

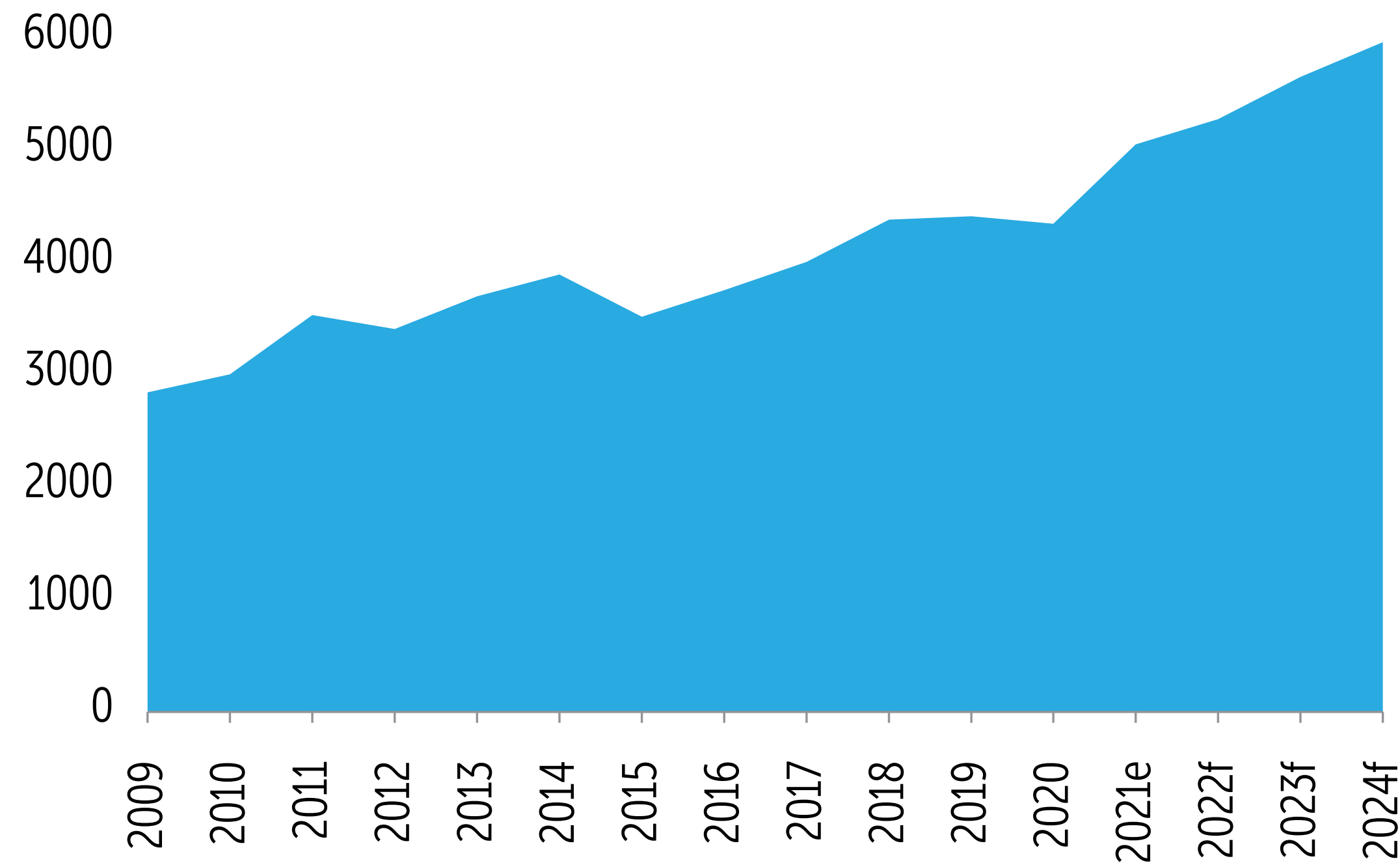
# Gearing up for a More Productive Future

June 2022

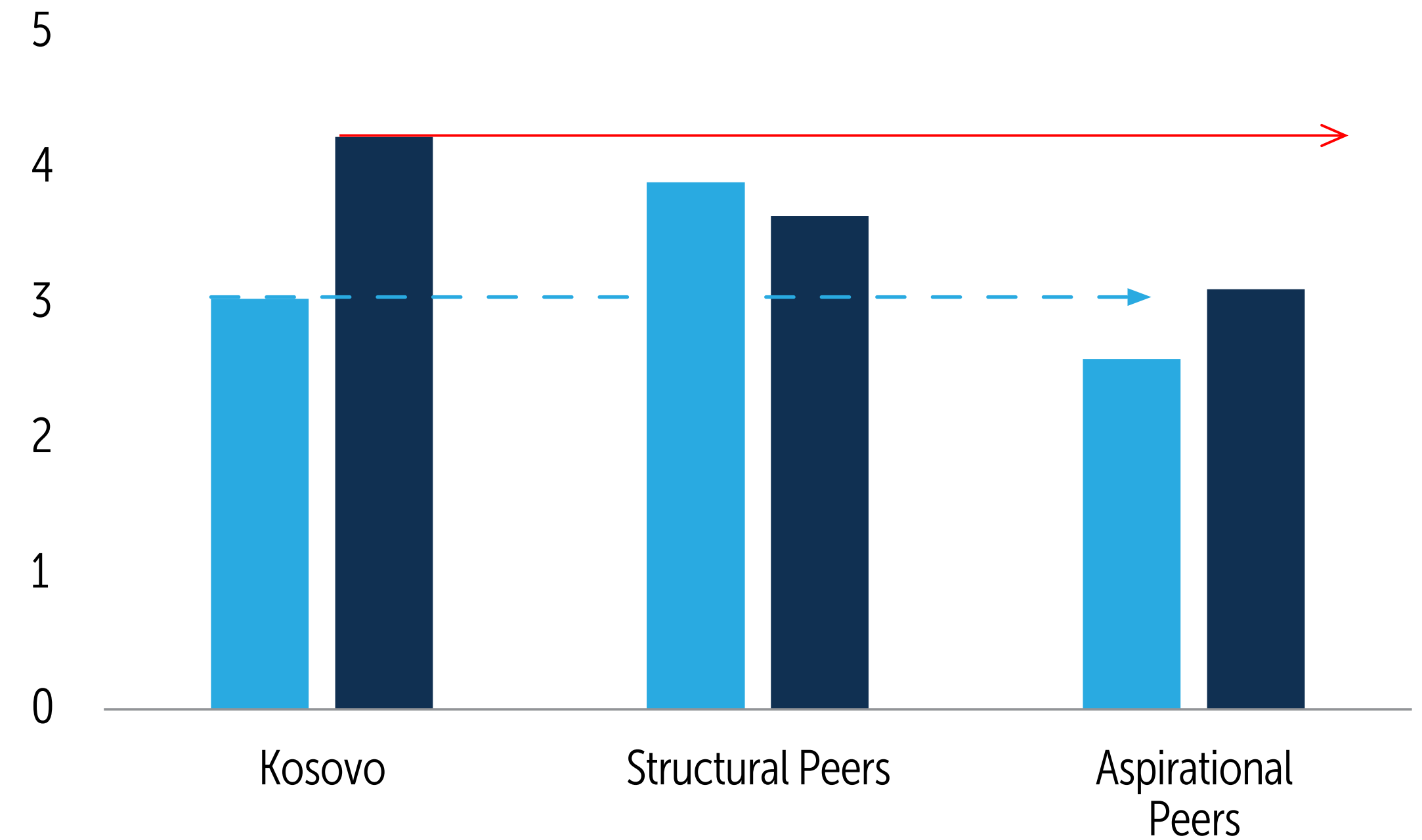


# Kosovo is the youngest country in Europe and is estimated to have **increased its income** 10-fold since 1995

Per capita GDP, nominal USD



Real GDP Growth, 2010–19, Percent

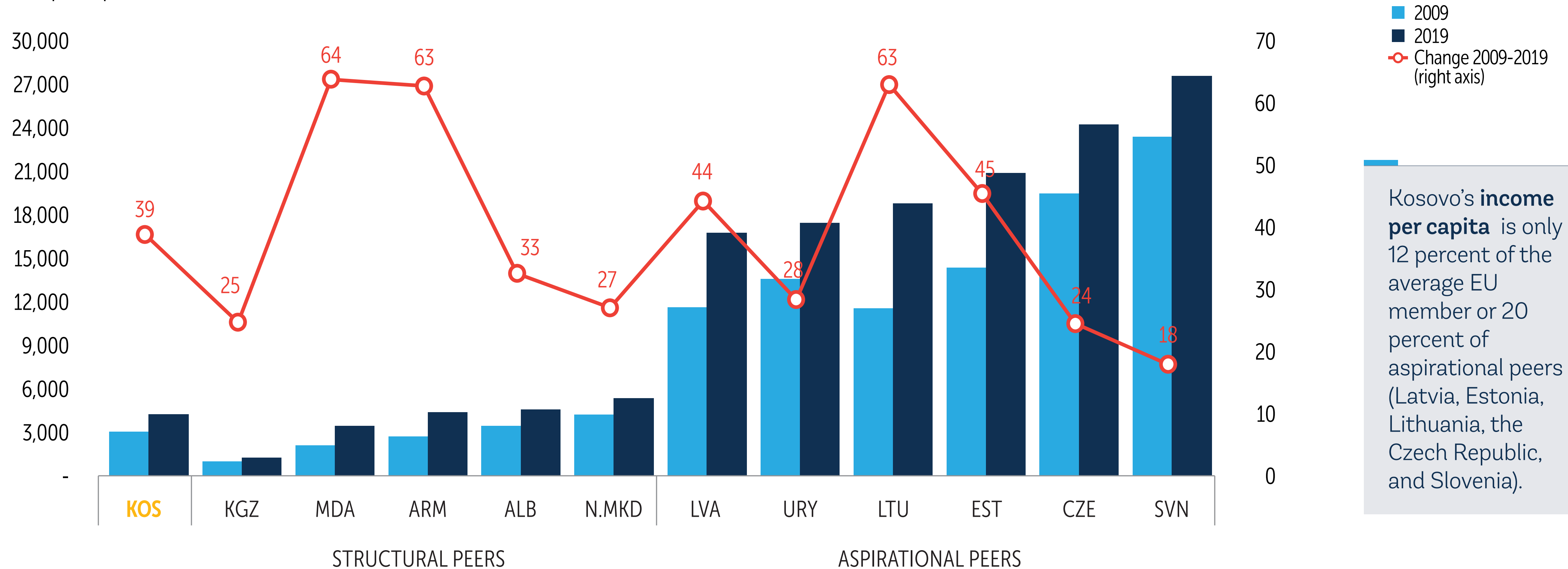


Kosovo has experienced significant growth and poverty reduction since independence. The economy recovered from its first recession in 2020 and income by 2024 is projected to double from its 2009 level (if recent global pressures subside.)

■ 2010-2014  
■ 2015-2019

# Yet, a large **income gap** between Kosovo and the average European Union member state remains

GDP per Capita, 2009-19, US\$, Percent



Kosovo's **income per capita** is only 12 percent of the average EU member or 20 percent of aspirational peers (Latvia, Estonia, Lithuania, the Czech Republic, and Slovenia).

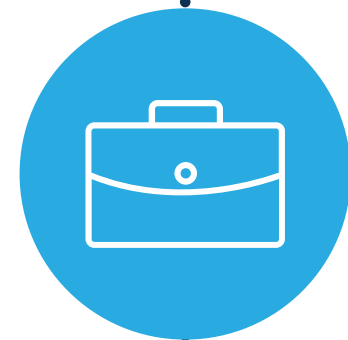
— ...and this gap is closing only at a slow pace.



