 career centers and universities are supported to create memorandums of cooperation with the main associations	**Implemented**	In Q2-Q4 2023, 8 new centers have been established in IAAP. Career guidance coordinators and businesses cooperation coordinators have been appointed. There are a total of 24 career centers in VET institutions that are in constant contact with businesses to increase cooperation for the implementation of practical learning in businesses. This year, there are 12 profiles in which Dual Learning is taking place. This means that the theoretical part occurs in the school while the practical part occurs in the company.

3.3.3	Supporting training for women and young people in the workplace	Q3 2023 Q3 2024 Q3 2025	EBRD and MIET - KIESA		300 women and young people trained 600 young people trained	**Implemented**	186 participants trained
Strategic objective 4: Supporting/facilitating circular and green industries[2]							
Specific objective 4.1: Supporting enterprises to increase recycling and circulation in production							
4.1.1	Organizing workshops for manufacturing enterprises to introduce them to the basics of circular economy business models	Q4 2023 Q4 2024 Q4 2025	UNDP	MIET (Department of Industry) and UNDP	5 seminars with 30 businesses are informed about circular economy models	**Implemented**	In October, two meetings were held with businesses to inform them of the program related to the basics of circular economy business models. A total of 30 businesses participated and they were trained in the green transition module. This activity was carried out in cooperation with the Boost program, UNDP
Specific objective 4.3: Supporting technological improvement with a focus on increasing energy and materials efficiency							
4.3.1	Developing a program for investing in green technology withing the manufacturing industry	Q4 2023	EBRD	EBRD and partner financial institutions	At least 80 beneficiary companies	**Not implemented**	
Strategic objective 5: Maximizing internal profitability growth							
Specific objective 5.1: Increasing the share of local inputs in production							
5.1.3	Drafting a study on the utilization of natural resources in the industry	Q4 2023	MIET-DI	MIET	The study on the use of natural resources for industry has been completed	**Not implemented**	The strategy was approved on 29.06. 2023, with no budget allocated for implementation of this activity. This activity is planned to be carried out in 2024.
Specific objective 5.2: Enhancing product innovation to increase added value production							
5.2.1	Awarding prize for innovation in manufacturing products	Q4 2023 Q4 2024 Q4 2025	MIET-D. of Innovations	MIET (Department of Innovations and KIESA)	5 awards per year for innovative products	**Not implemented**	These prizes are awarded on Innovation Day in April, while SIDBS was adopted on 29.06.2023.

[2] Specific objective 4.2. Supporting the production and consumption of green products, there were no activities planned for realization in 2023, for this reason it was not presented in the report

							The activity will be realized in Q2/2024 on Innovation Day.
5.2.2	Reducing corporate income tax for large manufacturing companies that are investing in selected innovative entities	Q4 2023	MIET-D. of Innovations - MFLT	MIET (Department of Innovations) and MFLT	At least 50 investments in innovative entities	**Not implemented**	According to MFLT, this activity should be removed. The law on TAK falls under the mandate of MFLT and it is not expected to provide such service.
5.2.3	Finalizing the Industrial Property Program	Q2 2023	MIET-IPA	MIET (Industrial Property Agency)	Industrial property program has been completed and approved	**Partially implemented / ongoing**	It has not been approved yet, it is currently in process (ongoing)
Specific objective 5.3: Strengthening linkages with domestic industry-related service providers							
5.3.4	Establishing the National Council for Industry Development	Q4 2023	MIET-DI	MIET	National Council for Industry Development has been established	**Implemented**	The Council was established by the Prime Minister's decision

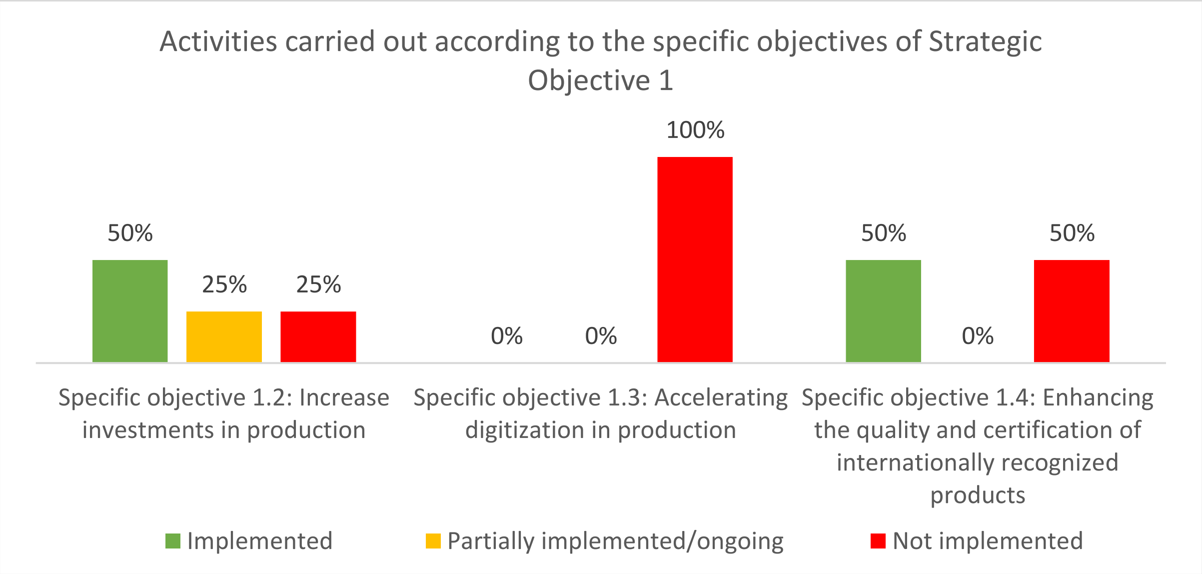
II.1 Progress towards Strategic Objective 1: Expanding industrial production

Strategic Objective 1 aims to expand industrial production, directly impacting the achievement of the Sustainable Development Goals (SDGs).

