Review

of the Economy and Employment domain of the Swiss Cooperation Office in Kosovo, for the purpose of elaborating the new Cooperation Strategy in Kosovo

Final Report

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Abbreviations

CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
CS	Cooperation Strategy
DANIDA	Danish International Development Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ENE	Economy and Employment domain of SCO-K
EU	European Union
EULEX	European Union Rule of Law Mission
GDP	Gross Domestic Product
HPK	Horticulture Promotion Program in Kosovo
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPAK	Investment Promotion Agency of Kosovo
KFOR	Kosovo Force
LLL	Life Long Learning
M4P	Making Markets Work for the Poor
MAFRD	Ministry of Agriculture, Forest and Rural Development
MEF	Ministry of Economy and Finance
MEST	Ministry of Education, Science and Technology
MLSW	Ministry of Labor and Social Welfare
PSD	Private Sector Development
SBA	Small Business Act
SCO-K	Swiss Cooperation Office Kosovo
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
SEDPP	Sustainable Employment Development Policy Program
SEE	South East Europe
SME	Small and Medium Enterprises
SMESA	SME Support Agency
ToR	Terms of Reference
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
VES	Vocational Education Support
VET	Vocational Education and Training

Executive summary

Unemployment remains one of the most serious problems of the new state of Kosovo. It is currently reported at over 40% with unemployment of people below 25 years of age estimated at around 75%, despite many initiatives from national and international organizations. Economic growth is too slow to allow the private sector to absorb all newly entering people on the job market every year.

This report is based on a review of the Economy and Employment Domain of the Swiss Cooperation Office in Kosovo. The **goal of the review** was twofold: to review the current portfolio against the impact hypothesis and give recommendations and options for the design of the future programmatic interventions in the domain for the next cooperation strategy.

The **conceptual framework** used for this review is taking a systemic view on the labor market with three components in the core: (1) the supply side, i.e., education and skills development, (2) a matching component bringing together job seekers and jobs, and (3) the demand side, i.e., the public and private sectors who employ people form the labor market. This core is embedded in a legal, institutional and financial framework and relies on services provided by a support structure.

In Kosovo, the **labor supply side** is market with a low quality of education. Kosovo has the lowest human capital development indicators in the South East Europe region. Curricula often do not reflect the labor market needs. Among education institutions of all levels, there is a lack of incentives and willingness to change and, hence, planned curricula modifications are progressing very slow and are of limited extend. The highest unemployment rate is among the group age of 15-24 years old. Additionally, Kosovo's youth demonstrates a difficult school-to-work transition. Results of current efforts to tackle this problem remain slow and interventions are not well coordinated. The **Vocational Education Support Program** (VES) in Kosovo can show a number of achievements relevant to the mentioned limitations of the skills development side over its three phases. Around 49% of graduates from the Swiss supported partner schools found a job or got self-employed. The sustainability of the project is, however, very much related to the political will of the Kosovo Government to allocate the necessary resource and make the necessary changes in its policies. Currently, the sustainability is mainly limited to the occupational profiles in the project's partner schools. The **International Business College Mitrovica** (ICBM) is a vocational training school that was established as a neutral institution for education. It has two campuses, one in the north of the city, one in the south. Students are of mixed ethnicity. Although the ICBM is on the way to becoming a model school for tertiary level vocational education in Kosovo, the project misses the opportunity to work towards the institutionalization of this model. Nevertheless, it is successful on the level of reconciliation between the students of different ethnicities.

In the **matching and job mediation** component of the labor market, the actors are generally not well coordinated and the overall situation is the less advanced than in the region. The Swiss cooperation implemented an inception phase of the **Enhancing Youth Employability** (EYE) program piloting different matching activities like internship programs, which showed positive results. Currently, SDC is tendering a full EYE phase, targeting matching, but also giving the bidder the opportunity to venture into skills development and creating demand for labor.

The **labor demand side** is mainly dependent on the economic development of Kosovo, which is far below the labor market offer. Establishing and running businesses in Kosovo is cumbersome. The World Bank ranks Kosovo 119th out of 183 countries for the ease of doing business. The economy is generally underperforming and companies have problems accessing larger markets. This leads to the current situation that the demand side is not able to absorb all available labor force on the market, which is one of the major constraints in reducing unemployment. In the context of private sector development, the Swiss-Danish program **Horticulture Promotion in Kosovo** (HPK) has been working on improving the horticulture sector. Recent interventions have focused on the post-harvest level. Successes were achieved both on production level and by supporting collection centers and other big post harvest actors. The uptake of these changes at the market level is, however, still rather limited. Nevertheless, there are a number of sustainable systemic changes in the horticulture sector that can be attributed to the project interventions.

The **general framework conditions** in Kosovo are currently not very conducive to an improved labor market system, neither on the side of skills development nor on the demand side, i.e., in private sector development. The institutions in Kosovo are still very young and general capacities rather low. Although the legal base is solid, the implementation of the laws remains a big issue. Courts are seen as unreliable and slow. The fiscal environment in Kosovo is improving. Currently, the tax reform is ongoing and is expected to bring new improvements in terms of simplicity, tax collection methods, rates, etc. Access to finance in Kosovo for the private sector, despite improvements, remains less favorable than compared to other countries in the region. The new **Kosovo SME Promotion Program** (KOSME), co-funded by the Swiss and Austrian governments, which is supposed to start soon, will tackle the framework conditions both on a service oriented as well as a legislative and institutional level by building the capacity of the Kosovo SME Support Agency (SMESA), establishing a voucher counseling scheme and a credit guarantee scheme. This is intended to further improve the conditions for the growth of SMEs in Kosovo.

In the following, the recommendations of the review team are briefly summarized.

General – youth unemployment is a symptom, not a cause: A balanced portfolio targeting the whole system, with a mix of different aid modalities and the integration of the Diaspora, should be aspired.

Labor supply side – drive institutionalization of VES achievements: The effort to institutionalize the achievements of the VES program should be continued also after phasing out of the VES program.

Labor demand side – focus on private sector development in selected sectors: A new M4P project should be set up focusing on a number of specific sectors with high potential and also considering a continued engagement in the horticulture sector.

Labor matching – focus of EYE will have a strong influence on the portfolio: Focus the EYE project interventions on matching and employability and use it wherever possible for the institutionalization of VES achievements.

Framework conditions – contribute to other donor programs: SCO-K should continue to support coordination and communication activities and invest in pooled funding opportunities, using the gained influence to achieve institutional and regulatory changes in line with the general strategy.

Interventions in the North – focus on reducing the isolation of the Serbian business community: Interventions should focus on small and flexible interventions based on local needs and consequently use a conflict sensitive approach.

Inter-domain coordination and cooperation: Interventions of the domains should be coordinated so they are mutually reinforcing wherever possible.

1 Background and rationale for the assessment

1.1 Country overview

Unemployment remains one of the most serious problems of the new state of Kosovo. It is currently reported at over 40% with unemployment of people below 25 years of age estimated at around 75%[1], despite many initiatives from national and international organizations. The unemployment rate may even increase due to the big number of young people coming on to the labor market every year and its limited absorption capacity, the expected privatization of the two biggest public companies, and reforms of the public administration.

It is estimated that an economic growth of at least 7% is needed just to absorb the number of young people entering the labor market each year.[2] Currently, the economy is growing at a slow but steady pace of around 4-5% with 4.8% in 2010 and projected 5.5% in 2011.[3] GDP growth in Kosovo is, however, not sustainable since it is mainly driven by government consumption, public expenditure, remittances, and foreign aid.

More than 99% of businesses in Kosovo are small or medium enterprises (SME).[4] Establishing new businesses is still cumbersome. The World Bank ranks Kosovo 119th out of 183 countries for the ease of doing business. Other countries of the region have made significant improvements in this regard in recent years and have improved their overall ranking.[5]

Kosovo's domestic production continues to be low. With a trade deficit of around 42% of its GDP, there is a significant potential for domestic production to substitute imports, given that the domestic private sector reaches a competitive level.[6]

1.2 Rational for the assessment

The Swiss Cooperation Strategy for Kosovo 2009-2012[7] through its Economy and Employment (ENE) domain aims at strengthening economic growth and contributing to the reduction of the high rate of unemployment.[8] In view of the elaboration of the new cooperation strategy 2013-2016, the review of the ENE domain had a twofold focus: to review the current portfolio against the impact hypothesis and a number of questions given in the Terms of Reference (ToR) in light of two possible development scenarios for Kosovo as a whole as well as give recommendations and options for the design of the future programmatic interventions in the ENE domain for the next cooperation strategy, equally based on a set of questions given in the ToR.