At Kosovo's estimated current potential for growth, reaching today's living standards of aspirational peers would take more than 30 years.



Despite considerable progress in poverty reduction, around 2 in 10 Kosovars still live on less than US\$5.5 per day.



Lack of jobs is a major impediment to inclusive growth. About 2 in 5 people of working age people are participating in the labor market. However, formalization is accelerating.



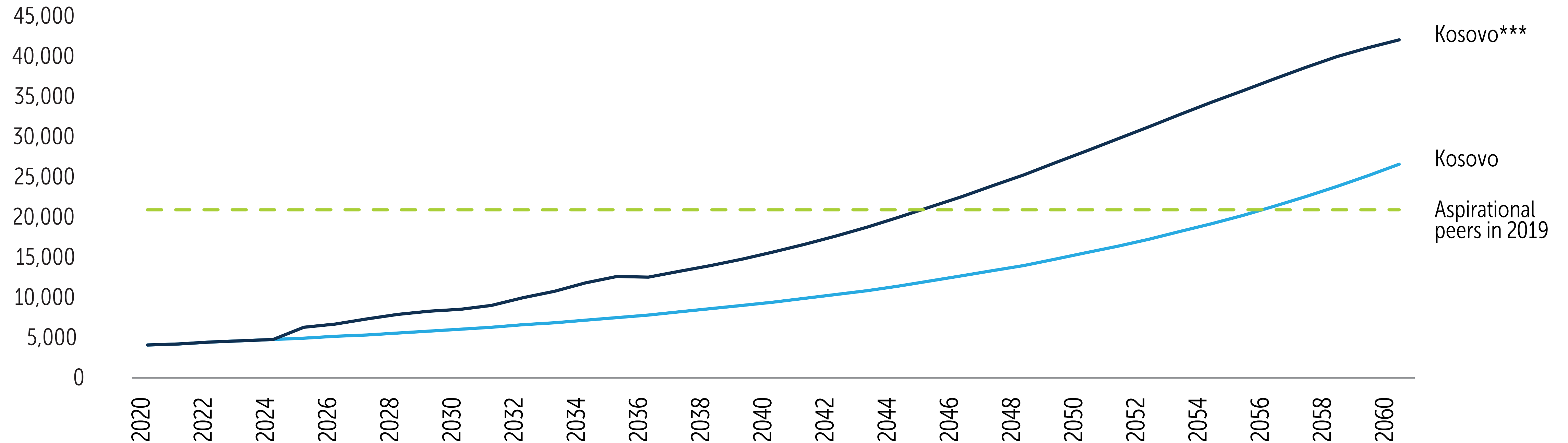
Only 20 percent of women actively participate in the labor market, and women's participation in the economy as entrepreneurs is limited.



Only 23 percent of pre-school children are on track in terms of literacy and numeracy skills.

# Yet, with the right reforms, Kosovo can gear up for a **more productive future**

GDP per Capita Projections Based on Structural Changes, US\$, 2020-60



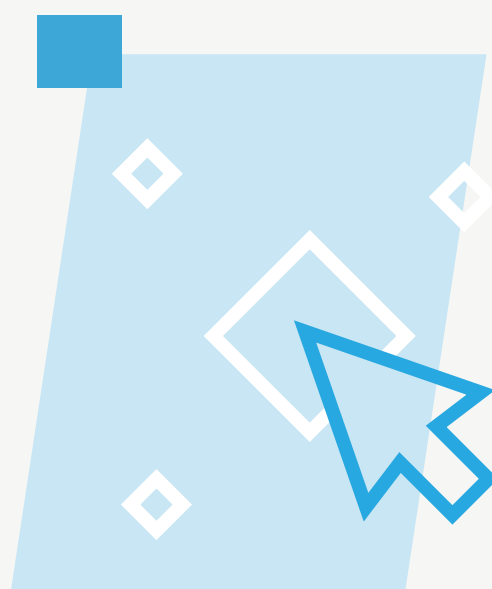
Note: The light blue line represents the projected growth trajectory for Kosovo based on average real growth of 4 percent. The dark blue line represents an alternative reform trajectory with a modest shock of a 2 percentage point (pp) increase in net FDI inflows, 2 pp increase in employment rate, 2 pp increase in TFP, 2 pp increase in exports as a share of GDP between 2025–35 compared to the baseline.

# For Kosovo to get there, reforms are needed in **five key areas**:



## INCREASING Firm Productivity

- Business regulations,
- Access to finance
- Digitalization



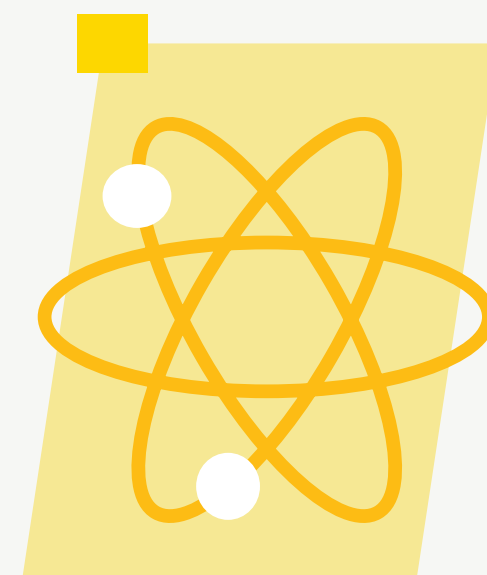
## RAISING Farm Productivity

- Value chain integration
- Sustainable use of natural resources
- Improved public spending