Progress in achieving this objective will be measured by two indicators: the added value of production per capita and the proportion of the added value of production to GDP, which measures the relative importance of production in relation to the overall economy.

This strategic objective has 4 specific objectives and 26 activities. For the year 2023, planned activities to be carried out are in 3 specific objectives with 9 activities.

Chart 3. Percentage of implemented, partially implemented and not implemented activities during the period (July-August 2023), according to the specific objectives of Strategic Objective 1



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

<u>Specific objective 1.2, increasing investments in production</u>: this specific objective aims to boost the inflow of productive capital particularly through foreign investments, as well as the expansion of domestic private investments.
Within this specific objective, 2 out of 4 activities or 50% were successfully completed/implemented, 1 activity was partially completed and 1 activity was not completed.
Activity 1.2.8. ***Providing corporate income tax facilitation for strategic investments***, despite being planned for implementation in 2023, this activity has not been implemented. The MFLT has been requested to remove this action plan, as it will not be implemented.

<u>Indicators</u>: Progress in achieving specific objective 1.2 will be measured by two indicators: (i) the percentage of production FDIs in the total of FDIs (%); and (ii) the percentage/share of imported capital goods in the VAP.

<u>Specific objective 1.3, accelerating digitization in production</u>: aims to increase digitization in the production sector, which means the application of digital tools to enhance efficiency and productivity in management and production, as well as the shift towards data-driven automation.

In this specific objective for the year 2023, only one activity is planned to be carried out, activity 1.3.5 ***"Creation data protection agreement models based on relevant legislation to serve manufacturing companies and other businesses"***. This the activity has not been implemented because, after consultations with other stakeholders and businesses, it has been determined that due to the diverse nature of businesses, creating models of agreements would not be feasible. Following discussions with other stakeholders, it has been suggested that this activity be changed to an Information Campaign, "***Informing businesses on the Law on Protection of Personal Data and the Law on Protection of Trade Secrets".*** As part of the "Business Days" activities organized by KIESA, in the 7 regions of Kosovo, approximately 500 businesses will receive information about the aforementioned laws.

Indicators: Progress in achieving specific objective 1.3 will be measured by the following indicator: (i) the percentage of businesses using digitization tools in their general production processes/production work.

Specific objective 1.4: Enhancing the quality and certification of internationally recognized products: it aims at the quality of the product, including various specifics such as safety, durability, or compliance with established norms of the product and which can be demonstrated through a relevant certification.

There are a total of 9 activities under the specific objective 1.4. In 2023, 4 activities are planned to be implemented, with 50% already implemented and the remaining 50% yet to be implemented.

The not implemented activity it the activity 1.4.3 ***"Drafting the action plan that sets out the steps to be taken by the Kosovo Accreditation Directorate (KAD) to fulfill the requirements for full membership in the European Accreditation Organization (EA)",*** As of the reporting time, KAD has not conducted any activities outlined in the action plan, due to the fact that the Regulation on Organization and Systematization of Jobs has not been approved yet. This Regulation outlines the structure of KAD, assigns duties and responsibilities to KAD staff based on their positions, and ensures that documents for the Quality Management System are created in compliance with the ISO/IEC 17011:2017 standard.

The next activity that has not been implemented for this specific objective is activity 1.4.4 "***Drafting the law for supervising product compatibility in the market***", according to the legislative plan of the government, the Law for supervising product compatibility in the market is scheduled to be implemented in Q4/ 2024.

Indicators: Progress in achieving specific objective 1.4 will be measured by the following indicator: (i) the number of industrial products exported to the EU (at least €10,000 per year).

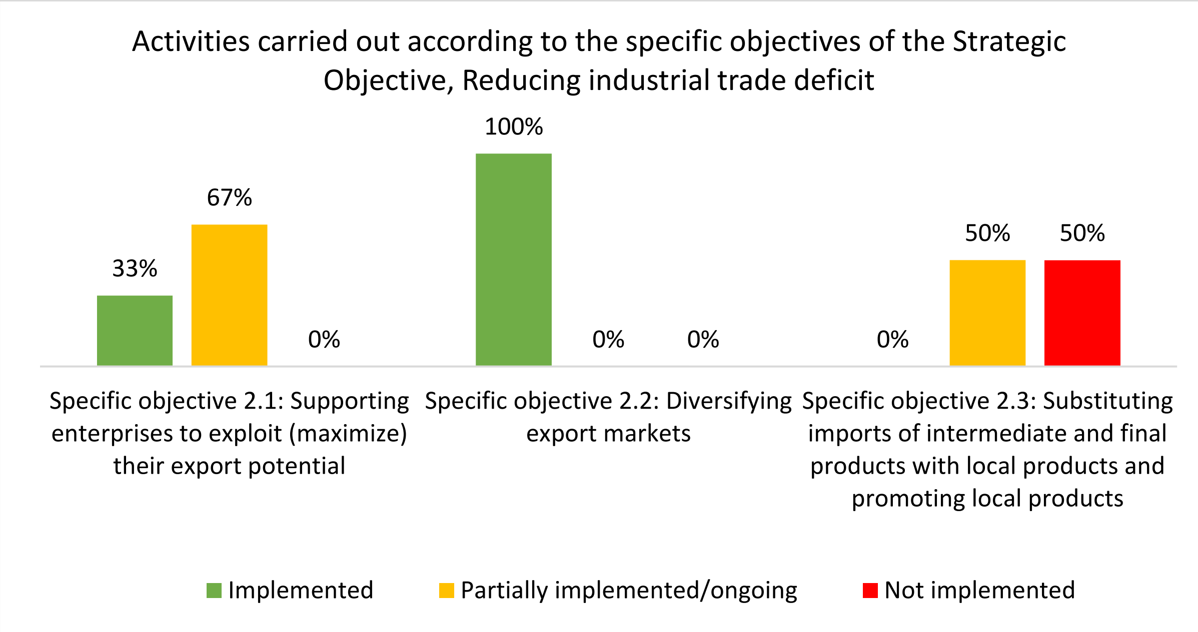
II.2 Progress towards strategic Objective 2: Reducing industrial trade deficit