The questions in the ToR are addressed implicitly in the following findings and recommendations. Additionally, an explicit set of answers is provided in Annex A.

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[1] Swiss Agency for Development and Cooperation: Enhancing Youth Employability, Tender Document. December 2011.
[2] SME Support Agency and EU SME: SME Development Strategy for Kosovo 2012-2016. July 2011.
[3] Kosovo MEF projection (2010) and IMF projection (2011) according to the US Department of State at http://www.state.gov/r/pa/ei/bgn/100931.htm [accessed 14/02/2012]
[4] SME Support Agency and EU SME: SME Development Strategy for Kosovo 2012-2016. July 2011.
[5] UNDP Human Development Report 2011 for Kosovo (forthcoming)
[6] ibid.
[7] Swiss Agency for Development and Cooperation SDC and State Secretariat for Economic Affairs SECO: Cooperation Strategy Kosovo 2009-2012. Bern and Pristina, 2009.
[8] Swiss Agency for Development and Cooperation: Terms of Reference for a Team of Consultants (international and local) to conduct a Review of the Economy and Employment domain of the Swiss Cooperation Office in Kosovo, for the purpose of elaborating the new CS in Kosovo.

2 Findings and conclusions

2.1 Conceptual framework

The conceptual model used in this review is based on the systemic model for vocational education and training (VET) and life long learning (LLL) used by the Vocational Education Support (VES) program[9] and the 'Making Markets Work for the Poor' (M4P) framework[10], used by the Horticulture Promotion in Kosovo (HPK) program. As the main focus of the Swiss cooperation in the ENE domain will be youth unemployment, the labor market has been taken as the conceptual basis for this analysis. To illustrate the labor market value chain, it has been divided into three components: (1) the supply side, consisting of all institutions that prepare people for jobs; (2) a matching component, enhancing the employability of job seekers and mediating potential jobs; and (3) a demand side component, consisting of the public and private sector which are absorbing people into their labor force. These three components build the core of the conceptual model. This core is embedded in a legal, institutional and financial framework and relies on services provided by a support structure. See **Error! Reference source not found.** for an illustration of the model.

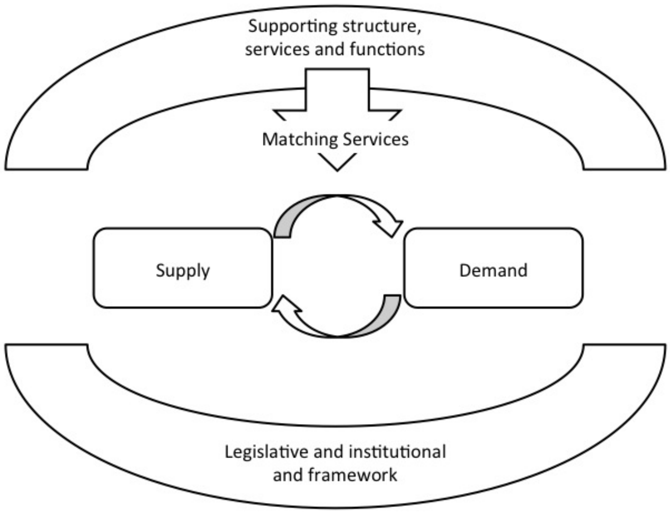

Figure 1: Conceptual model for the ENE domain review

2.2 Stakeholder analysis

An extensive analysis of the donor landscape in the field of youth employability was done during the inception phase of the Enhancing Youth Employability (EYE) project.[11] A SWOT analysis of the involved stakeholders with a focus on government organizations is presented in Annex B. A full-fledged political economy analysis was not possible during the short period of this review and the review team decided to prioritize the system analysis presented below.

2.3 Labor supply side – vocational education and training

2.3.1 General findings

According to the Ministry of Labor and Social Welfare's (MLSW) Sectoral Strategy 2009-2013, Kosovo has the lowest human capital development indicators in the South East Europe (SEE) region. The net enrollment percentage in primary schools is high with 95%, net enrollment in secondary education is 75% while enrollment in tertiary education is at only 18%, which is lower compared to the region. Transition to secondary education poses a difficulty for many children, especially for girls and the poor – 81% of boys/children from the richest quarter are registered in

[9] Swisscontact: Vocational Education Support Program for Kosovo. Project Document for Phase 3. 24. November 2009.
[10] For more information on the approach, see http://www.m4phub.org
[11] For details see: Bähr Elisabeth: Enhancing Youth Employability. Internal Evaluation of the Pilot Projects. 30 June 2011.

secondary education, but only 67% of children from the poorest quarter and 66% of girls are registered in secondary education.

A more serious issue, however, is the quality of education as well as the fact that curricula often do not reflect the labor market needs. Data on the level of students are very poor. According to the MLSW strategy document, a pilot-assessment for 5th grade children was carried out recently, showing poor learning results, especially in mathematics. Among education institutions of all levels, there is a lack of incentives and willingness to change and, hence, planned curricula modifications are progressing very slow and are of limited extend. This strongly affects the employment possibilities of the young graduates.

According to the MLSW Sectoral Strategy 2009-2013, the main challenges of labor and employment development are:

- In Kosovo there are approximately 335,000 registered unemployed, and almost as much as many people working in the informal economy.
- A large portion of the registered unemployed is long-term unemployed, with few or no employment opportunities.
- Almost 60% of unemployed are unskilled or with low qualifications.
- There are gender issues regarding employment – especially for rural women.
- Especially the age-cohort of 15-24 years has a high unemployment level, a part of which is hidden because they continue with their education instead of looking for a job.
- Job mediation from employment institutions is limited and overloaded.
- There is a lack of skills and qualification and trainings do not reflect labor market needs.
- There is a low productivity level in many organizations, which impacts salaries/per diems.
- Systems and procedures are required to ensure a flexible labor market that corresponds to labor market needs.

The MLSW sectoral strategy 2009-2013 identifies that the highest unemployment rate is among the group age of 15-24 years old, inexperienced people and people that were unemployed for over 12 months. Highly educated and experienced people face the lowest unemployment rate. The most vulnerable groups regarding the risk of poverty through low or missing incomes are youth, old people, female head of households, people with disabilities, unemployed, employed with unstable jobs, residents of small towns and non-Serb ethnic minorities.

The youth unemployment challenge remains difficult to address considering that Kosovo has the youngest population in Europe (youth aged 15-24 comprise 31 percent of working age population and 20 percent of general population) and considering the still high fertility rate of 2.7. Additionally, Kosovo's youth demonstrates a difficult school-to-work transition. In 2006, only 5 in 100 young people made a successful school-to-work transition and to sustainable employment.

The supply side is not seen as the only problem in reducing unemployment, because also the demand is neither seen as sophisticated nor sufficient enough to absorb the high number of youth that enter the labor market every year. According to the MLSW Sectoral Strategy 2009-2013, the success of VET programs is threatened by a too slow increase of the labor demand. The supply side of the labor market has been addressed actively by many donors and, though not very well coordinated, by the Ministry of Education, Science and Technology (MEST) and the MLSW[12]. Even though around €4 million have been spent per year on VET programs, the employment rates are still very low.

[12] For specific objectives and activities of the MLSW see Annex **Error! Reference source not found.**.

In order to reduce the unemployment, the MLSW is getting every year more and more active in improving the employability of unemployed people that are registered at its unemployment offices. The MLSW has for example introduced new curricula for new professions, hired freelance trainers in specific training topics and also organized internships for unemployed people. Related to that the MLSW has established a project and training fund last year with financial and technical support from Lux Development. Supported by the project, new curricula were developed, new workshops for training purposes established, and trainers trained on new topics. Furthermore, the project is complementing the MLSW's labor market information database, which is still under development, by mapping and listing skills development opportunities.