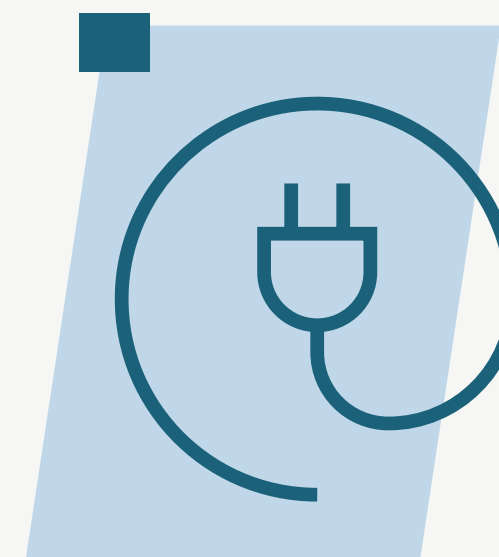
## ENHANCING Human Capital

- Education
- Skills development
- Labor force participation



## BOOSTING Exports, Competition and Investment

- Trade facilitation
- Competition policy
- Investment promotion eco-system

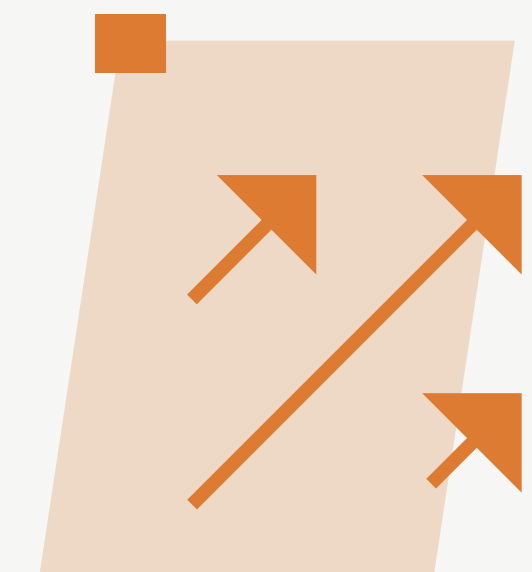


## ENTRENCHING Macro Stability and Sound Governance

- Foundational requirements



- Inclusive
- Resilient
- Sustainable growth in Kosovo



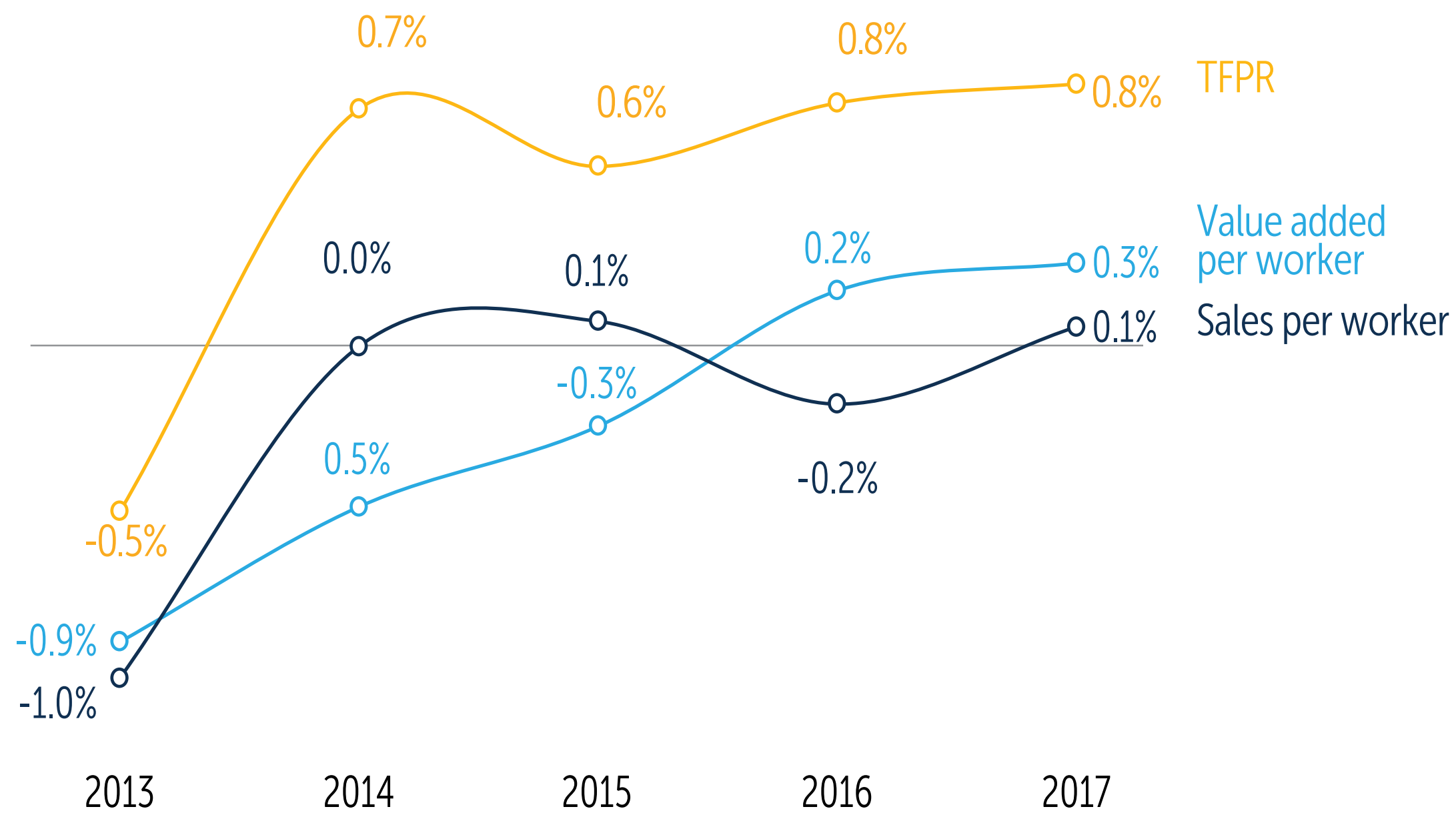
**INCREASING**

# Firm Productivity

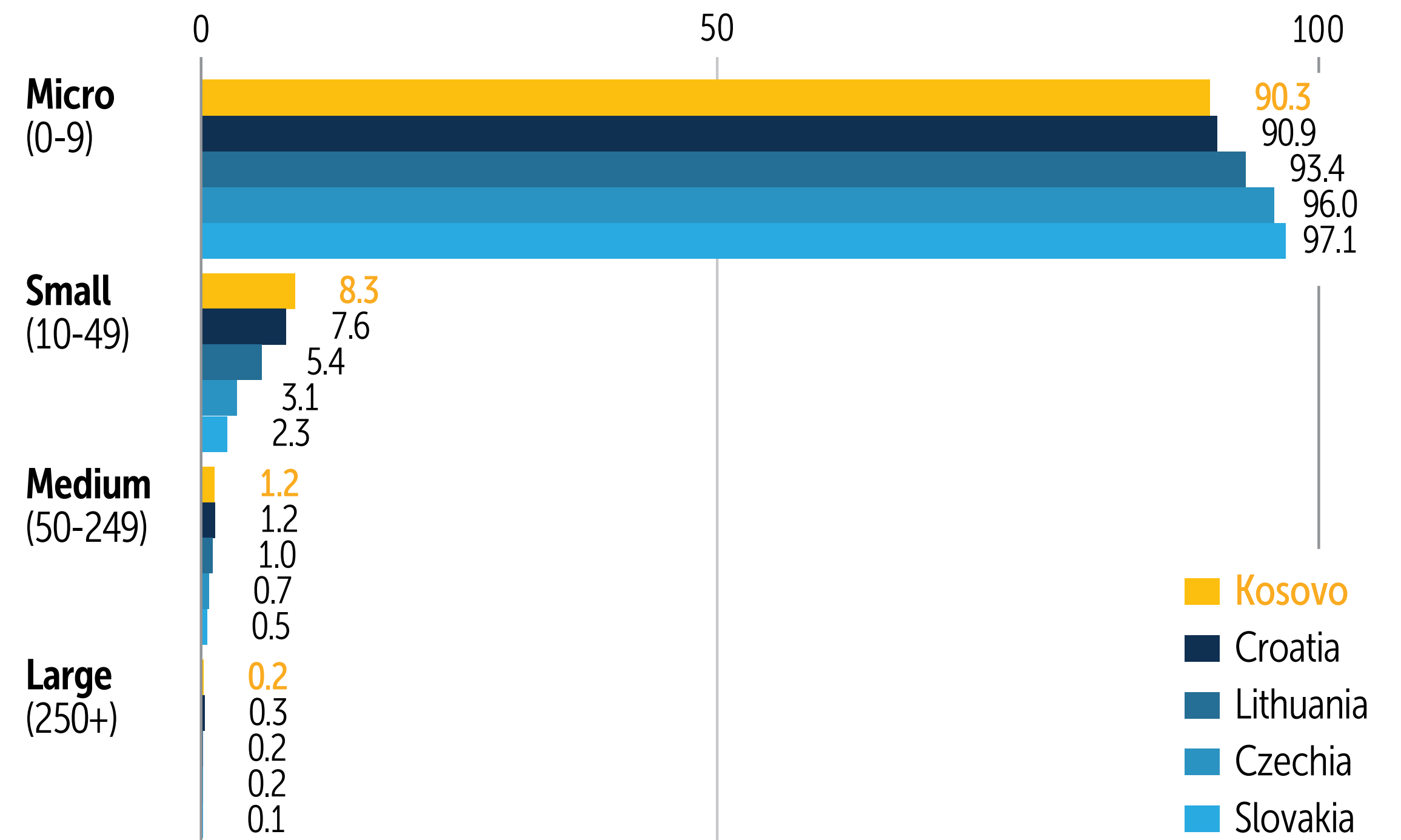


# Firms in Kosovo need to increase **scale** and **productivity**

TFPR, Sales, and Value Added per Worker, 2013–17, Percent



Active Firms by Size, Average, 2010–18, Percent of Total



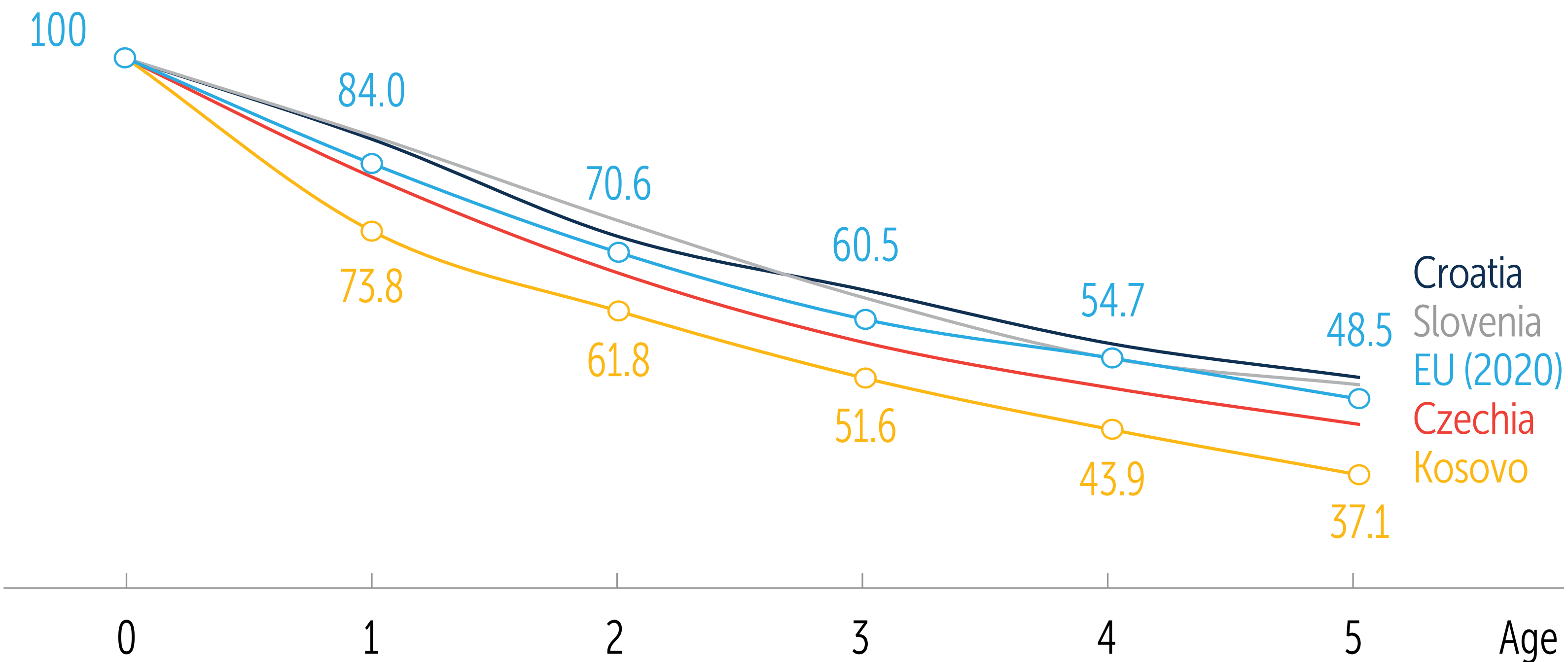
Firm productivity growth is slow...

...and firms are overwhelmingly small scale



# Firms also suffer poor **survival rates** with few reaching international markets

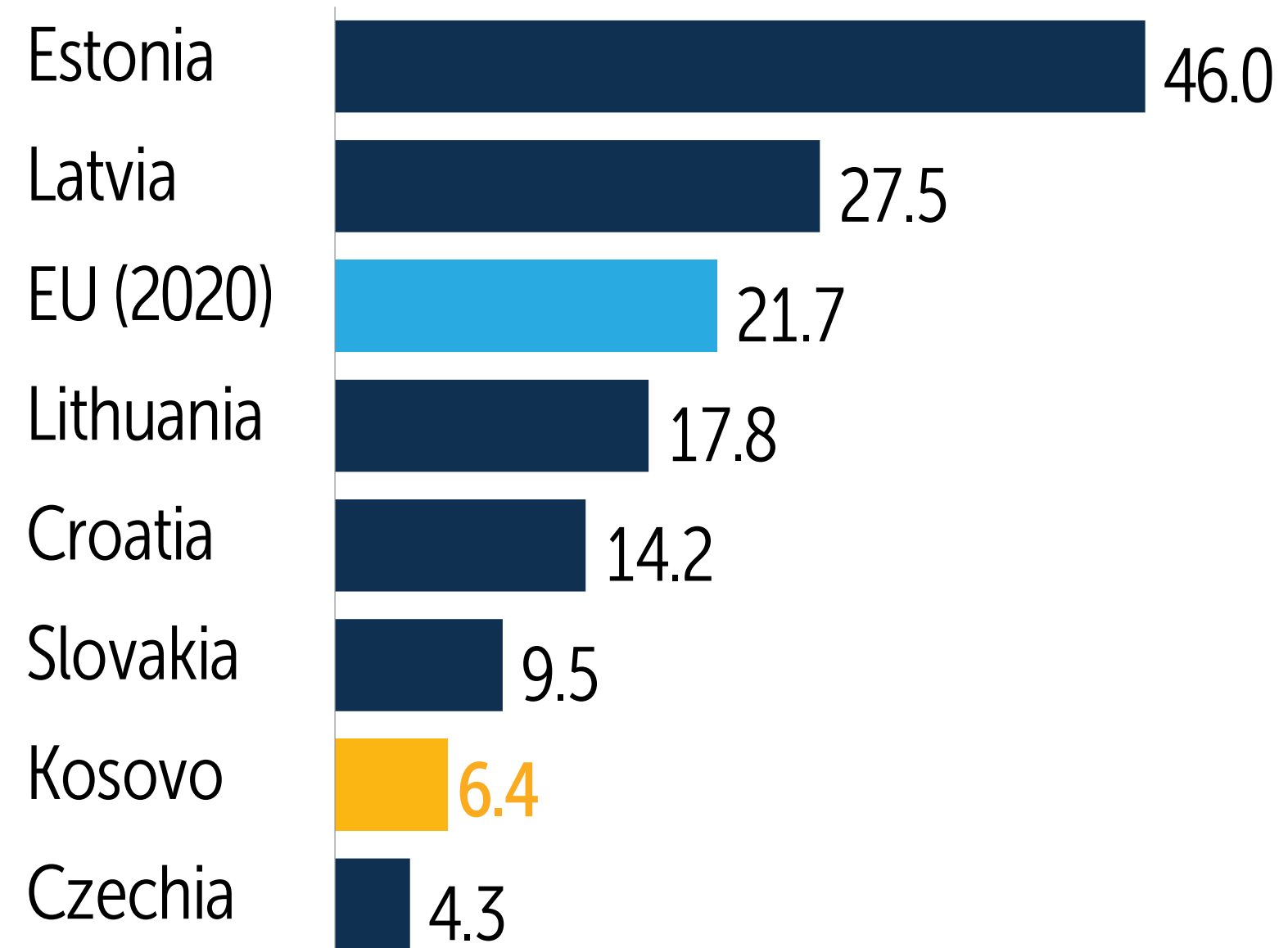
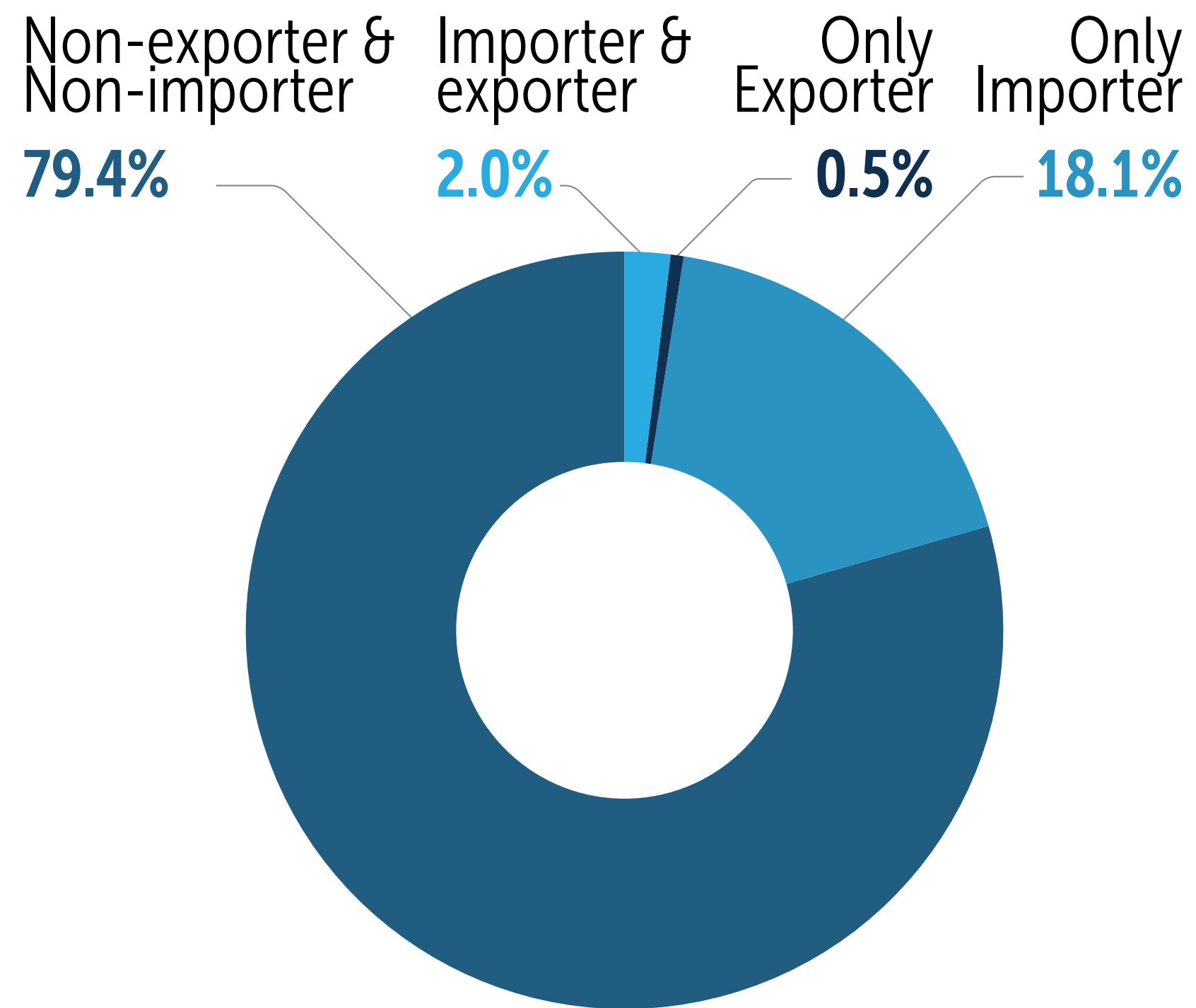
Survival Rates by Firm Age, Percent of Total Firms