Strategic Objective 2 focuses on reducing the industrial trade deficit. This includes exporting more goods produced in Kosovo to foreign markets, as well as replacing imports of goods processed in Kosovo with local production.

Progress in achieving this policy objective will be measured by the manufacturing trade balance, which is calculated as manufactured exports minus manufactured imports.

This strategic objective has 3 specific objectives and 18 activities. For the year 2023, planned activities to be carried out are in 3 specific objectives with 6 activities.

Chart 4. Percentage of implemented, partially implemented and not implemented activities during the period (July-August 2023), according to the specific objectives of Strategic Objective 2



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

Specific objective 2.1 Supporting enterprises to exploit (maximize) their export potential: aims to enable companies operating in Kosovo that have products or possess the ability to produce products and are internationally competitive, to enter foreign markets and increase their sales abroad.
Currently in this objective, only one activity, or 33% has been fully implemented while 2 activities, or 67%, are either partially implemented or in the process of being implemented.

Indicators: Progress in achieving specific objective 2.1 will be measured with the following indicator: (i) the number of manufacturing enterprises that regularly export (at least 10,000 Euros per year).

Specific objective 2.2, Diversifying export markets: focuses on increasing exports overall, which includes diversifying export products, this sub-objective specifically targets the diversification of export markets.

As part of this specific objective, 3 activities are planned to be implemented. For the year 2023, only activity 2.2.1 "***Preparing an analysis to identify a list of strategic manufacturing products with potential for export***" was planned to be carried out, and it is already implemented. Document can be found under the following link: *https://mint.rks-gov.net/desk/inc/media/7E935F6E-1015-4DF3-985F-94FFFF968295.pdf*

Indicators: Progress in achieving specific objective 2.2 will be measured by the following indicator: (i) geographical diversity of exports (number of countries that account for 80% of production exports).

Specific objective 2.3 Replacing imports of intermediate and final products with local products and promoting local products: aims to decrease the import of manufactured goods by gradually replacing imported intermediate and final products that Kosovar producers are capable of manufacturing with locally made products.
This objective includes a total of 6 planned activities for implementation, while 2 activities are scheduled for 2023, activity 2.3.2 "***Improving the import tariff regime to provide protection for strategic products***", has not yet been implemented. According to the MFLT, this activity should be seen as likely to be implemented, but it is important to consider Free Trade Agreements, and the steps taken in this direction should align with EU practices.
Activity 2.3.6 "***Drafting a trade policy***", is an activity currently in the process of implementation, meetings and workshops have been conducted with the working group and a draft has been prepared.

Indicators: Progress in achieving specific objective 2.3 will be measured by the following three indicators: (i) the share of imports of substitute intermediate products (according to the BEC classification) in total imports; (ii) the share of imports of substitute consumer products (according to the BEC classification) in total imports and (iii) the percentage of domestic products in the production market.

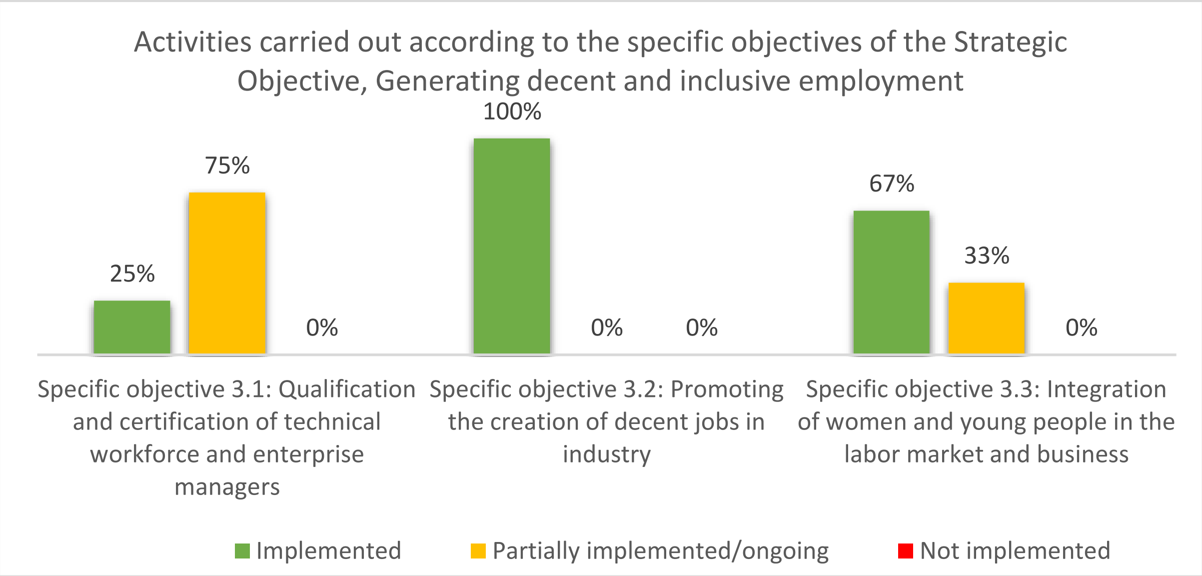
II.3 Progress towards strategic objective 3: Generating decent and inclusive employment