2.3.2 Vocational Education Support Program in Kosovo

The Vocational Education Support Program in Kosovo (VES) can show a number of achievements relevant to the mentioned limitations of the skills development side over its three phases. In a recently established capitalization report on the assets of the project[13], the authors described no less than 13 assets, out of which three are occupational profiles, three are training delivery strategies, four are counted as systemic elements of the support structure, two are part of the center of competence agribusiness and finally, there is the e-learning strategy. The assets were assessed regarding their value by using six parameters: level of completion, utilization in everyday business, capability of human resources, financial sustainability, institutional sustainability, and potential for employability. Students that are graduating from VET schools and universities that were supported by VES generally do much better than students from other schools. The tracing of VET graduates from the partner schools for the year 2009/2010 done on February 2011, showed positive results whereas around 49% of graduates from the Swiss supported partner schools found a job or got self-employed. [14]

The authors of the capitalization report rank the project based learning and practice firms as the two most valuable assets, having reached a remarkable level of completion and utilization. The internships schemes and the Competence Center Agribusiness, however, are described as 'unfinished business', i.e., in need of further support to reach sustainability. In general, the sustainability of the project is described as very much related to the political will of the Kosovo Government to allocate the necessary resource and make the necessary changes in its policies. The sustainability is so far to a large extent limited to the occupational profiles in partner schools. Some uptake of the successes of the project into policies can be observed, e.g. by approving a law fostering the financial independence of VET schools, but, as the capitalization report concludes: "The further development of the assets for the utilization for new user groups, the respective diversification of the offer of courses, and the opening of vocational schools for participants other than regular students, is unlikely to happen without project support." However, some other donors have taken up some of the assets, for example the practice firm approach. How far this supports the achievement of sustainability could not be assessed in this review.

The lack of uptake of the project's successes by the educational system can also be attributed to a lack of capacities within the MEST to handle the large number of donor projects, recommendations, funds, etc. The uncoordinated donor interventions also lead to a different level of development in

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[13] Jäger Matthias and Rieser Ignaz: Vocational Education Support Program Kosovo 2004-2012. Capitalization of Assets. January 20, 2012.

[14] Swiss Agency for Development and Cooperation: Terms of Reference for a Team of Consultants (international and local) to conduct a Review of the Economy and Employment domain of the Swiss Cooperation Office in Kosovo, for the purpose of elaborating the new CS in Kosovo.

the different VET schools around the country. If recommendations from donors and projects are indeed taken up, there is still a lack of resources to implement them.

As mentioned above, the internship schemes are one of two assets identified as ‘unfinished business’. They have been implemented so far only under project condition and need, in order to become self-propelling and sustainable, more project support. The investments in the establishment of the Competence Center Agribusiness are most probably not be able to achieve changes on an institutional level, mainly because of a lack of commitment from the Government towards the Competence Centers. Hence, similar to the other partner schools, the achievements will be limited to the regular students. Thus, the substantial investments run the risk to remain underutilized.

Although this assessment has been done as a snapshot as of the time of the capitalization and this review, i.e., early 2012, it is most unlikely that the situation will significantly change until the end of the project, considering the slow processes of the government in changing laws and policies. Nevertheless, the project is continuing to work on these issues.

The project team identified the long-term commitment as well as the bottom up approach of the VES project as a strength that positively differentiates the Swiss project from others. The project started its work very close to the schools, training teachers and introducing innovations into the system, working its way up to a more systemic level when it started the consolidation and institutionalization activities in the third phase.

When asked about the remaining major challenges in the field of vocational education in Kosovo, the project team mentioned the following:

1. The match making services are still lacking. Matching graduating students and other job seekers with jobs is a necessary part of every project that is aiming at reducing unemployment of youth.
2. Despite the positive achievements of the VES project in the partner schools, VET curricula are in general still not adapted to the needs in of the demand side. Reforms need to be implemented on an institutional level.
3. The absorption capacity of the demand side is not big enough to employ all young people that enter the labor market, so there is a need to support the demand side, otherwise all work on supply and matching side are useless.

Regarding the involvement of ethnic minorities, it can be said that the project tried its best to reach a minimum level of involvement, but failed, mainly because of external circumstances. One major hindering factor were the Serbian parallel structures that still compete with official VET schools accredited by the Government of Kosovo. Kosovo-Serbian students were often not allowed to visit the official schools.

To conclude, it can be said that the VES project achieved very promising changes on the level of its partner schools. There is, however, still a need to institutionalize these successes, so all VET schools and students can profit. This will not happen without specific donor support. With regard to the Competence Centers, it seems to be more effective to invest resources in the general education system as long as there is not a strong and continuing commitment by the government to grant a special status to the Competence Centers and equip them with the necessary resources.

2.3.3 International Business College Mitrovica

The International Business College Mitrovica (IBCM) is a vocational training school that was established as a neutral institution for education on the request of the Government of Kosovo and the people of Mitrovica. It has two campuses, one in the north of the city, one in the south. Students are of mixed ethnicity with currently around 50% Kosovo-Albanians and 50% of ethnic minorities, predominantly Kosovo-Serbs. The college opened its doors in 2008 and currently teaches 200 students.

Vocational education and trainings are offered on tertiary level in business, public administration, and agriculture and environmental studies. Students get a double degree from Kosovo and Denmark. The college focuses on offering a curriculum that is linked to the needs of the market.

Additional services offered by the college to increase the employability of its students are career counseling by a career officer and a compulsory internship. To foster self-employment, business start-up centers are connected to the college. The centers have reached sustainable level and are run without support of SPARK. More than 200 companies have been supported with loans with low interest rates of 5% and consultancy.

Although the college mainly focuses on education, one of its aims is also to foster reconciliation between the two parts of the separated city of Mitrovica. The hope is that by bringing together students, also their parents and wider family will be reached. Within the body of students, the reconciliation seems very successful and actually driven by the students themselves. A single, joint student council has been set up and the students organize common activities. All activities do, however, need the approval of the project team who assesses them regarding their conflict potential and subsequently very closely monitors activities that are implemented. An effect of reconciliation in the wider community could, however, not yet been shown.

Although it can be said that the ICBM is on the way to becoming a model school for tertiary level VET in Kosovo and the region, the project misses the opportunity to work towards the dissemination and institutionalization of this model. This is caused by the dual focus of the project on education and reconciliation, which ties it very much to the current location. The project is marked by relatively high costs if regarded from a pure financial point of view compared with similar institutions. Nevertheless, it aspires to become financially independent from donors by 2014. This seems to be an overly ambitious target. The cost-benefit ration is, however, relativized when considering the social impact of the college and its contribution to reconciliation in the still very unstable region. This impact is hard to monetize and therefore the effective cost-benefit ration hard to determine. The impacts on the social level do not necessarily be financially self-sustainable. Considering the successes so far and the fact that it is one of the only long-term projects of significant size in Mitrovica, it can be considered as a good option for further support.

2.4 Labor matching

2.4.1 General findings

The stakeholders from demand, supply and matching sides are not well coordinated and the overall situation is the less advanced than in the region. In Kosovo the number of job agencies seems to be too small while in countries like Macedonia or Albania they much more widespread.

Kosovo of Chamber of Commerce (KCC) is administrating a job portal that was developed during the inception phase of the Enhancing Youth Employability program of SDC (see below) and is trying to intermediate between supply and demand side of the labor market by developing specific trainings according to its members needs. The trainings are supported by international organizations like for example the Dortmund Chamber of Commerce. The impact of these trainings cannot yet be measured since they are relatively new and concentrate on very specific areas.

Apart from the web portal of the KCC, the MLSW and Swisscontact through its VES program were involved on different matching activities like internship programs, which in the cases where the demand for labor was showed positive results.

2.4.2 Enhancing Youth Employability

The Enhancing Youth Employability (EYE) program was started in August 2010 with an inception phase of one year directly implemented by the Swiss Cooperation Office Kosovo (SCO-K), contracting local consultants and an international backstopper. Based on the findings of the inception phase, a tender document for a three years project was developed and currently the tendering process is going on.

In the tender document, three outcomes are defined: (1) The employability/skills of female and male VET school and university graduates from all ethnic groups involved in the project meet the needs of the business sector; (2) Female and male VET school and university graduates from all ethnic groups involved in the project have better access to services matching labor demand and supply; and (3) University graduates and selected VET school graduates from all ethnic groups involved in the project are managing small businesses sustainably[15].

Although giving a strong focus on the development of matching services facilitating the access of skilled youngsters to the job market, the tender document leaves it relatively open to the applicant to design the project. Besides scaling up the successfully tested instruments, also other mechanisms are to be developed by the implementation team.

With the three outcomes the project is open to access all three components of the labor market. The first outcome can be interpreted as supply side oriented, the second is rather focusing on the matching services, and the third is clearly aiming at impacting the demand side through encouraging self-employment. Since the project is supposed to use the M4P approach, also the supporting services as well as the legislative and institutional framework are going to be tackled.