Firm survival rates are low...

# Firms also suffer poor **survival rates** with few reaching international markets

Exporters and Importers, Percent



...and very few firms (compared to total) export

% of manufacturing firms

# Gearing up for a more productive future



Read the full paper at  
[worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

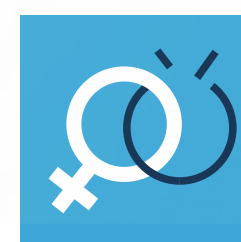
## 1 Increasing Firm Productivity



Reduce administrative burden, regulatory uncertainty and continue to improve access to finance



Strengthen the national innovation system and foster digitalization



Remove barriers to women's participation in the economy

- Continuously reduce the administrative burden and regulatory uncertainty faced by firms, e.g., through streamlining licenses and permits and improving the inspections regime through better coordination and risk-based inspections.
- Strengthen the national innovation system to foster the diffusion and adoption of technology and investment in research and development (R&D).
- Foster digitalization of businesses by ensuring timely adoption and implementation of regulations on E-ID, data protection, and cybersecurity, and improve the coverage, quality, and affordability of Internet connectivity and related managerial capacities.
- Improve access to finance through non-bank financial institutions, private equity, and venture capital, ensuring uptake of Kosovo Credit Guarantee Fund guarantees and securing property rights.
- Incentivize women's entrepreneurship and remove barriers to women's participation in the economy through, e.g., investments in preschool education and child and elder care, and increasing financial inclusion by introducing a basic payment account.
- Improve firm capabilities through targeted programs (e.g., technical assistance to SMEs funded through voucher schemes or grants) to upgrade management and organizational practices.

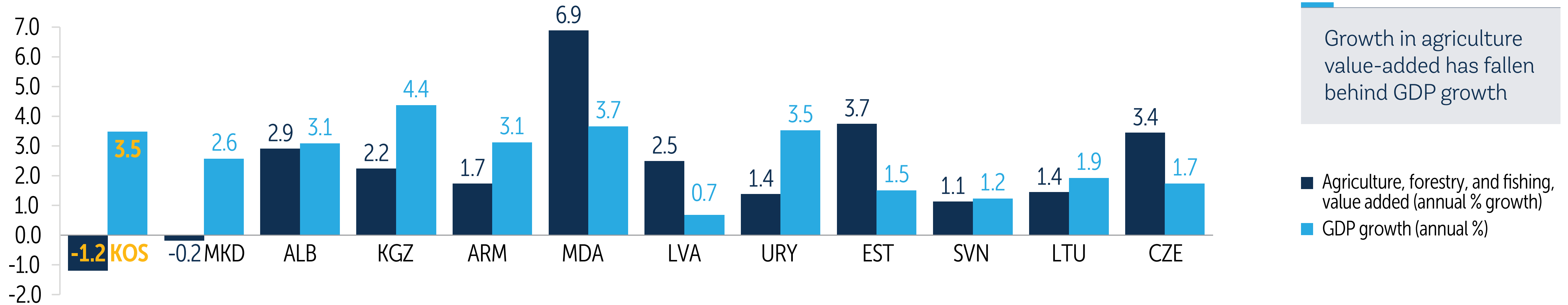
**RAISING**

# Farm Productivity

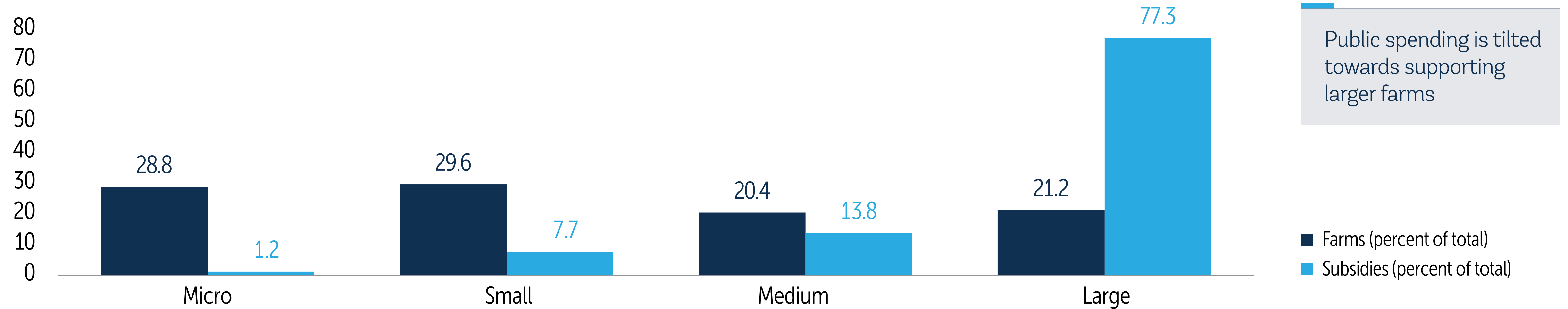


# Farm enterprises in Kosovo lack **scale** and **efficiency** to compete

Agricultural VA, Compared to Structural and Aspirational Peers, a 2008–19, Percent



Direct Payments to Farms by Economic Size, Kosovo, 2017, Percent



# Gearing up for a more productive future



Read the full paper at  
[worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

## 2 Raising Farm Productivity



Reallocate public support measures to facilitate agricultural scale economies



Target measures to competitive farm enterprises to support value chains



Speed up land titling and invest in modern irrigation to sustainably manage natural resources

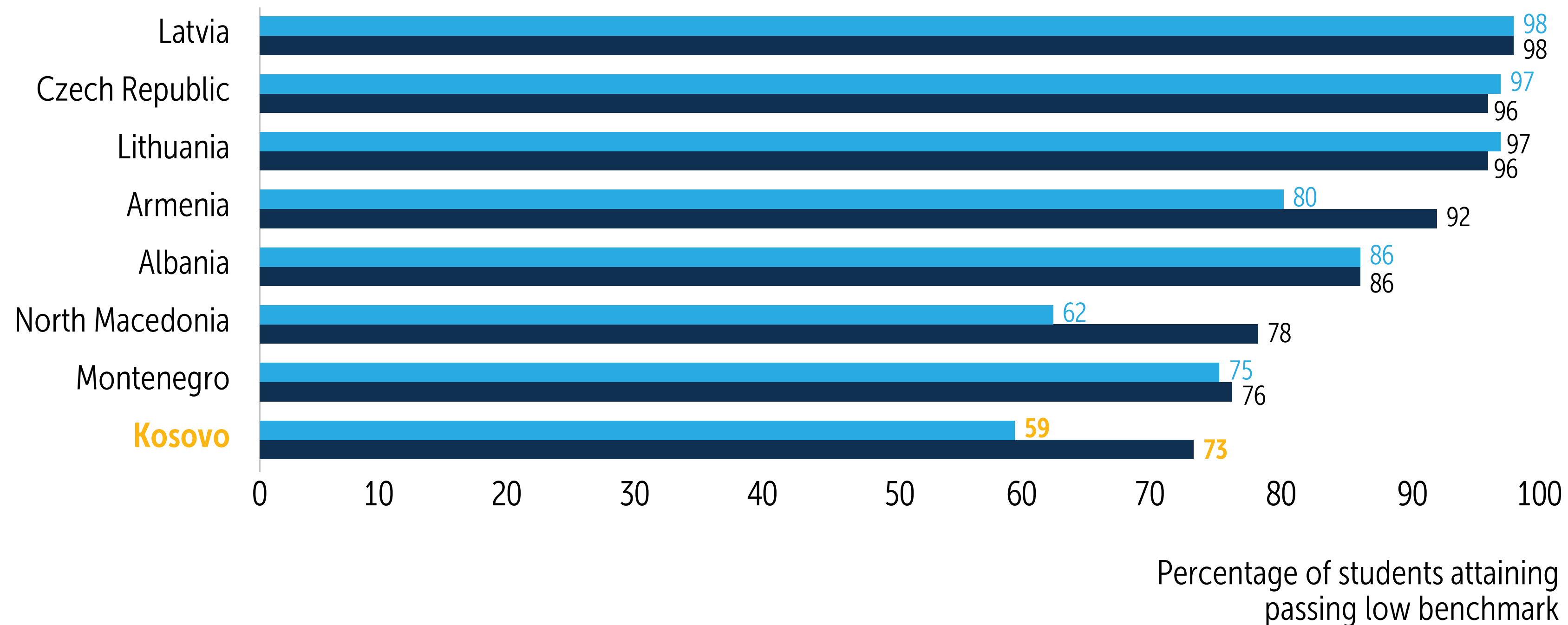
- Provide incentives to encourage aggregation of farms and other food chain firms so that they modernize and explore scale economies.
- Facilitate farm competitiveness by modifying current types of farm support; consider a shift to decoupled farm support.
- Reallocate public resources to farm activities that have higher rates of return to improve the sector's competitiveness and enhance incomes.
- Facilitate the modernization of smaller farms through better-targeted support and promote an enabling environment for small and medium-sized farms by providing advisory, training, technical, and information support, infrastructure, R&D, and storage capacities.
- Expedite cadastral reconstruction to cover all of Kosovo by prioritizing more economically active agricultural land and cadastral zones; and invest in sustainable management of natural resources, including timely implementation of the irrigation master plan.