Strategic objective 3 focuses on creating better and more inclusive employment opportunities in the manufacturing sector. This involves not only fostering and possibly speeding up positive employment growth in the industry, but also enhancing the quality of jobs available.

Progress in achieving this objective will be measured by two indicators: a) employment in production per capita, which will determine the labor force, as a percentage of the population, engaged in production; and b) the production wage bill as part of the VAP, which will measure total labor income in production as part of the value added of production.

This strategic objective has 3 specific objectives and 12 activities. For 2023, 9 activities are planned to be implemented.

Chart 5. Percentage of implemented, partially implemented and not implemented activities during the period (July-August 2023), according to the specific objectives of Strategic Objective 3



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

Specific objective 3.1, Qualification and certification of technical workforce and enterprise managers: this specific objective aims to provide a skilled workforce as a key factor of production, which is essential for producing goods that can compete based on price, quality and innovation. Additionally, the growth of businesses also relies on professional managers who can effectively lead companies through different stages of their growth cycle.

This specific objective consists of a total of 7 activities, with 4 activities planned for 2023. Out of the 4 activities scheduled for implementation, 75% of the activities have been partially implemented, while 1 activity or 25% has been fully implemented.

*Activity 3.1.4. "**Establishing an employment program in production as part of the Active Labor Market Measures**"*, (measures: internship at the workplace and wage subsidy), where 1,200 beneficiaries are planned from the production employment program each year. The institution responsible for implementation is the MFLT, specifically the Employment Agency. Through the Super Work Project, 9,394 jobseekers have benefited from wage subsidies for a period of 6 months. However, there is a lack of data on how many have benefited in the productive sector. Additionally, there are benefits for families through the Government. On-the-job training is currently developed only in institutions and not in manufacturing enterprises.

Indicators: Progress in achieving specific objective 3.1 will be measured by four indicators: (i) the number of accredited training institutions in production; (ii) the number of approved standards in the manufacturing profession; (iii) the percentage of workers receiving formal training in production (%); and (iv) the number of ISO certificates.

Specific objective 3.2: Promoting the creation of decent jobs in industry: aims to create jobs in manufacturing, create decent jobs, ensuring that producers pay a fair wage, improving employment safety, and enhancing general working conditions.

This objective includes a total of 2 activities planned for implementation in 2023. Both activities were successfully implemented in 2023, Documents can be found at the following link: *https://mint.rks-gov.net/desk/inc/media/775DAC64-CDC0-4F65-A74F-A3AFCB406FB3.pdf* *and* *https://mint.rks-gov.net/desk/inc/media/D13AE9DA-B21A-425F-8D4C-1EEEDF4E3699.pdf*.

Indicators: Progress in achieving specific objective 3.2 will be measured by three indicators: (i) production workers declared in TAK/official employment in production; (ii) poverty at work in the production process; and (iii) the number of accidents at work in the production process.

Specific objective 3.3, Integration of women and youth into the labor market and business: aims for inclusive employment in production/processing, ultimately leading to broader and more inclusive employment, which creates benefits for the whole society. It is crucial to ensure that women, youth, and other disadvantaged groups, in particular, are effectively integrated into the production labor market in Kosovo.
This objective includes a total of 3 activities planned for implementation. All 3 activities are scheduled to be implemented in 2023, with two of activities continuing to be implemented in 2024, 2025. Currently, 2 out of the 3 activities planned for implementation, or 67%, have been implemented, while 1 has been partially implemented.
Activity 3.3.1 "***Organizing Women's Week in industry***", this activity was planned to be carried out by KIESA. However, it was only partially implemented, with the women's fair being implemented but not the women's week in the industry.

Indicators: Progress in achieving specific objective 3.3 will be measured by two indicators: (i) the percentage of young people employed in production out of the total employment of young people; and (ii) the percentage of women employed in production.