2.5 Labor demand side – the private sector

2.5.1 General findings

The demand side of labor market is mainly dependent on economic development of Kosovo, which despite the GDP growth in last years is far below the labor market offer. The economic growth is mainly driven by public investments in big infrastructure projects like the highway Morine-Merdare and investments in other regional and local roads. According to Ministry of Trade and Industry (MTI), there are over 100,000 registered enterprises in Kosovo, of which 89% are registered as individual enterprises. The number of operating enterprises is expected to be around 70%. 99% of registered enterprises have less than 10 employees. Per quarter, between 1,500-1,800 are registered, while 200 to 300 enterprises are closed or terminated.

The private sector in Kosovo is mainly focused in trade activities that don't generate much employment and also the level of skills required are basic. As mentioned above, most companies are micro or small family owned and managed companies without a clear business strategy. They often don't know what kind of skills they need and either employ someone from the family or someone through recommendations, regardless of the skills of that person.

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[15] Swiss Agency for Development and Cooperation, Division Western Balkans: Enhancing Youth Employability (EYE) Program. Tender Document. December 2011.

Access to the market for the private sector, though improving, is still very weak. Kosovo's businesses are still having problems to address their local market. Although there have been improvements driven by projects like HPK, there is a lot to be done from producers and from retailers side. The Kosovo retail market remains still very fragmented, without any presence of big retailers. The connection between local producers and retailer still remains very weak and a lot of improvement is needed from both sides. Kosovo is a consumption market, reflected in a huge trade imbalance. No coordinated strategy is in place to tap into this opportunity and develop domestic production. Regarding accesses to foreign markets, Kosovo producers are having a lot of regulation issues and also quality issues. According to the Central Bank of Kosovo's annual report, exports of Kosovo in 2010 increased by 77,8% from a very low base, in parallel also imports to Kosovo increased by 10,8% from a very high base.

Financial services for businesses are not adapted for SMEs, i.e., to the majority of the private sector. This is especially a problem in the agribusiness sector. Generally, interest rates are high with an average interest rate of 2010 of 14,4%[16].

Important factors that are affecting the growth of the private sector in Kosovo are:

- Entrepreneurship culture in general in Kosovo, where entrepreneurs do not go beyond the circle of people from the family to manage and control their business;
- Weak private sector, which is reflected also in the increase of the amount of deposits in Kosovo's banks. According to the Kosovo Central Bank's Annual report for 2010, the amount of deposits in commercial banks is almost 2 billion Euro, where over 70% are one year deposits.
- Commercial Banks in Kosovo do not go beyond lending positions. They are not partners to private sector.
- Start-ups have problems to access finance, while also the large businesses have problem to have access to sufficient investments at competitive interest rates;
- Government institutions are weak and according to a Transparency International Report for 2010 the level of corruption in the institutions is high. The private sector has low priority on their agenda; they are mainly focused on privatization and concession process of state assets, where chances for personal benefits are higher.

After publishing of reports by main international institutions such as the EC Annual Progress Report, World Bank Doing Business Report, Transparency International Report on Corruption and the EU Small Business Act Report in all of which Kosovo wasn't showing any progress or even a regress in some of them, and after huge public pressure, the new government of Kosovo organized several task forces for improvement of main weak points identified in above mentioned reports. As a result of that effort, there are now a couple of initiatives running in parallel.

Nevertheless, a general lack of prioritization can be observed in private sector development in Kosovo. Although donor programs are focusing on sectors like agriculture and ICT, the government neither seems to have any comprehensive sector analyses – at least according to the SME Support Agency – nor clearly declared priority sectors to foster growth in Kosovo. There are, however, indications from interviewed people that most important sectors that can improve the unemployment situation by delivering sustainable growth are: energy production, food processing, textile, ICT, auto spare parts, construction, and tourism. Even though the construction sector has reached a certain growth level there is a need for developing new subsectors where more advanced skills will be needed.

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[16] Central Bank of the Republic of Kosovo: Annual Report 2010.

2.5.2 Horticulture Promotion in Kosovo (HPK) – HELVETAS Swiss Intercooperation component

The Horticulture Promotion in Kosovo (HPK) project is co-funded by Swiss Agency for Development and Cooperation (SDC) and the Danish International Development Agency (DANIDA). The HPK program has gone through a very similar process as the VES program, starting with very direct interventions at the bottom of the horticulture value chain, i.e., on production level, changing its approach continuously towards more systemic interventions. In phase five, it adopted a new conceptual framework, the mentioned M4P approach.

In its five phases, the project can show considerable achievements, both on production level but also on a systemic level. The major achievements, as described by the project team, are:

1. The successful transformation of the project from a production focused program to a program implementing a systemic approach, focusing more on the level of aggregation.
2. The considerable impact the project could have in the non-wood forest products (NWFP) sector is seen as, also regarding the number of people it could touch.
3. A positive impact on employment, mainly through the promotion of processing activities, although it is to be expected that mechanization of agriculture is leading to a reduction in employment.
4. Ability of farmers through improved productivity to improve their income and invest again in increased production (and, hence, employment), to better compensate for the still very strong price fluctuation, to better compete against imports.

Also in HPK, still a rather limited uptake of the changes by the market system can be observed, at least on the level of aggregation. Not only is there no crowding-in of other actors at that level, but the project also recognizes a limitation in appropriate partners to further develop the sector with the given strategy. Nevertheless, there are a number of sustainable systemic changes that can be attributed to the project interventions, such as the significantly improved business on the level of the nurseries, which indicates that the farmers recognize the need for higher quality and become willing to buy seedlings from nurseries. A similar indication is found in the service sector, where, while the project still co-finances advisory services, the number of farmers that are willing to co-finance advice has more than tippled.

The willingness of farmers to buy seedlings and invest in advisory services also indicates a clear development away from subsistence farming towards more industrialized farming practices. Also people that had not been related to agriculture have started investing in production and post-production businesses, partly supported by HPK. At the same time, banks start to develop special divisions for agriculture. This dynamic in the system further supports the project to achieve its goals. The change is, however, still slow and, thus, the project sees its role to use this newly created energy in the system to speed up these changes rather than to introduce something from outside.

The project supported ten big post-harvest actors, creating an opportunity for farmers by generating enough absorption capacity for virtually all of their produce. The buyers could, however, easily switch to supply from neighboring countries. Hence, there is still a risk for the farmers that their situation will relapse into its previous stage. Furthermore, the relationship between these big buyers and the farmers is still marked by problems in communicating requirements downwards the value chain, their uptake on farmers' level, and the actual capability to deliver according to these requirements. There is still need for work to ensure that the relationships become sustainable.

The horticulture market has still a potential for substantial growth. On the one hand, Kosovo has a big trade deficit and this is partly attributable to the import of agricultural and food products. On the other hand, currently only 20% of agricultural products are sold through supermarkets, a growing business. This means that there is a potential for growing demand in this higher price segments.

For the further development of the horticulture sector, well-educated people are essential, especially considering the commercialization and industrialization of the sector. At the moment, students that cannot get into university choose an agricultural education, so the education level is very low.

The project team identified the following assets developed by the project:

- Local experience in both the horticulture sector and market development using a systemic and facilitative approach
- Strong network with and strong trust from actors of the horticultural sector on all levels from production to retailers
- Procedures and guidelines for successfully using grants as a leverage in economic development
- Product aggregation strategy as a key component and leverage point of value chain development
- Integrated production system modules for the farmers (brochures, advisers, etc.)
- Establishment of advisory services as a private business
- Quality standards and a methodology on how to produce them

Other projects or the government have already taken up some of these assets, for example the USAID project 'New Opportunities in Agriculture', which is using some of the advisers trained by HPK.

Although the assets have not been valuated as systematically as done by the VES program, a similar picture is expected in terms of sustainability. Some of the assets were successfully implemented and taken up by the market system or absorbed in the regulatory framework, as for example the standards for Integrated Production or the use of grants to leverage investments in production and post-processing infrastructure, which is now also done by the Ministry of Agriculture, Forestry and Rural Development (MAFRD). Other assets could either not be implemented on a level of satisfactory sustainability or the sustainability is still questionable, as for example in the case of the private advisory services, which are still co-financed by the project.