**ENHANCING**  
Human  
Capital



# Kosovo has demographic advantages, but **educational quality** needs to be improved

Proficiency in Math and Science, TIMSS 2019, 4th Graders



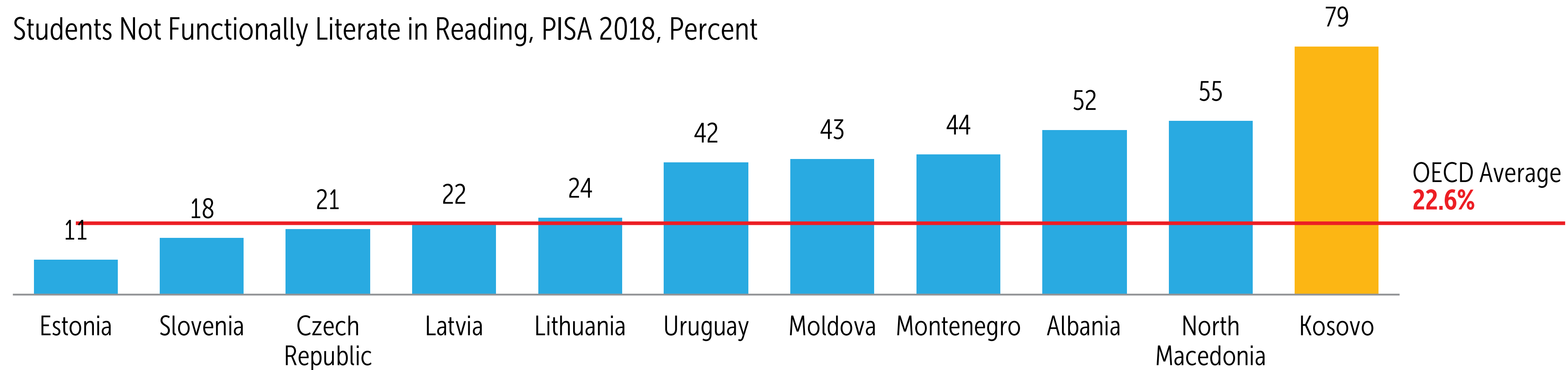
Children in Kosovo perform below comparators on measures of educational performance...

■ Science  
■ Maths

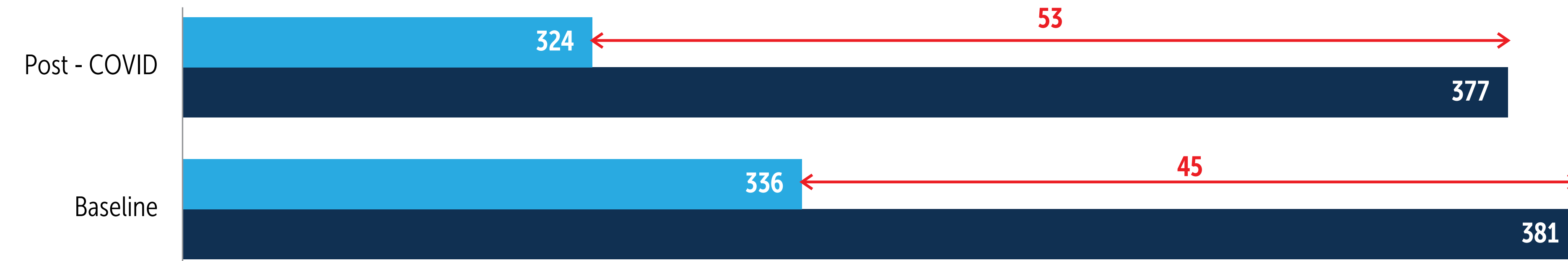


# Kosovo has demographic advantages, but **educational quality** needs to be improved

Students Not Functionally Literate in Reading, PISA 2018, Percent



Estimated Impact of COVID-19 on the Socioeconomic Achievement Gap



**PISA Scores in Reading**  
40 points in PISA scale ≈ 1 year of schooling

...and there is a worrying gap between in educational attainment between the top and bottom 20 percent

■ Poorest 20%  
■ Richest 20%

# Gearing up for a more productive future



Read the full paper at  
[» worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

## 3 Enhancing Human Capital



Optimize the school network and re-orient spending to reduce infrastructure gaps and improve quality



Improve learning assessments to guide and motivate teaching quality



Accelerate plans to digitalize education delivery

- Develop a student registry to track academic performance that includes an early warning system of at-risk and poor performers for better targeting of services that keep students in school.
- Continue using and improving a system of learning assessments that guides teacher instruction and motivates improvement over time, especially in lagging municipalities.
- Improve spending efficiency and equity in the sector by completing a school optimization study and implement it in order to re-orient spending in education to reduce infrastructure gaps, improve the quality of education, and revise the school financing formula.
- Develop a comprehensive plan to digitalize education delivery and ensure the equity of digital content and connectivity with sufficient equipment and skilled and supported teachers.
- Improve the targeting and coverage of the social assistance scheme to reduce the liquidity constraints of poor families with more children.
- Take stock of and institutionalize remedial and support programs delivered by NGOs, especially those targeted to low-income families, minority children, and rural students.

**BOOSTING**

Exports,

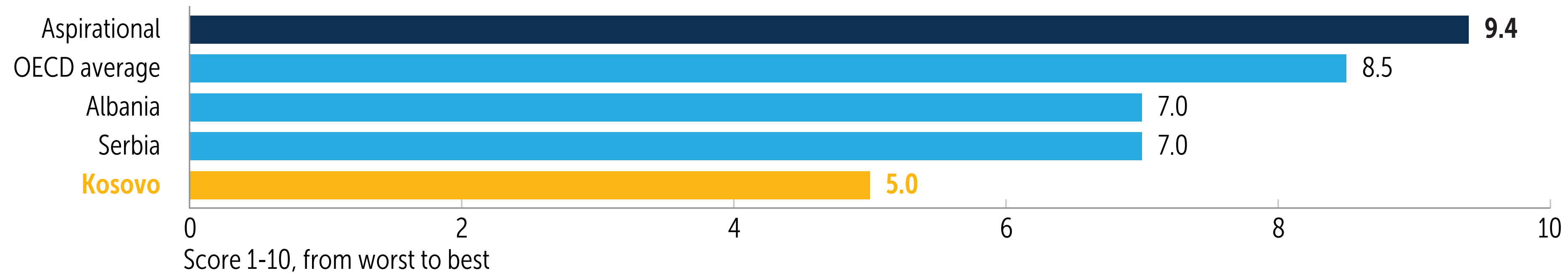
Competition &

Foreign Direct Investment



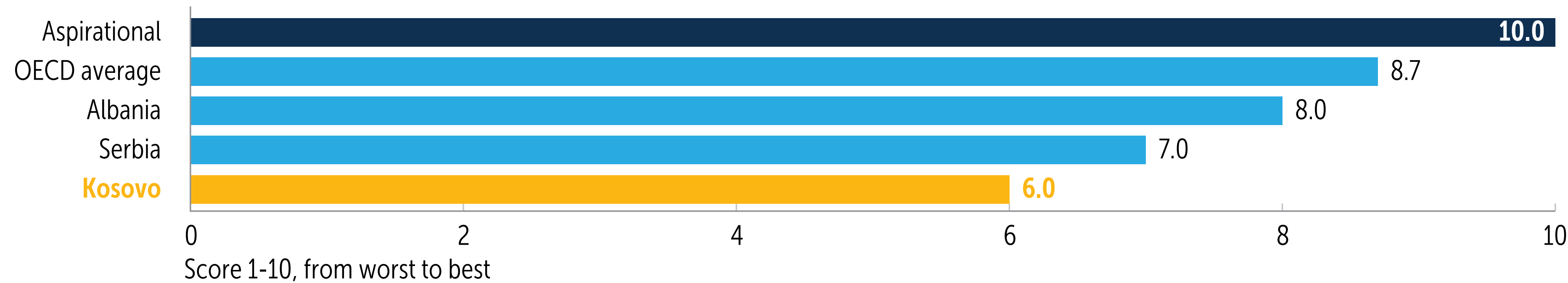
# Increasing the intensity of market competition would help to **boost economic activity**

Market-based Competition Score



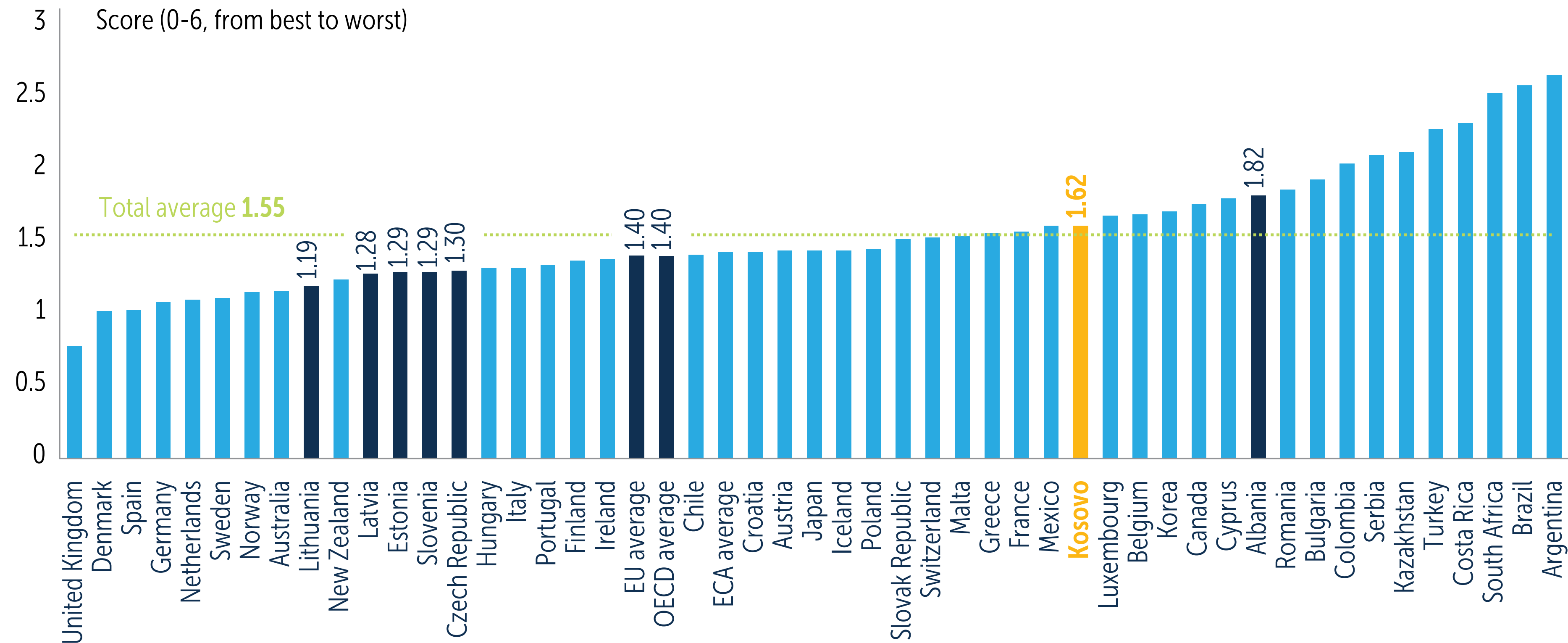
Levels of competition in Kosovo fall behind those seen in key comparators...