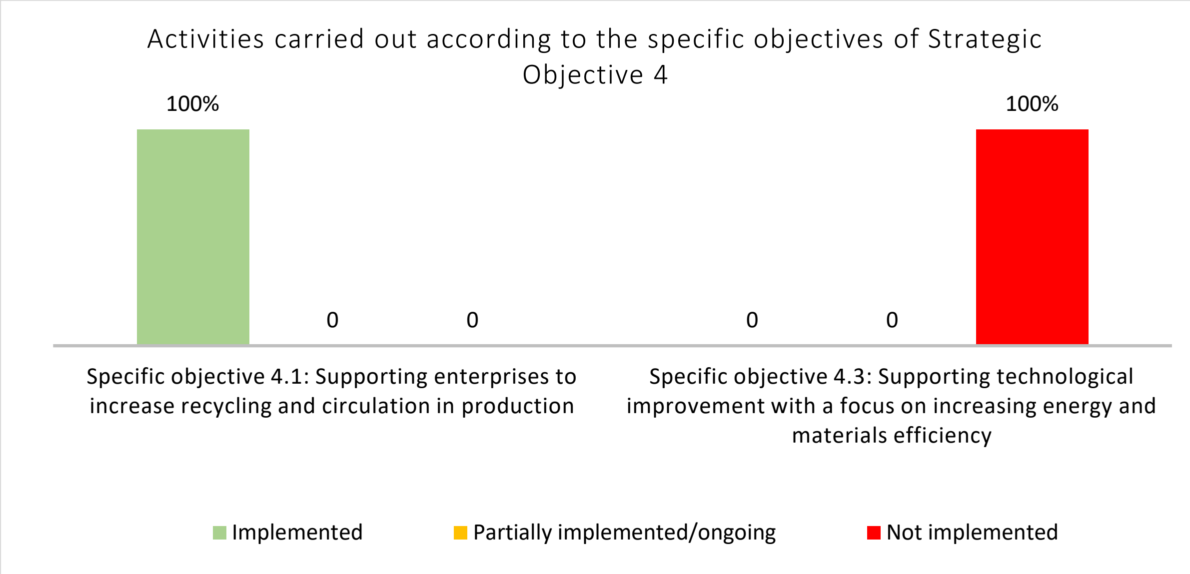
II.4 Progress towards strategic objective 4 Strategic objective: Facilitating circular and green industry

Strategic objective 4, the fourth industrial policy objective, is to encourage the manufacturing sector to transition to green manufacturing. The goal of creating a green industry is to decouple economic growth from negative environmental externalities by maximizing the implementation of circular strategies, utilizing energy from renewable sources, and efficiently using inputs.

Progress in achieving this policy objective will be measured by two indicators: a) CO_2 emissions per unit of GDP, which measures reductions in the CO_2 intensity of productive activity; and b) a recycling/circulation indicator.

This strategic objective has 3 specific objectives and 8 activities. For 2023, only 1 activity is scheduled to be implemented in two specific objectives.

Chart 6. Percentage of implemented, partially implemented and not implemented activities during the period (July-August 2023), according to the specific objectives of Strategic Objective 4



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

Specific objective 4.1, Supporting enterprises to increase recycling and circulation in production: aims to maximize efficiency in resources use, reduce negative environmental impacts and cut costs by ensuring that recovered waste is reintroduced into production.

Indicators: Progress in achieving specific objective 4.1 will be measured by two indicators: (i) gross added value in sectors related to the circular economy (as a percentage of total GDP); and (ii) use of recycled material as a percentage

Specific objective 4.3: Supporting technological improvement with a focus on increasing energy and materials efficiency: aims at technological enhancement, the process of enhancing the technological capabilities of enterprises in order to modernize production methods.
As part of this objective, in 2023, it is planned to implement activity 4.3.1, "***Developing a program for investments in green technology within the manufacturing industry***". This activity was planned to be implemented by the EBRD and other partner financial institutions, however, the activity was not carried out. If implemented, 80 enterprises would have benefited from this activity.

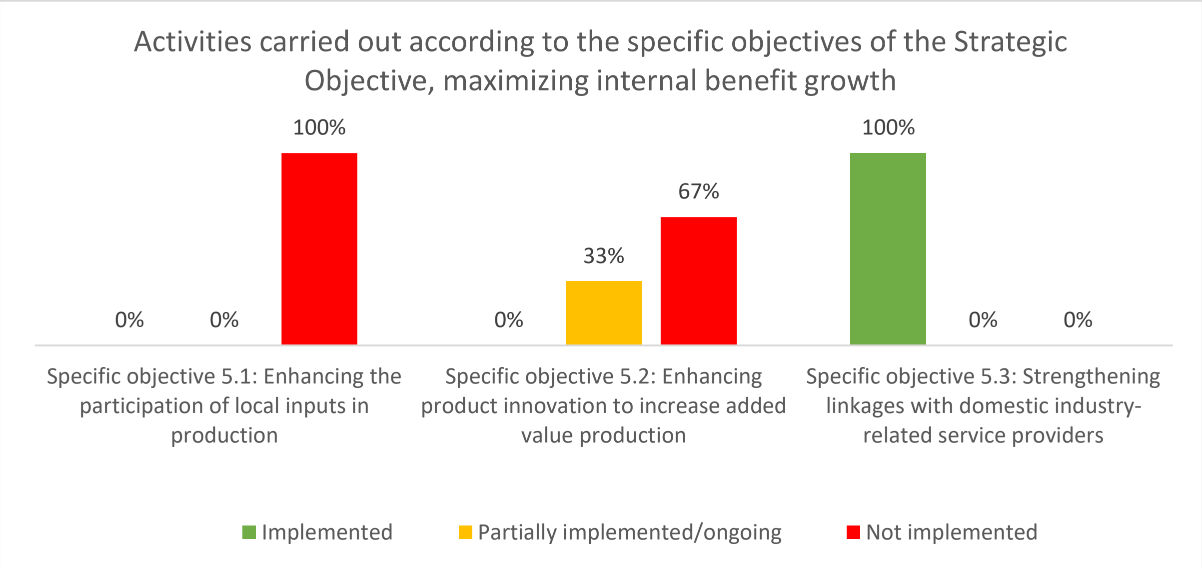
Indicator: Progress in achieving specific objective 4.3 will be measured using the following indicator: energy intensity in production (Toe/€M).