2.5.3 Horticulture Promotion in Kosovo (HPK) – Riinvest Institute Component

The original intention of the second component of HPK was to establish a local *facilitation entity* that could take over longer-term activities once the main component would phase out by the end of 2012. To use the words of the original project document: "the second component will establish a new local facilitating entity which shall take over from the HPK project activities related with its facilitator role within the sector in order to further enhance the development of well-functioning horticultural value chains in Kosovo also beyond the end of the project"[17]. The second component was publicly tendered and mandated to Riinvest Institute, a local think tank, which started with its implementation in February 2011. In contrast to the component implemented by HELVETAS Swiss Intercooperation, the local component was not based on the M4P approach but on the Participatory Market Chain Approach (PMCA). An international 'backstopping unit' mandated to the Swiss Institute of Organic Agriculture (FiBL) was put in place to build the capacity and support the team of Riinvest in implementing the approach.

[17] Horticulture Promotion in Kosovo. Project Document for Phase V (2010-12)

Although the teams of HELVETAS Swiss Intercooperation and Riinvest worked closely together, the local facilitation unit never reached a level of capacity so it could actually take over the charges from the main project component. Because of the difficulties in synchronizing the components, the two projects are currently working more in a parallel way than in a phasing over process. This has a number of reasons. Firstly, the team of Riinvest had no experience in market development or in the horticulture sector. All knowledge had to be built up from scratch. Secondly, the PMCA that was selected for the local component proved to be utterly incompatible with the basics of the M4P approach and forced the team of Riinvest to go back to a stage where HPK had been years before, i.e. interacting directly with the primary producers. It is not expected that the local component of HPK will reach a level within the rest of this phase, i.e. until the end of 2012, in which it can take up what the other component of HPK leaves behind, specifically the work on aggregation level and higher up with big retailers.

After only one year of activity it remains difficult to assess the achievements of the local HPK component. In the first phase of the PMCA, a sector analysis was performed and three thematic groups for further intervention selected, i.e., berries, grapes (with the sub-groups of table grapes and wine grapes), and apples and plums. In phase II, the main achievements according to the project reports were strengthened trust building among the participating partners, strengthened thematic groups work and supported market campaigns in Kosovo and abroad.

The review team sees the failure of the establishment of a local facilitation entity as a missed opportunity to continue the successful and substantive Swiss support for the horticulture sector. As we described above, the main project component will phase out by the end of 2012 and there are still challenges that need to be addressed in order to ensure the sustainable growth of the sector. A local facilitation entity, if well implemented using experienced staff and a compatible approach, would have been in an optimal position to continue the project's work.

2.6 Framework conditions

2.6.1 General findings

The general framework conditions comprise, both, supporting structures, services and functions as well as legislative and institutional framework.

Kosovo is going through a very complex state building process and also through a very difficult transition process from the former Yugoslav type of economy to a free market economy. The legal framework went through a transformation from former Serbian laws to UNMIK regulations and now is covered by laws of the parliament of Kosovo. There are still areas where different legislations are overlapping, e.g., in areas with parallel structures of Serbia. Even though the legal base is quite well covered by laws issued by the Parliament of Kosovo, the implementation of those laws is very weak. The legal institutions are quite young and they lack the experience, skills, motivation, and in some cases, as noticed in several published surveys, they are also perceived as unreliable. Commercial court cases are progressing very slowly, affecting the private business development very deeply.

The fiscal environment in Kosovo is improving. Currently, the tax reform is ongoing and is expected to bring new improvements in terms of simplicity, in terms of tax collection methods, in terms of rates, etc. Even now before tax reform will take effect, the tax environment in Kosovo seems to be competitive. What remains a weakness is the fact that Kosovo cannot impose protection measures to its main competitor countries due to CEFTA arrangements. This makes Kosovo one of the most open markets of the region. Taxes on imported raw materials, machinery and technology further hamper businesses to grow. Cumbersome is the process of collecting VAT directly at the border.

Access to finance in Kosovo for the private sector, despite improvements, remains less favorable than compared with other countries in the region. Kosovo is still not a member of European Bank for Reconstruction and Development (EBRD), and although it joined the World Band and IMF three years ago has difficulties to access EU funds due to complex EU integration process caused by five EU member states that haven't recognized the State of Kosovo. According to the Central Bank of Kosovo, the commercial banking sector has over 3,2 billion Euro of assets, with almost 2 billion Euro local deposits, but is providing very uncompetitive interest rates that on average range around 14,4%. Apart from uncompetitive access to commercial loans, the state of Kosovo is not providing subsidies for PSD and for attracting foreign investors as some neighboring countries are doing.

Agencies for supporting PSD like the Import Promotion Agency of Kosovo (IPAK) and SMESA are very young; they lack the experience and also lack concrete and implementable strategies. In both agencies, new leadership has been appointed less than a year ago. They are cooperating with many national and international institutions in a rather uncoordinated way, with the donors generally in the lead. According to the two agencies, the main issues for PSD are:

- Lack of coordination between investment promotion institutions. Investments in Kosovo are promoted by many and different actors; IPAK- everything, Ministry of Economy- privatization of state assets, Ministry of Foreign affairs- everything, PPP Agency- concessions, Privatization Agency- privatization of Socially Owned Enterprises, RDA- regional investment opportunities, Chamber of Commerce- everything, NGO and business associations- everything. This leads to overlapping and often to miscommunication with investors because different messages are sent out.
- The importance of SMEs in economic growth and with it the role of SMESA seems not to be recognized by top government officials, which again shows a lack of prioritization at that level.
- The implementation of the SME strategy remains a big issue due to large number of strategic goals combined with a low capacity of staff, leading to a (wish) list of projects and initiatives which are neither sector focused nor consistent but instead try to offer something for every donor's strategy.
- Within SMESA there are no analyses done about sector development and potential for sector growth, showing a lack of a clear goal.
- Even the director of SMESA seems to be unclear about the scope of the agency and where it needs to focus, often there is overlapping with the work of IPAK and MLSW.

Apart from the central government institutions, which do have the major role in PSD, also municipalities have their role to play. They do, however, very often lack the necessary skills, capacities, and will to serve to PSD. Major issues that local government institutions are facing are as following:

- Connection between municipalities and the private sector inside and outside Kosovo are weak;
- Local economic potentials are not explored by business community inside and outside Kosovo;
- Business support processes in municipalities are not standardized;

The decentralization process is giving everyday more and more power to local government entities, which very often lack to capabilities to perform according to business needs. Some functions are, thus, re-centralized, such as for example agricultural advisory services.

2.6.2 Kosovo SME Promotion Program

The Kosovo SME Promotion Program (KOSME) is a new program to which SDC plans to contribute as a co-funder together with the Austrian Development Cooperation, who is managing the project. If promising feasibility studies can be delivered after the inception phase, also SECO considers contributing. The project has not started yet and the final arrangements are still being made.

KOSME will work towards three results[18]: (1) The SMESA provides effective support to SMEs / private sector development through the implementation of the SME Strategy; (2) a Voucher Counseling Scheme to assist prospective and existing SMEs with consulting and training services offered by local business service providers is in place and functioning; and (3) a mechanism for a Credit Guarantee Scheme (CGS) has been established and local SMEs are profiting from an improved access to finance.

The contribution of SCO-K to this program fits well with the impact hypothesis. The program targets private sector development and is, therefore, a direct contribution to demand side of the labor market, especially considering that SME's constitute the major part of the Kosovar private sector. Considering the currently very weak condition of SMESA, it is important to monitor the achievements of the project closely. Furthermore, additional efforts should be taken together with other donors to increase SME development on the priorities list of the government.

2.7 Scenarios for future development

The fact that Kosovo is going through a very complex state building process, very difficult transition process and also through a difficult process of integration of the Serbian community in the North poses the need for consideration of more than one scenario. The review team developed three preliminary scenarios, based on our findings and the two scenarios that were introduced in the ToR.

Pessimistic scenario: The ongoing discussions with Serbia will lead to tensions in Kosovo, which will slow down the reform process and progress towards EU integration. New elections in Kosovo and Serbia will bring more radically oriented parties to power. Serbia will be more oriented towards Russia and Kosovo will review relation with Serbia and other neighbors. Support from international organizations will shrink having a negative effect on the socio-economic development in Kosovo. The global financial crises will reduce remittances to Kosovo. This will further slow economic progress. Other foreign direct investments will also be slow. The privatization process will not succeed to attract any important investor and also Kosovo products will not get access to foreign markets.