Anti-monopoly Policy Score



# Increasing the intensity of market competition would help to **boost economic activity**

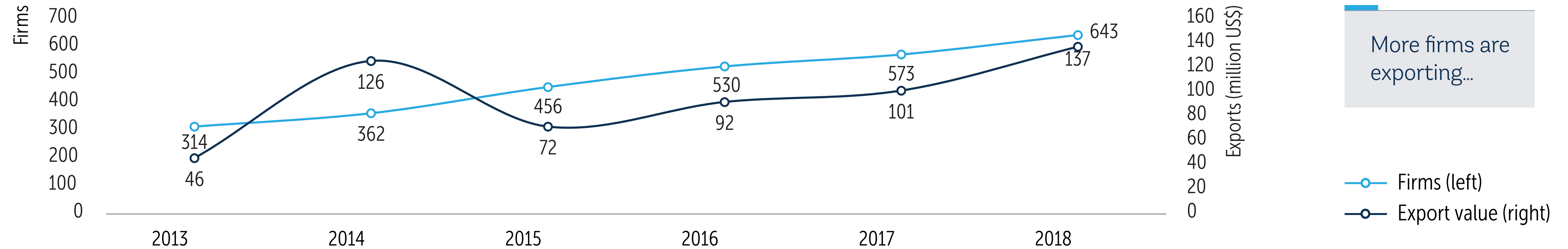
PMR Indicators: Overall Score



...in part due to higher regulatory barriers to competition

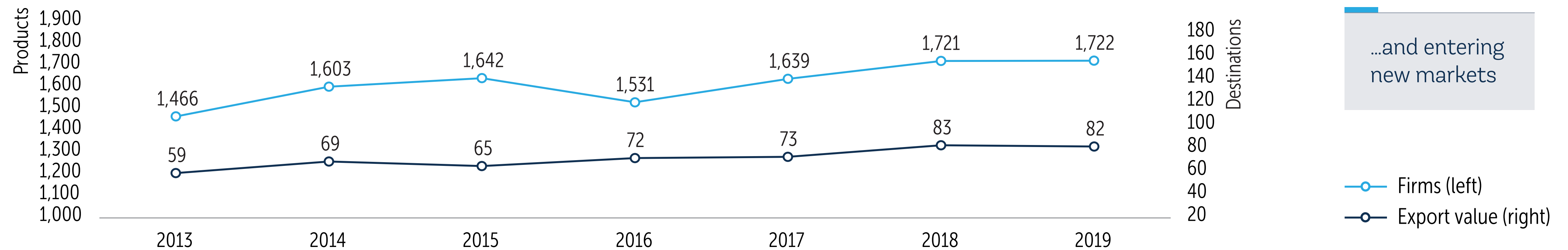
# Kosovo's export performance has been improving, but from a low base

Firms Exporting Services and Export Value, US\$ Millions, Total Firms, 2013–18



More firms are exporting...

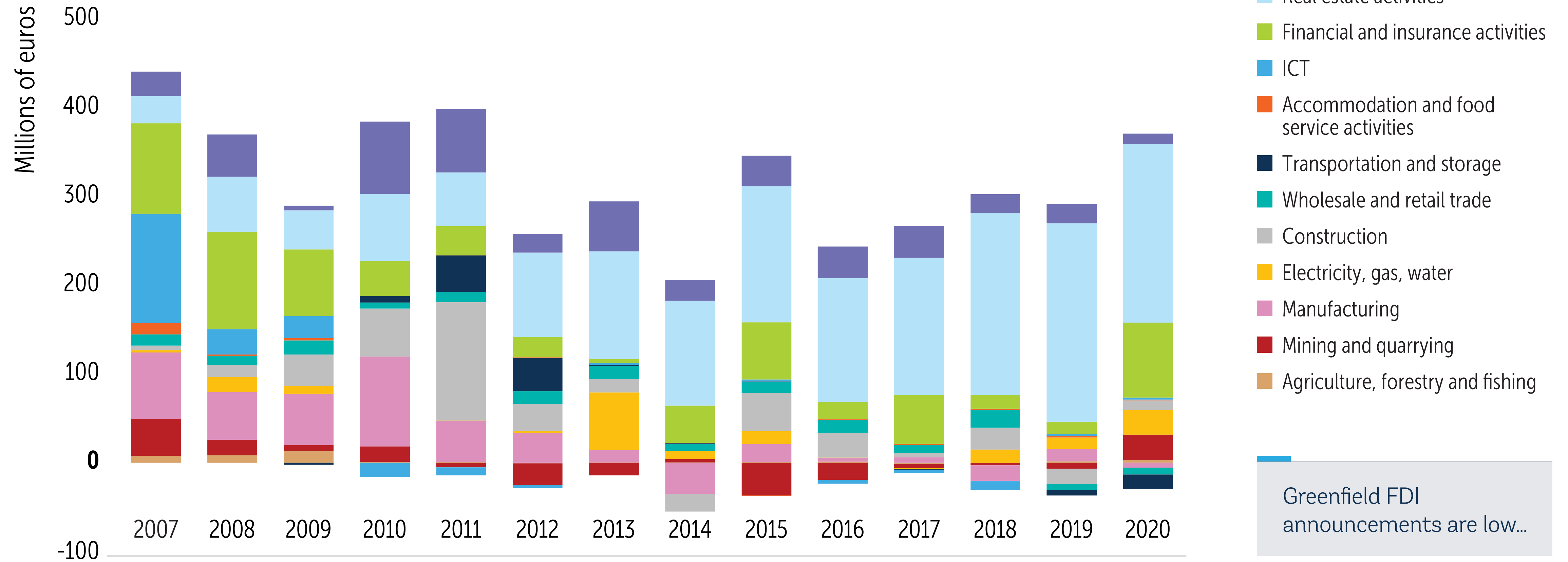
Products Exported and Destinations Served, 2013–19



...and entering new markets

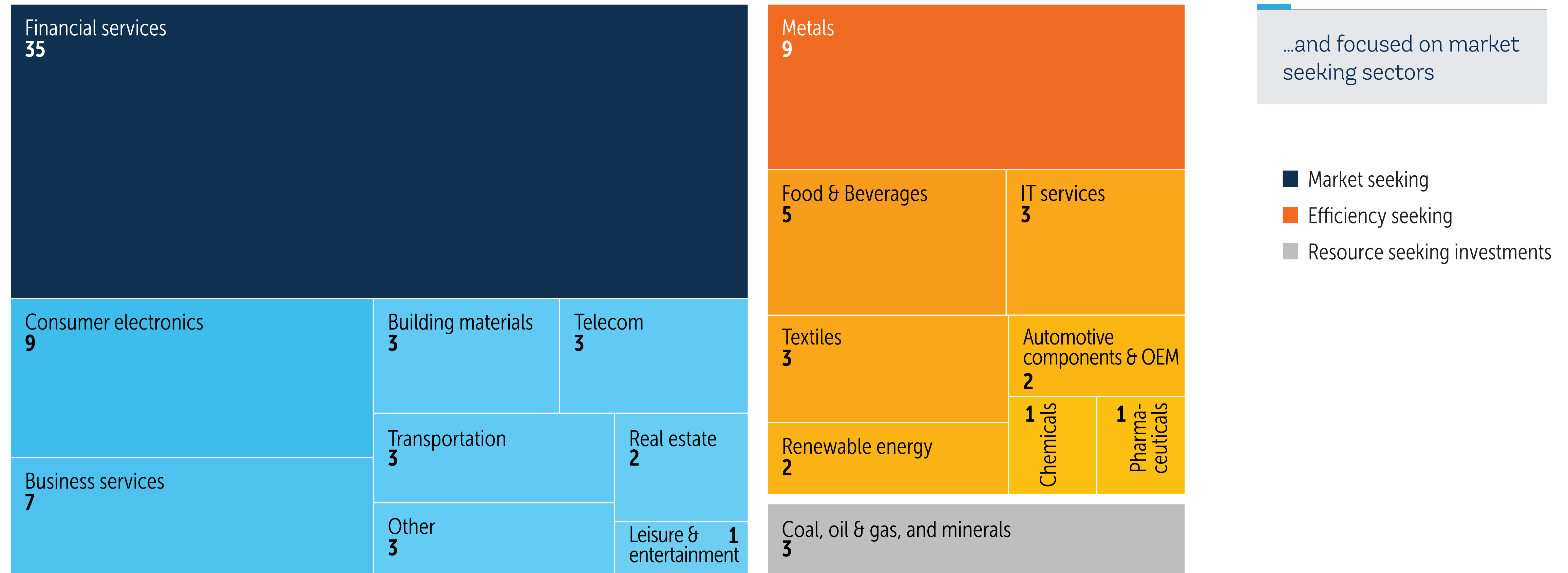
# Kosovo's FDI inflows are concentrated in non-tradable service sectors

Kosovo: FDI Inflows by Sector, 2007–19



# Kosovo's FDI inflows are concentrated in non-tradable service sectors

Shares of number of greenfield FDI project announcements in Kosovo, by motivation and subsector, Percent





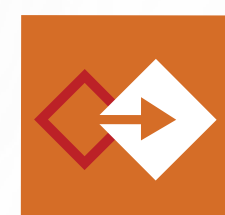


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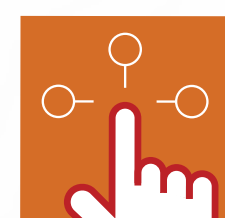
## 4 Boosting Exports, Competition and Investment



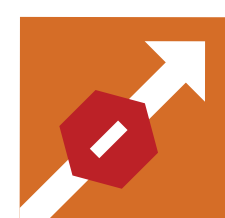
Improve regional integration and promote it as a springboard for global integration



Modernize the investment promotion ecosystem to attract and retain quality investments



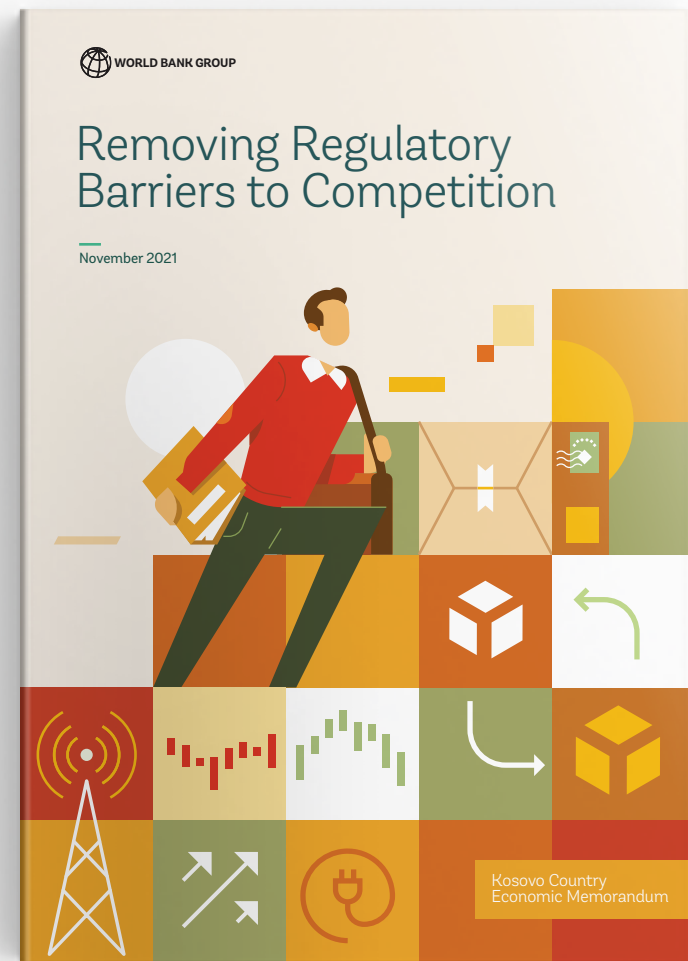
Improve trade facilitation and connectivity including for digital trade



Reduce barriers to competition

- Continuously address business environment constraints to provide an enabling environment for firms to enhance productivity.
- Improve regional integration and promote it as a springboard for better integration with EU and global markets.
- Continue dialogue with partners on deepening trade integration through trade agreements with international partners.
- Reduce trade facilitation and logistics gaps.
- Continue to improve the business environment to attract higher FDI to link with GVCs.
- Leverage strong diaspora ties to increase penetration of firms into export markets in the region and beyond.
- Prepare an action plan for e-commerce to improve the regulatory framework and promote digital trade, facilitate e-payments, and improve digital connectivity.