II.5 Progress towards strategic objective 5 Strategic objective: Maximizing internal profitability growth

Strategic objective 5, the fifth objective of the industrial policy for Kosovo is to benefit from industrial development in a comprehensive manner by maximizing the addition of internal value within the production process and beyond.
Progress in achieving this objective will be measured by the VAP, as a share of output, which captures the extent to which local value addition relies on domestic resources.

This strategic objective consists of 3 specific objectives and 11 activities. In 2023, 5 activities are planned to be implemented within these 3 specific objectives.

Chart 7. Percentage of completed, partially completed and uncompleted activities during the period (July-August 2023), according to the specific objectives of Strategic Objective 5.



Source: *Data from the reports of the responsible and supporting institutions for the implementation of the action plan of the IDBS Strategy 2023-2025*

Specific objective 5.1, Increasing the share of domestic inputs in production: aims to enhance the utilization of domestic inputs to strengthen domestic value addition.
Of the 3 activities planned to be implemented for the 2023-2025 action plan, activity 5.1.3 "***Designing a study on the utilization of natural resources in the industry***" was scheduled for implementation in 2023. However, due to the budget constrains, this activity has been postponed for implementation in 2024.
Indicators: Progress in achieving specific objective 5.1, will be measured using the following indicator: (i) the value of imported intermediate products (BEC classification) as part of VAP.

Specific objective 5.2: Enhancing product innovation to increase added value production: aims on transitioning to more marketable products, and in particular transitioning to products with increased added value, ultimately improving Kosovo's domestic value addition.
Out of a total of 4 activities, 3 are planned to be implemented in 2023, with 1 partially

implemented and 2 not yet implemented.

The activity that has not been implemented is activity 5.2.1, "***Awarding prizes for innovation in manufacturing products***", the institution responsible for implementing this activity is MIET. It was not possible to implement this activity in 2023, so the prizes will be awarded on Innovation Day in April. However, SIDBS was approved on 29.06.2023. The activityis now scheduled to be implemented Q2/2024 on Innovation Day.

The other activity that has not been implemented is activity 5.2.2 "***Reducing corporate income tax for large manufacturing companies that are investing in selected innovative entities***". The institutions responsible for this activity are MIET and MFLT. MIET has reached out to MFLT and provided the necessary information to start implementing this activity, however, MFLT has requested that this activity be removed, so it is unlikely that this activity will be carried out.

Indicators: Progress in achieving specific objective 5.2 will be measured using the following indicator: the percentage (%) of enterprises that have introduced a new product or service.

Specific objective 5.3: Strengthening linkages with domestic industry-related service providers: aims to improve connections between producers and domestic service providers, in order to minimize value leakage in production processes, and this will result in reduction of imported manufacturing services from outside sources.
Within this objective, which consists of 4 activities, activity 5.3.4, "***Establishing the National Council for Industry Development***", is planned to be implemented in 2023. The council was established by the decision of the Prime Minister.

Indicators: Progress in achieving specific objective 5.3 will be measured by the following indicator: (i) internal services purchased by industries.

III. MAIN IMPACT INDICATORS OF MEASURES FOR ACHIEVING STRATEGIC OBJECTIVES

The absence of data for the year 2023 has hindered the determination of the impact of the performance of the production sector, either by enhancing the production capacity, increasing the added value, increasing the quality of products, as well as in creating of decent jobs. etc. The most resent data available is primarily for the year 2022, indicating a shift in trends that can be observed prior to the approval of the strategy.

Below are some of the main indicators from the baseline value used during the drafting of the strategy, along with the most recent data mainly for the year 2022.

Strategic objective 1: Expanding industrial production

Industrial production in Kosovo is still very limited. According to the 2020 data from the strategic analysis, the share of VAP in GDP was 13.6%. However, the latest data from 2022 shows a decrease in VAP's share in BPV by 0.42%. Additionally, the GDP in production per capita increased by 36.8 Euros in 2021 compared to 2020.

Table. 2. Strategic objective: Expanding industrial production and action indicators

1 No.	Strategic and specific objectives, indicators and actions	Baseline value	Last value (current)	Temporary target [2026]	Final year target [2030]
1	**Strategic objective: Expanding industrial production**				
1	Value added in production (VAP) per capita (EUR)	541.5 (2020)	578.3 (2021)	702.1	809.2
2	Share of VAP in GDP	13.6% (2020)	13.18 (2022)	15.30%	16.50%
1.1	**Specific objective: Facilitating access to finance for local producers**				
1	Domestic loans to the private sector from banks (% of GDP)	47.8% (2020)	53.09% (2022)	52%	60%
2	The share of productive loans in total commercial loans	17.3% (2021)	19.27 (2023)	23.40%	28.20%
1.2	**Specific objective: Increasing investments in production**				
1	Share of manufacturing FDI in total FDI (%)	-0.1% (2021)	1.83% (2022)	10.20%	18.40%
2	The share of imported capital goods in VAP	41.7% (2020)	53.8% (2021)	48.30%	52.70%
1.3	**Specific objective: Accelerating digitization in production**				
1	The use of digitization tools in general production/work processes in the industry (%)	19.3% (2019)	Last value year 2019	35%	45%

1.4	**Specific objective: Enhancing the quality and certification of internationally recognized products**				
1	Number of industrial products exported to the EU (at least EUR 10,000 per year)	298 (2021)	Last value year 2019	630	895

Strategic objective 2: Reducing industrial trade deficit

The overall industrial trade balance of Kosovo is significantly negative and continuously growing due to increased industrial imports. Although the data analyzed predates the approval of the strategy, from the base value (year 2020) which was used during the drafting of the strategy, to the most recent data (year 2022), there has been a deepening of the trade deficit, and we are currently far from the reaching predicted goal of reducing the trade deficit.