Optimistic scenario: The ongoing discussions with Serbia will develop successfully. The current governments will remain in power and both countries will focus on the EU integration agenda. Kosovo will get a seat in relevant international organizations. The EU integration process will progress and Kosovo will get full access to EU funds and a free visa regime with Schengen member states. The level of remittances will not decrease, but it will get transformed to concrete business investments in Kosovo. The investments will be used to develop sectors with concrete potentials. The privatization process will run successfully and more jobs will be created. The big investment projects will manage to attract serious investors that will bring more capital, technology, and know-how to Kosovo.

Most likely scenario: The ongoing discussions with Serbia will develop slowly but successfully. Kosovo will not have any political changes before the new elections in 2013. Serbia's elections will

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[18] Austrian Development Cooperation: The Kosovo SME Promotion Program (KOSME). Project document.

confirm the democrats. Both countries will focus on the EU integration agenda. Kosovo will get a seat in some relevant international organizations. The EU integration process will progress and Kosovo will get access to more EU funds. The level of remittances will decrease, but the money from Diaspora will be better invested. The private sector will further profit from investments and grants from development money but due to the lack of priorities and solid strategies of the government continue to grow slowly. The privatization process will take more time but eventually contribute to creating jobs. The big investment projects will manage to attract serious investors, which will bring more capital, technology, and know-how to Kosovo.

Since this last scenario is seen as the most likely by the review team, our recommendations are based on this scenario. An analysis of the scenarios given in the current cooperation strategy and the scenarios and impact hypotheses in the ToR is presented in Annex A.

3 Main priority areas and options for concrete support

The priority areas and options for concrete support are again oriented on the conceptual framework used in this review. Accordingly, the recommendations are divided into general recommendations, recommendations for supply side, demand side, and matching, as well as recommendations for the framework conditions. Furthermore, specific recommendations are given for intervention in the north of Kosovo as well as for inter-domain cooperation within SCO-K.

3.1 General recommendations: youth unemployment is a symptom, not a cause

When working with a systemic approach, it is important to realize what are symptoms in the system and what are causes. Based on our discussions with different stakeholders, it can be assumed with a certain confidence that in most general terms, youth unemployment is not a cause, i.e., the cause for the week economic performance in Kosovo, but rather a symptom of this weak economic performance. In such a complex system as a country’s economic, causalities are, however, hardly ever unidirectional. A well-functioning labor market is, therefore, also important for sustainable economic growth.

Premise for the recommendations:

- Private sector development is the driving force of reducing (youth) unemployment. Only a growing market can absorb enough young people to have a meaningful impact on employment.
- Matching services need to be in place in order to link students with the labor demand site. They need to be strongly engaged in enhancing youth employability as long as there is a weakness in that aspect on the supply side.
- Skills development needs to keep the pace both in terms of releasing the necessary quantity and quality of skilled youth into the labor market to cover the demand of the private sector and enable it to grow.
- Growth will stimulate incentives for changes in matching and supply side. An increasing demand for skilled and practically experienced people will provide incentives for both the government and well as the private sector to engage in the sector and improve the output.

Based on these premise, the following recommendations are given:

- **Aspire a balanced portfolio targeting the whole system, not solely focused ‘employability’:** A systemic view should be taken and the focus of the interventions of the SCO-K should target the biggest weaknesses of the system combined with an assessment of where the Swiss cooperation can have an impact, using wherever possible leverage points to reinforce this impact. Fostering economic growth should remain a top priority.

- **Mix different aid modalities to reach broader coverage of the system:** considering the staff capacities of the SCO-K, a mix of aid modalities should be selected in order to achieve broader change over the whole system. Cooperation with other donors should especially be sought where behavioral and political changes on the side of the government are required.
- **Continue the involvement of the Diaspora:** the Diaspora is still the most important source of foreign direct investment, besides aid money. Considering the importance of the Kosovar Diaspora in Switzerland, fostering connections between this Diaspora and the market in Kosovo should remain on the agenda of the SCO-K.

3.2 Labor supply side: Drive institutionalization of VES achievements

As stated in the analysis above, the VES program can show considerable achievements in the labor supply side, especially in improving the practical orientation and teaching methods of VET partner schools. There is, however, a lack of uptake of these changes on an institutional level.

Premise for the recommendations:

- The VES program has ‘shown the way’ by establishing successful partner schools and introducing labor market oriented training modalities.
- The institutionalization and self-replication of these achievements has not been achieved on a satisfactory level. Some changes on policy levels could be reported by the project, such as the change of the education law that will allow VET schools to raise money, the accreditation of its teacher trainings or the uptake of certain elements into the Kosovo Education Strategy and Curricula Framework. But the implementation of these changes remains very patchy at best.
- The Competence Centers do not get the necessary support from the government such as additional specific budgets. They remain ‘normal’ VET schools that are managed and financed through the regular budgets of the municipalities.

Based on these premise, the following recommendations are given:

- **Continue the effort to institutionalize the achievements of the VES program:** Also after the phasing out of the VES program, specific activities should be continued to foster the uptake of the achievements of the program and replicate its successes to all VET schools. Possibilities could be to cooperate with other supply side focused programs, engage in donor activities at the ministry level, or to integrate specific activities in the new EYE program. The project should use the remaining time to communicate its results, for example in a conference and/or by a series of papers.
- **Do not continue specific investments in Competence Centers if not more commitment is seen from the government:** The Competence Centers are positioned as high profile schools that are attracting good students and delivering a highly qualified labor force. This can only be done if there is a commitment by the government and additional funds. As long as these schools are treated as regular VET schools, investments are better targeted at the general VET system.
- **Only further invest in Agricultural Competence Center if a clear path to sustainability is shown:** through the VES program, considerable investments have been made in the Agricultural Competence Centers in Pristina. The sustainability of the center is, however, still questionable. It has to be decided based on the status at the end of VES what needs to be done with the center to achieve this sustainability. As projected by the VES capitalization report, there

will be a need for further investments. The SCO-K should, however, only continue supporting this center if there is a clear and reliable path to sustainability.

3.3 Labor demand side: Focus on private sector development in selected sectors

As stated above, the dynamism of the demand side of the labor market is decisive over the level of unemployment in the country.

Premise for the recommendations:

- Private sector development is the engine for growth and employment creation.
- The enabling environment for growth is still not given in Kosovo. The World Bank ranks Kosovo 119th out of 183 countries for the ease of doing business.
- Studies that assess the potential of specific sectors are hard to find, no such studies exist on the government level. Similarly, the government has not defined any priority sectors in its growth strategy. A certain dynamism can, however, be seen in agri-business including NWFP, ICT, and wood processing.
- Competitiveness of Kosovar companies is still relatively low as compared with neighboring countries. Other countries of the region have made significant improvements in their business environment in recent years and furthermore employ subsidies to support their priority sectors.

Based on these premise, the following recommendations are given:

- **Establish a new project focusing on a number of specific sectors with high potential:** A new project is considered necessary to contribute to the dynamism that can be seen in certain sectors and lead them on a path to sustainable growth. Because there are no priority sectors defined by the government and comprehensive sector studies missing, the intervention sectors need to be selected based on sector analyses before the start of the project and preliminary assessments and interventions in an inception phase.
- **Consider a continued engagement in the horticulture sector:** Because the Swiss cooperation has been active for a long time in the horticulture sector and it is highly praised for its continuity, a further engagement in this sector needs to be taken into consideration, especially considering the need of interventions on a higher level of the value chain as spelled out by the current HPK team in order to guarantee the long-term sustainability of the interventions up to now.
- **Use a comprehensively implemented M4P approach focusing on systemic changes:** Especially if considering agriculture, the general assumption is that the technical skills at production level are, if not yet implemented at farmers' level, generally available to the system. Constraints are on a higher level of the value chain. Therefore, an M4P approach is ideal for tackling the limitations of the selected sectors in a systemic way.
- **Engage other donors to increase the weight of the project:** because of the fundamental difficulties of the private sector in Kosovo, a project needs to have a certain critical mass, both in terms of financial capacity and influence on government bodies, in order to have significant impacts. Furthermore, the common support of different donors in one project is in line with the Paris Declaration and its principle of harmonization and it enhances the overall effectiveness compared with smaller, uncoordinated projects.
- **Focus on the domestic market targeting the substitution of imports:** At the moment, the competitiveness of Kosovar companies is seen as relatively low. On the other hand, Kosovo has, as mentioned, a large trade deficit because of its excess of imports over exports. This opens the opportunity for local companies to work towards substituting these imports. Since

Kosovo is part of an open market, this can only be achieved through increasing the competitiveness of the companies compared with the companies that currently provide for the imports. Isolation of the market is only possible to a very small extend. In certain sectors and if rated promising in preliminary assessments, exports can, of course, also be promoted to contribute to sector growth.