# Gearing up for a more productive future



Read the full paper at  
» [worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

- Improve POE governance and eliminate POE-related barriers to competition to ensure equal treatment of private and public operators in markets where they compete.
- Enhance the quality and control of the regulatory process and facilitate business registration to boost market entry.
- Reform entry and conduct regulations for professional services, eliminating exclusive rights and regulatory restrictions.
- Strengthen the regulatory framework for competition policy and improve the efficiency of regulatory functions to reduce restrictions on competition in network sectors like electricity, transport, and telecommunications.

# Gearing up for a more productive future

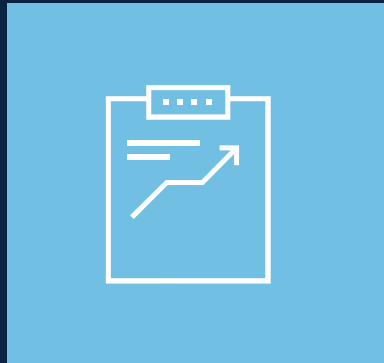


Read the full paper at  
» [worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

- Modernize the investment ecosystem to make it more efficient and to attract higher-quality investments.
- Sharpen the focus of FDI attraction and retention efforts and devise an action plan to accelerate investment attraction and COVID-19 recovery.
- Empower KIESA as the national lead agency for attracting investment by sharpening its focus on delivering core investor services, improving its governance, and scaling up its provision of services to investors.
- Establish an effective investor grievance mechanism to enhance investor confidence and reduce regulatory risk.

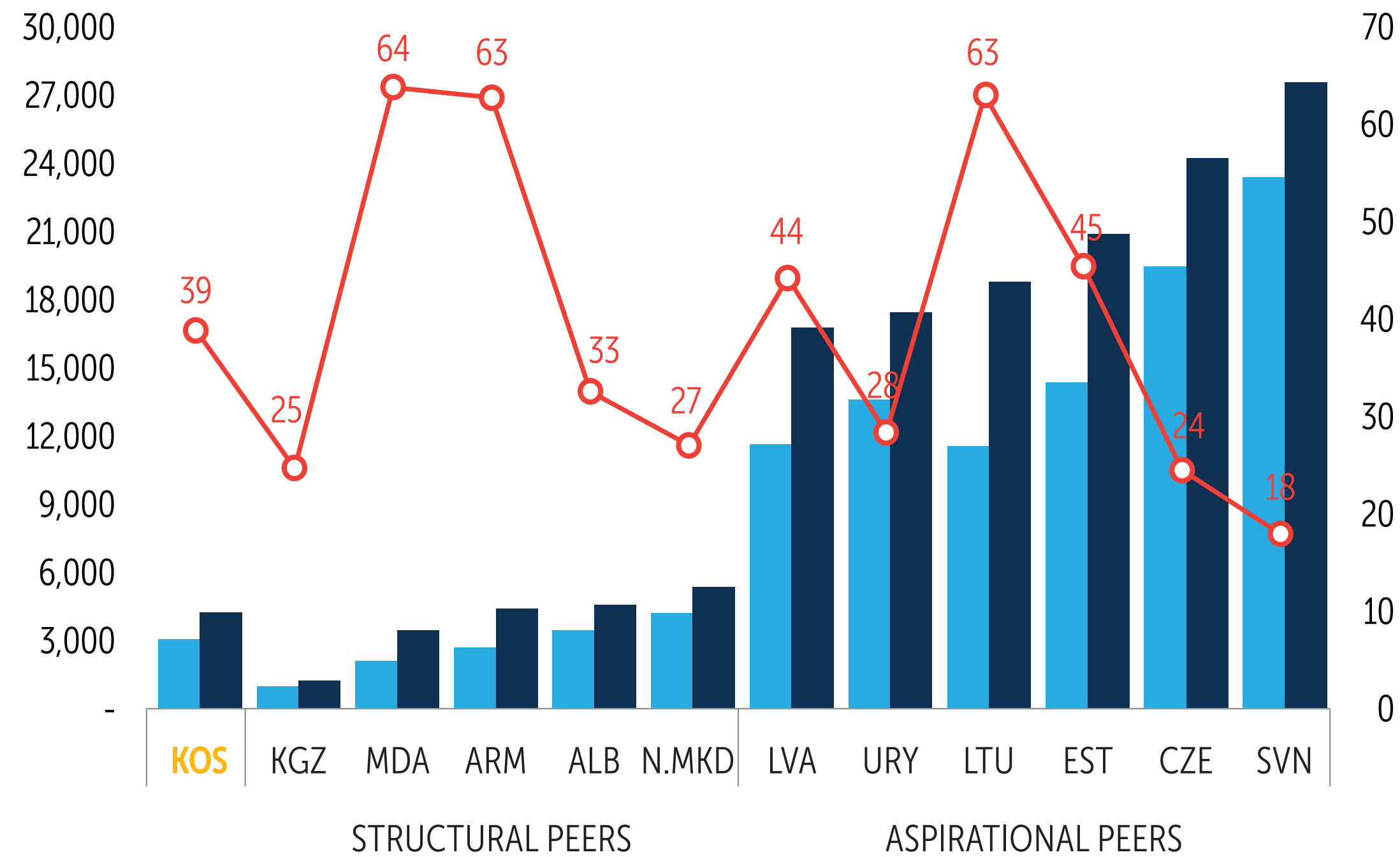
ENTRENCHING

# Macroeconomic Stability & Sound Governance

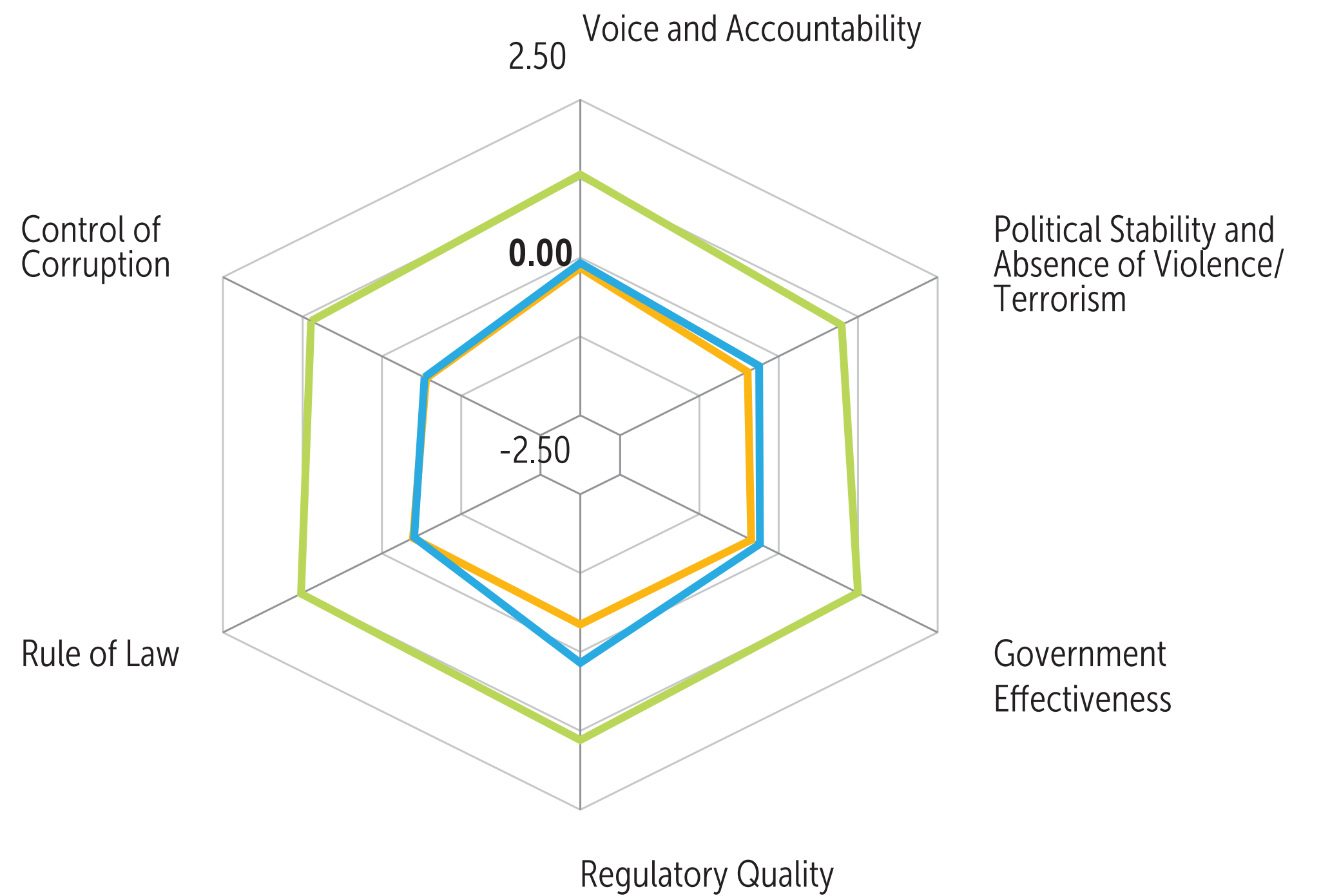


# Kosovo has seen strong rates of economic growth, but needs to close the **governance gap** with comparators

GDP per Capita, 2009-19, US\$, Percent



Worldwide Governance indicators, 2019, Index = -2.5-2.5



GDP growth has been impressive, but there is still some way to go to close the gap with key comparators...