Table. 3. Strategic objective 2: Reducing trade deficit and action indicators

2 No.	Strategic and specific objectives, indicators and actions	Baseline value	Last value (current)	Temporary target [2026]	Final year target [2030]
2	**Strategic objective: Reducing industrial trade deficit**				
1	Trade deficit in the manufacturing industry (Mil. EUR)	- 2,327.6 (2020)	-4.718.9 (2022)	-2,037.60	-1,744.40
2.1	**Specific objective: Supporting enterprises to exploit (maximize) their export potential**				
1	Number of manufacturing enterprises that regularly export (at least 10,000 Euros per year)	733 (2021)	n/a	1,239	2,478
2.2	**Specific objective: Diversifying export markets**				
1	Geographical diversity of exports (number of partner countries that account for 80% of production exports)	10 (2021)	11 (2022)	14	18
2.3	**Specific objective: Replacing imports of intermediate and final products with local products and promoting local products**				
1	Share of imports of replaceable intermediate goods (according to BEC classification) in total imports	31.6% (2020)	52% (2022)	27%	22%
2	Share of imports of replaceable consumer goods (according to BEC classification) in total imports	23.2% (2020)	30% (2022)	20%	16%
3	Share of local goods in the production market	32.8% (2020)	28.8 % (2022)	40%	50%

Strategic objective 3: Generating decent and more inclusive employment

Upon analyzing the available data (from 2020) during the drafting of the strategy and comparing it to the latest data (from 2022), it is evident that there has been slight increase in production per capita employment. However, this increase is not on track to meet the goal set for 2026.

Table. 4. Strategic objective: Generating better (decent) and more inclusive employment and action indicators

3 No.	Strategic and specific objectives, indicators and actions	Baseline value	Last value (current)	Temporary target [2026]	Final year target [2030]
3	**Strategic objective: Generating better (decent) and more inclusive employment**				
1	Employment in manufacturing per capita	0.0234 (2020)	0.0236	0.0369	0.0459
2	Total wages of production in VAP (%)	34.5% (2020)	n/a	51.50%	62.90%
3.1	**Specific objective: Qualification and certification of technical workforce and enterprise managers**				
1	Number of accredited training institutions for manufacturing industries	11 (2021)	17(2022)	20	35
2	Number of occupational standards adopted in the manufacturing industry	24 (2021)	n/a	40	60
3	Percentage of workers receiving formal training in production (%)	26.4% (2019)	n/a	35%	42%
4	Number of ISO certificates issued in Kosovo	n/a	n/a	WB average	WB average
3.2	**Specific objective: Promoting the creation of decent jobs in the industry**				
1	Declaration of the number of employees in production according to TAK/labor survey data from KAS	0.756	86.57%(2022)	80%	87%
2	Incidence of in-work poverty in manufacturing	26.6% (2020)	n/a	15%	10%
3	Number of accidents at work in production	49 (2021)	60(2022)	0%	0%
3.3	**Specific objective: Integration of women and youth into the labor market and business**				
1	Percentage of youth employed in production as a part of the total number of employed young people (%)	10.2% (2021)	10.8% 2022	13.7%	16.5%
2	Percentage of women in the total number of employees in production (%)	15.9% (2021)	17.5% (2022)	20.7%	23.9%

Strategic objective 4: Facilitating circular and green industry

The circulation and recycling of products in Kosovo's manufacturing sector are still very limited, while industrial waste and pollution remain significant. Although the energy efficiency and CO2 intensity of Kosovo's manufacturing sector have improved, they still lag behind comparator countries in the Western Balkans (WB6), primarily due to low energy generation from renewable sources.

The baseline value of the data used during the drafting of the strategy was from 2019, with the most recent available value being from 2020. The trend of CO2 emissions per unit of GDP is decreasing, and it is hoped that the IDBS strategy will also influence the reduction of CO2 emissions and the achievement of the interim goal.

Table. 5. Strategic objective 4: Facilitating circular and green industry and action indicators

4 No.	Strategic and specific objectives, indicators and actions	Baseline value	Last value (current)	Temporary target [2026]	Final year target [2030]
4	**Strategic objective: Facilitating circular and green industry**				
1	CO2 emissions per unit of GDP (kg per PPP USD 2015)	1.1682 (2019)	1.106 (2020)	0.6	0.3
4.1	**Specific objective: Supporting enterprises to increase recycling and circulation in production**				
1	Gross value added in sectors related to the circular economy (% of total GDP)	0.8% (2020)	n/a	1.0%	1.3%
2	Use of recycled material (%)	n/a	n/a	WB average	WB average
4.2	**Specific objective: Supporting production and consumption of green products**				
1	Market share of environmentally friendly products	n/a	n/a	WB average	WB average
2	Percentage of citizens who often buy environmentally friendly products	n/a	n/a	WB average	WB average
4.3	**Specific objective: Supporting technological improvement with a focus on increasing energy and materials efficiency**				
1	Energy intensity in production (Toe/mil. EUR)	339 (mes. 2018-2020)	311 (2021)	250 (2026)	150 (2030)

Strategic objective 5: Maximizing internal profitability growth

Kosovo's production is characterized by weak local value chains and inefficient use of existing natural resources, leading to various value losses. Tthis is primarily caused by low-tech production, limited processing of natural resources, and reliance on imported inputs (materials and services) for production instead of sourcing them locally.