3.4 Labor matching: Focus of EYE project will have a strong influence on portfolio

The two big projects that have a systemic impact on the supply and demand side of the labor market, respectively, are phasing out at the end of this year. New projects or continuing projects only focus on specific aspects of the system. Hence, only the EYE project, which is in the process of tendering at the moment, is currently foreseen to take a central position in the system. Considering that other projects will be added during the new cooperation strategy, the scope of the EYE project is strongly influencing the future portfolio of the ENE domain.

Premise for the recommendations:

- The EYE project tender document is formulated in a very open way, centering on matching and employability but open to allow interventions into supply and demand side.
- If two projects are intervening in the same area, this often leads to overlapping interventions and difficulties in program management.

Based on these premise, the following recommendations are given:

- **Focus the EYE project interventions on matching and employability:** Considering the recommendation above to establish a new private sector development project in order to strengthen the demand side, it would be advantageous to focus the EYE project on matching and the supply side and limit its interventions in the demand side. The project could, however, include activities to foster the institutionalization of the achievements of the VES program as described above. One element in this regard it already contains is the internship scheme.
- **Target a mixed approach of private and public services:** Both public and private actors can deliver the matching services. This can be seen in many developed countries but especially also in countries of the region. Also a cooperation of the public and private sector in public private partnerships can be beneficial.
- **Foster improved and better-coordinated services by MEST and MLSW:** The two ministries MEST and MLSW are both involved in enhancing youth employability, the first from an educational perspective and the latter focusing on the unemployed. Improved cooperation and coordination between the two ministries would significantly enhance the effectiveness of their interventions.

3.5 Framework conditions: Contribute to other donor programs to improve the enabling environment and foster coordination

Coordinated efforts of donors can have significant impact on a policy level. This could be seen for example in the Sustainable Employment Development Policy Program (SEDPP) to which SCO-K also contributed. Pool funding or contribution to other donors' programs also reduces the administration and management requirements at the SCO-K.

Premise for the recommendations:

- Both, service functions and regulatory framework are currently tackled in a rather uncoordinated way by various donors in various projects. Coordinated efforts would significantly increase effectiveness.
- Government bodies are moving only slowly because they usually lack a strong and implementable strategy. Concerted efforts are needed to increase the speed of reforms needed.

Based on these premise, the following recommendations are given:

- **Support coordination and communication activities:** communication on all levels is required to better coordinate efforts to improve the general framework conditions of the labor market in general and skills development and private sector development in particular. Open and transparent communication for example in joint donor meetings should also lead to increased collaboration in specific common ventures between donors and government institutions.
- **Invest in pooled funding opportunities:** Pooled funding increases the harmonization between donors as well as alignment with government strategies and goals. Two pooled funds could be identified during this review that are in line with the goals of the ENE domain. The Swedish International Development Cooperation Agency (SIDA) too the initiative to start a fund for interventions at the level of MEST. The Lux Development administers a fund for vocational training at MLSW.
- **Use influence to achieve institutional and regulatory changes:** Investments in such pools should always be coupled with the possibility to include interventions that are in line with the ENE strategy, such as for example in supporting the institutionalization of the VES program achievements or better coordinated matching services in light of the upcoming EYE project.
- **Continue investing in multi-donor projects like KOSME:** Such multi-donor projects can also enhance the efforts of individual donors to improve the framework conditions as for example KOSME or the situation in general as with the proposed new M4P project to improve private sector development.

There are a variety of modalities of pooled funding. Two distinct modes are direct budget support on the one hand and support of specific projects on the other hand. From an effectiveness and steering point of view, often donors choose the latter, such as also for the pooled fund for education by SIDA. From a point of view of alignment, the first is preferable, since it gives the ownership over the money to the government bodies. As has been seen in the SEDPP, this can be a cumbersome venture, but it is generally accepted as attaining the more sustainable results.

No concrete recommendations on the preferred method can be given for this specific case since this would go beyond the scope of this review. A detailed assessment of the proposed modalities has to be made and aligned with the goals of the ENE domain and the whole cooperation strategy.

3.6 Interventions in the North of Kosovo: focus on reducing the isolation of the Serbian business community

The North of Kosovo is defined as the municipalities north of the Ibar River that are predominantly inhabited by a Serbian population that is still refusing to accept the independence of the State of Kosovo and sees itself as part of Serbia, as was recently confirmed in a locally organized but not largely recognized referendum in these municipalities.

Premise for the recommendations:

- Interventions in the North of Kosovo have a high cost benefit ratio, as can be seen in the IBCM project, because they always include a large component of reconciliation as well as a high requirement of conflict analysis and adapted reactions.
- Because of the intricate and delicate nature of these interventions, they require close supervision and consequently high staff time. Every intervention needs to be assessed according to its impact on the conflict and measured vis-à-vis a 'do-no-harm' approach.
- The Dutch Embassy has been a very active player in the North of Kosovo involved in a variety of small activities working for reconciliations. It is, however, more or less pulling out of bilateral projects in Kosovo, only setting aside a small budget for interventions in the North.
- Given that SDC is in the process of recruiting a dedicated staff for the work with the Serbian minorities and its perception as a small and neutral donor, it can potentially take a lead role in the North.
- A study funded by the SCO-K and implemented by Riinvest Institute finds that business cooperation is a potential instrument for socio-economic integration of the Serbian minority in Kosovo. See Annex C for a late draft of the executive summary of the forthcoming report.

Based on these premise, the following recommendations are given:

- **Focus on small and flexible interventions based on local needs:** Interventions that are small and flexible are better adapted to a conflict ridden and chaotic context as the North of Kosovo. They are quicker to react on changes on the ground and are generally better oriented on the needs of the local community.
- **Consequently use a conflict sensitive approach and work in coordination with conflict adviser of the Swiss Embassy:** A do no harm approach should be the minimal requirement for any intervention in the North. Ideally, a more active systemic peace building strategy could be developed and implemented in the North, based on the findings and recommendations of the dedicated study done by Riinvest Institute and funded by SCO-K.

3.7 Inter-domain coordination and cooperation

Besides the ENE domain, the SCO-K is foreseen to work with two additional domains in the upcoming period 2013-2016, based on the new cooperation strategy, i.e. Rule of Law and Democracy with a focus on local governance and Public Infrastructure with a focus on water and sanitation projects.

Although the focus of these two domains is defined rather narrowly on local governance and water and sanitation, respectively, the interventions in the three domains should be planned in a way so they enforce each other's impacts. There is, for example, the possibility to work with municipalities on local economic development in order to strengthen the private sector in these municipalities, as could be shown in a pilot project implemented by the Austrian Development Cooperation (ADC) in Suhareka municipality.

Premise for the recommendations:

- Decentralized structures play a crucial role in reducing youth unemployment and enhancing youth employability, especially due to the decentralized management of the VET schools.
- Municipalities generally lack the capacities to plan and implement a local economic development strategy.
- Infrastructural barriers are still important factor for the limited growth of small and medium enterprises in rural areas. Electricity usually ranks as one of the biggest barriers for businesses

in Kosovo. Nevertheless, for the agricultural sector, also interventions in water infrastructure can support growth.

Based on these premise, the following recommendations are given:

- **Coordinate interventions of the different domain so they are mutually reinforcing:** all interventions are naturally oriented towards the achievement of the development goal stated in the cooperation strategy. Instead of individually trying to achieve this goal, the different interventions in the different domains should already interact and interconnect on a planning level to find out where they could leverage positive effects for other interventions. One example could be the inclusion of economic planning when working with local governments or the use of funds for infrastructure development targeted at the needs of the private sector.
- **If feasible, replicate the ADC rural development project:** Assess the viability of the ADC rural development project piloted in Suhareka municipality to foster local economic development capacities of municipalities in close collaboration with other local governance projects such as LOGOS.

Annexes

A Analysis of scenarios and answers to ToR questions

A.1 Analysis of the scenarios and impact pathways

The Cooperation Strategy 2009-2012[19] introduces three scenarios regarding the future development of Kosovo. The scenarios were based on the data available during the elaboration of the strategy in 2008, when the Republic of Kosovo had just declared its independence from Serbia.