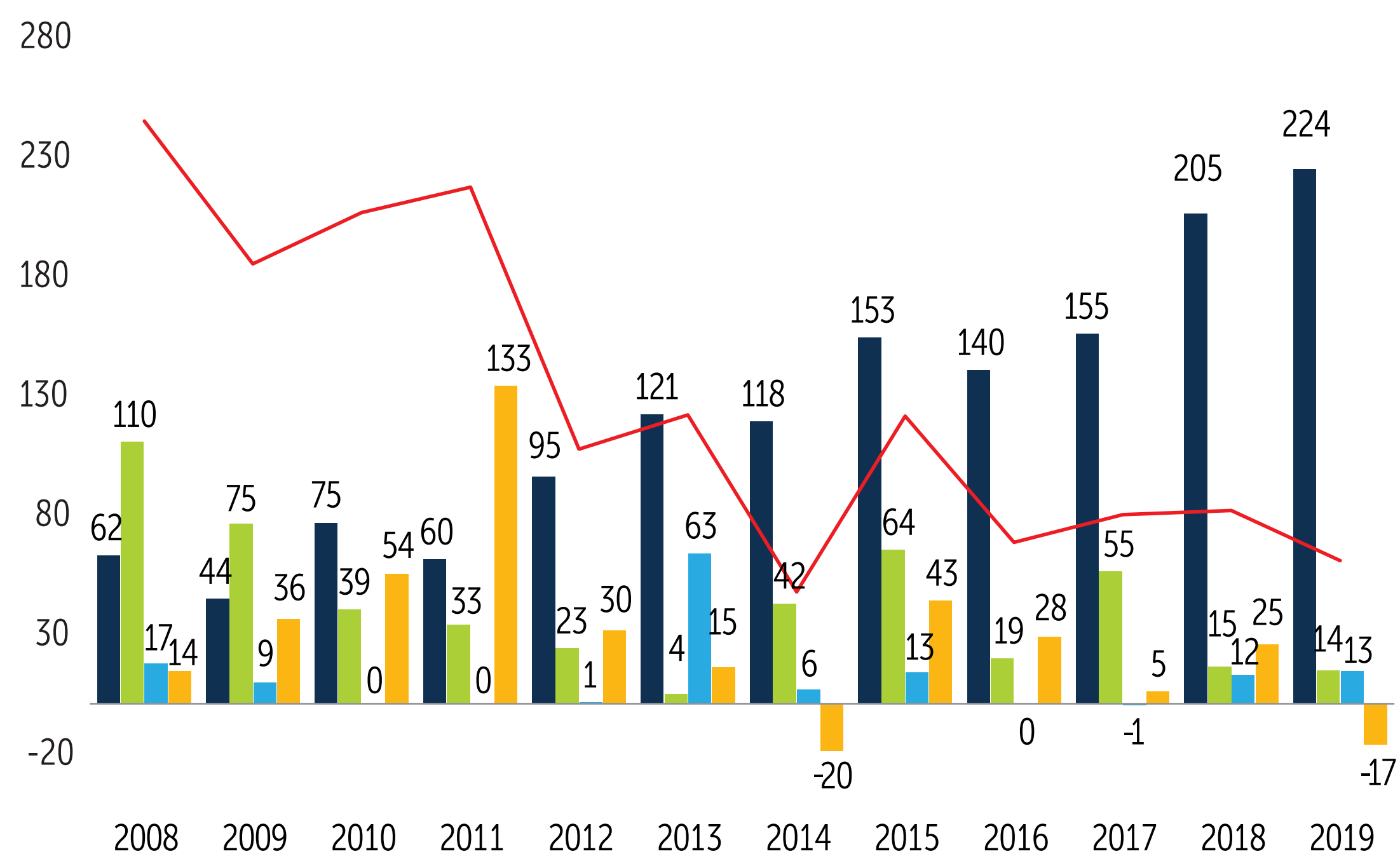
■ 2009 ■ 2019  
 -○- Change 2009-2019 (right axis)

...and the comparator gap is especially large when it comes to governance

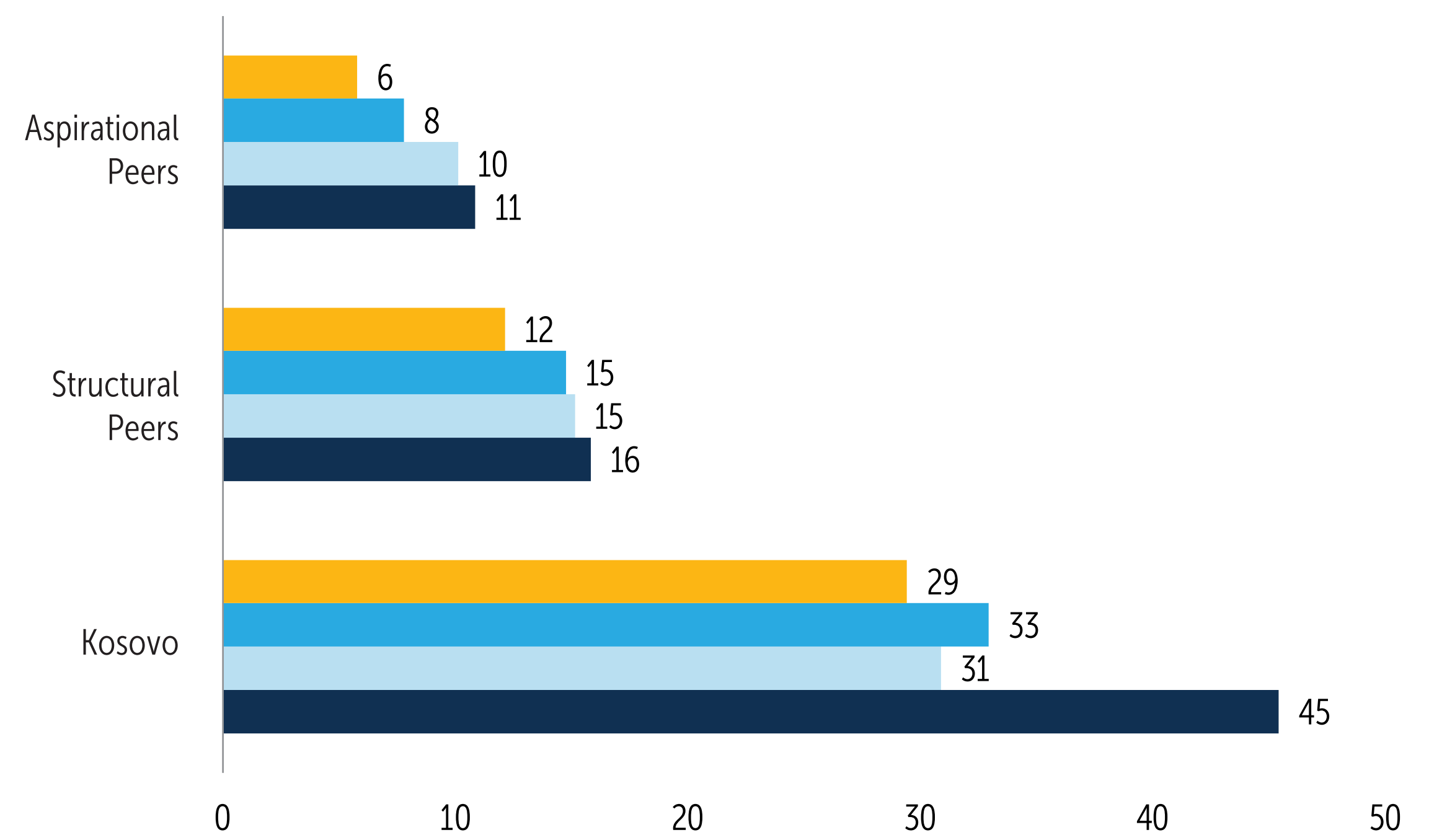
— Kosovo  
 — Structural Peers  
 — Aspirational Peers

# Higher levels of **foreign investment** are needed in productive sectors to support job creation

Net FDI by Sector, €Million, 2008-19, Percent of GDP



Unemployment, Kosovo and Comparator Countries, 2009-18, Percent



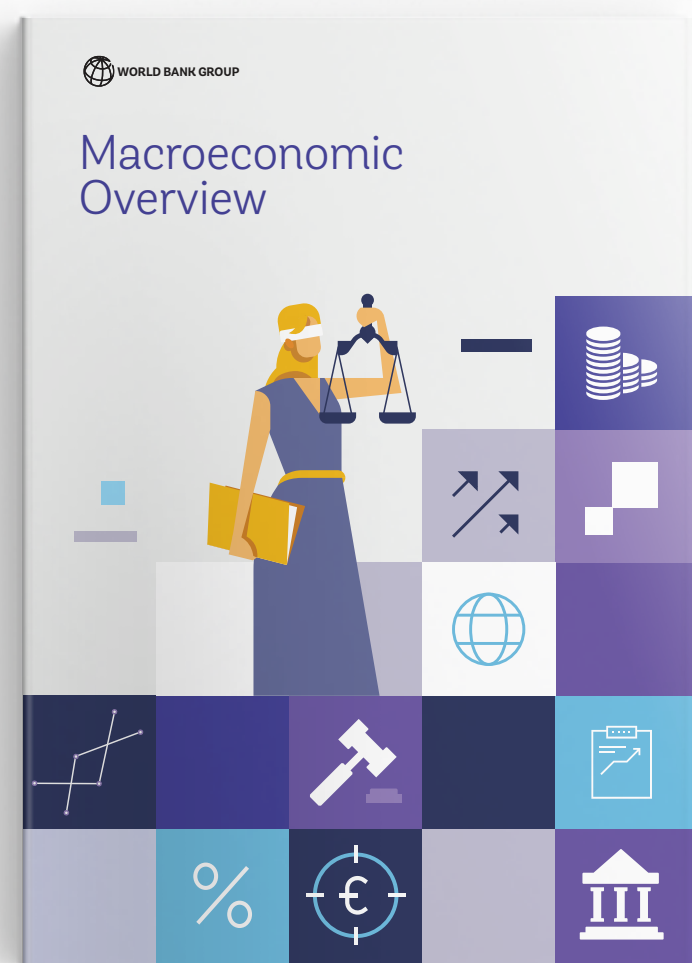
Foreign investment has been strong, but focused primarily in the real estate sector

- Real estate
- Financial and insurance
- Energy
- Construction
- Net FDI inflows

Unemployment has fallen, but remains high

- 2009
- 2012
- 2015
- 2018

# Gearing up for a more productive future



5

## Entrenching Macro Stability and Sound Governance



Improve the efficiency of public spending through better targeting



Increase revenue mobilization by reducing exemptions and leakages



Strengthen rule of law and judicial system

- Improve the timeliness and accuracy of national statistics to inform evidenced-based policy making, in particular the national accounts, for effective implementation of the rules-based fiscal framework.
- Improve the efficiency of public spending, by better targeting social protection benefits to the poor, allocating resources to maintaining public assets, and investing in human capital.
- Mobilize more revenue by rationalizing fiscal exemptions, reducing leakages, and giving local authorities incentives to collect more own-source revenue
- Ensure effective implementation of laws through better coordination of state institutions and a well-functioning judicial system.
- Continue to closely monitor financial sector health to manage exit from borrower relief measures adopted in 2020, taking into account increased uncertainty about the economic recovery and asset-quality challenges generated by the COVID-19 shock; and strengthen the financial safety net through the bank recovery and resolution framework to be introduced by the new banking law.

# Gearing up for a more productive future

Proximity to major markets in Europe and a youthful population provide an opportunity for growth. Kosovo is one of the youngest countries in an aging Europe. Trade facilitation and logistics connectivity are getting better. Proximity to a large and affluent market, and strong ties with its diaspora will help support growth.

Yet, with the right reforms, Kosovo can gear up for a more productive future. A package of reforms to (1) entrench macroeconomic stability and sound governance; (2) increase firm productivity; (3) raise farm productivity; (4) enhance human capital; and (5) boost exports, competition and private investment, especially foreign direct investment (FDI), could see Kosovo closing the gap with its aspirational peers much sooner.



Read the full paper at  
» [worldbank.org/en/country/kosovo](https://worldbank.org/en/country/kosovo)