The VAP/Production output data is still under the responsibility of KAS to ensure, however as of this reporting period, there is no data available to be shared with you.

Table. 6. Strategic objective: Internal profit maximization and action indicators

5 No.	Strategic and specific objectives, indicators and actions	Baseline value	Last value (current)	Temporary target [2026]	Final year target [2030]
5	**Strategic objective: Maximizing internal profitability growth**				
1	VAP/Production Output (Prodh/output)	n/a	n/a	n/a	n/a
5.1	**Specific objective: Enhancing the share of local inputs in production**				
1	Import value of intermediate products (BEC classification) as part of the VAT	169.1% (2020)	277% 2022	133.1%	109.1%
5.2	**Specific objective: Enhancing product innovation to increaser added value production**				
1	Percentage of firms that introduced a new product/service	26.9% (2019)	n/a	32% (2026)	40% (2023)
5.3	**Specific objective: Strengthening linkages with domestic industry-related service providers**				
1	Domestic services purchased by industries	n/a	n/a	WB average	WB average

IV. RISKS AND STEPS TO ADDRESS THEM

IV.1 Problems and risks

During the monitoring of the action plan, the data show that some activities have not been fully implemented, or have been partially implemented. This is likely due to the fact that the strategy was only approved on June 29, 2023. As a result, the institutions responsible for implementing these activities have not been able to fully incorporate them into their annual plans.

Not including the activities planned in the action plan of the strategy, in the work plans of the institutions responsible for implementing the activities, is a risk of not implementing the activity and not implementing the achievement of specific and strategic objectives.

Not including the planned activities in the action plan of the strategy within the work plans of the institutions responsible for implementation poses a risk of failing to carry out the activities and ultimately hindering the achievement of specific and strategic objectives.

One of the obstacles that hinders the analysis of the impact of measures to achieve strategic objectives is the lack or delay in the publication of indicator data. Typically, data from the previous year is not published in Q1 of the following year.

IV.2 Next steps

Each strategic objective presents unique challenges that require focused attention. It is important that any delays in implementing activities or changes in activities are justified, as failure to do so may lead to dissatisfaction from the institutions responsible for the implementation of activities.

The members of the interministerial coordinating body responsible for monitoring, regular evaluation, conducting the interim reviews, and final evaluation of SIDBS-2030 and the Action Plan 2023-2025, ensure that the planned activities for implementation by the respective institutions are incorporated into the work action plan.

The MIET/Department of Industry, in coordination with the member of the interministerial body from KAS, will explore the feasibility of extracting data for indicators related to strategic and specific objectives just in time for reporting (data for 2024 will be provided by KAS, by February of 2025).

Among the next steps implementing the main activities, members of the responsible institutions must consider the possibilities for carrying out these activities:

<u>**Objective 1,**</u> specific objective 1.2, activity 1.2.8 "***Providing corporate income tax benefits for strategic investments"*** has not been implemented yet, even though it was scheduled for implementation by MFLT in 2023. It has been requested that this activity be removed from the action plan, and that MFLT be consulted again to determine if this activity can be implemented in the following years up until 2025.

Specific objective 1.3, activity 1.3.5 ***“Creating data protection agreement models based on relevant legislation to serve manufacturing companies and other businesses”,*** has been integrated into the information campaign activity, “***Informing businesses on the Law on Protection of Personal Data and the Law on Protection of Trade Secrets”.*** This initiative will be carried out during the "Business Days" events organized by KIESA in the 7 regions of Kosovo, where around 500 businesses will receive information about the aforementioned laws. Specific objective 1.4, activity 1.4.3 "***Drafting an action plan that outlines the steps to be taken by the Kosovo Accreditation Directorate (KAD) to meet the requirements for full membership in the European Accreditation Organization (EA)***" – this activity should focus on creating a detailed plan to mee the EA membership requirements.

Objective 2, specific objective, 2.3, activity 2.3.2 ***“Improving the import tariff regime to provide protection for strategic products*****”**. This analysis of this activity should be done while respecting the Free Trade Agreements (FTAs) and other agreements in effect, and by examing the practices of other countries.

Objective 3, specific objective 3.1, activity activity 3.1.4 ***Establishing an employment program in production as part of Active Labor Market Measures" (measures: internship at the workplace and wage subsidies).*** The Labor Agency should analyze the activities of the strategy and incorporate them into planned activities or programs.
Specific objective 3.3, activity 3.3.1 "***Organizing Women’s Week in Industry***" by KIESA, should enhance the already traditional activity "Women in Business", by organizing conferences, presenting success stories of Kosovar business women, etc.

Objective 4, specific objective 4.3, activity 4.3.1 ***“Developing a program for investing in green technology within the manufacturing industry”,*** the MIET, specifically the Department of Industry to consult with the EBRD regarding the feasibility of implementing this activity.

Objective 5, specific objective 5.2, activity 5.2.2 ***“Reducing corporate income tax for large manufacturing companies that are investing in selected innovative entities”,*** by MFLT, has been requested to be removed from the action plan, and to consult with MFLT again to see if this activity can be implemented in the upcoming years until 2025.