From the information gathered during the review, it becomes clear that the most likely scenario from the cooperation strategy is the one that most resembles the current reality. The scenario draws a picture of a slow process of reconciliation but steadily increasing image of Kosovo. It saw the relations between Serbia and Kosovo as difficult, but stopping short of a full-fledged crisis. Furthermore, it projected that unemployment, the situation in the North, integration of minorities, and the performance of the Government to remain key concerns.

As predicted by the scenario, there are still many unresolved problems today, the recognition of Kosovo on international level continues slowly, mainly because of the unresolved status discussions with Serbia. Thanks to the pressure of the EU on Serbia, some talks between the countries could be held and some pragmatic decisions taken. Nevertheless, the economy is still in dire shape, infrastructural as well as a generally unfavorable environment still limit growth of the economy, as described above in this report. The situation in the North of Kosovo has all but been resolved. Due to the interventions of the Government of Kosovo, EULEX and KFOR, the situation has rather become more polarized and the North more isolated. Even the Government of Serbia is distancing itself from the power holders in the North in order not to loose its chances to be accepted as a candidate for EU membership.

For the elaboration of the new cooperation strategy and as a base for this review, SCO-K developed two updated scenarios, one optimistic and one pessimistic scenario[20]:

> A more optimistic scenario is that 1) the economic recession will have only little impact on Kosovo's economy and Kosovo will find its place in an integrated and functioning market economy, using its competitive advantages in order to enhance trade, foreign direct investment and economic development. The more pessimistic socio-economic scenario is that 2) global recession, austerity measures and corruption will lead to a political and economic destabilization in which social unrest and potential for conflict will develop.

The review team was asked to assess the question of the ToR in relation with these scenarios and the following impact hypotheses[21]:

1.1. The facilitation of a functional system of matching between job seekers and available jobs will reduce youth unemployment and lower employment will lead to more productivity, economic growth and will facilitate Kosovo regional, European and international economic integration.

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[19] Swiss Agency for Development and Cooperation SDC and State Secretariat for Economic Affairs SECO: Cooperation Strategy Kosovo 2009-2012. Bern and Pristina, 2009.

[20] Swiss Agency for Development and Cooperation: Terms of Reference for a Team of Consultants (international and local) to conduct a Review of the Economy and Employment domain of the Swiss Cooperation Office in Kosovo, for the purpose of elaborating the new CS in Kosovo. p. 4-5.

[21] ibid. p. 5

1.2. The facilitation of private sector development will lead to more productivity and economic growth, which will enhance the absorption capacities in the labor market of which unemployed youth will benefit.
2.1. The facilitation of a functional system of matching between job seekers and available jobs will reduce youth unemployment and lower employment rates will ease political instability and potential for social unrest and conflict.
2.2. The facilitation of private sector development will lead to more productivity and economic growth, of which unemployed youth will benefit. The higher absorption capacities in the labor market will ease political instability and potential for social unrest and conflict.

Based on the two scenarios and four impact pathways, the review team was asked to give four different answers for every question in the ToR. When looking at the graphical illustration of the impact hypotheses it becomes clear, however, that the assumed impact pathways cannot be separated from one another and that they are always in effect, regardless of the development towards the more optimistic or the more pessimistic scenario. Only the importance of the different pathways towards a specific outcome changes depending on the scenario. This is, however, not necessarily reflected in the current analysis and, hence, not reflected in the answers to the questions.

In section 2.7, we introduce three scenarios as possible starting point for the elaboration of the new cooperation strategy. The answers below are based on the most likely scenario.

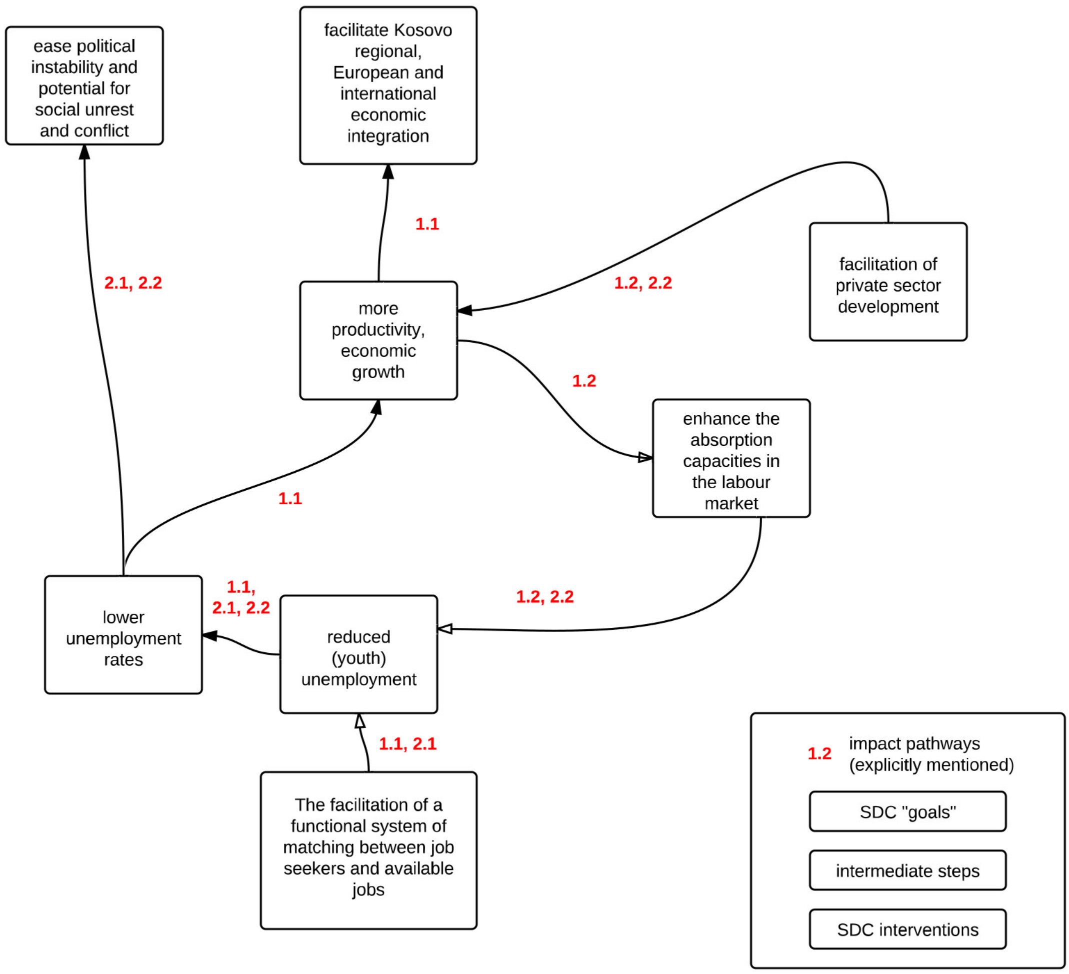

Figure 2: Visualization of the impact hypotheses as stated in the ToR and presented above (Source: own illustration)

A.2 Questions related to the present ENE domain

The answers to the questions do not reflect any additional information as was already given in the main report. This annex is formulating concrete answers to the given questions for better understanding.

Question 1: Which of the long-standing interventions in the horticulture sector and vocational education should be kept in order to support the new impact hypothesis?

Answer: The interventions on the labor market demand side will continue to be important in order to reach the goal of reduced youth unemployment. The HPK program successfully moved its interventions to a more systemic level. A continuation of these activities in a different set up, i.e., as a part of the recommended new M4P project, would guarantee that achievements of the HPK program would not be lost and the new project could build on a solid basis of assets. On the supply side of the labor market, the VES project has shown that improvements are possible. The main task will now be to replicate its successes to all VET schools and more universities and institutionalize the program's achievements. The successfully tested interventions in matching job seekers with jobs such as the internship scheme are already part of the EYE program.

Question 2: How to use the inventory of assets established within HPK and VES for the future program development?

Answer: The inventory of assets of the VES program can be used by other donors or also SDC to work towards the broad up-take of these innovations in the VET system. The project should use the remaining time to communicate its results, for example in a conference and/or by a series of papers, so its achievements are well known in the donor community as well as in the relevant government institutions. Most of the assets should be taken up by government institutions such as the MEST or VET schools/universities and replicated throughout the country. SCO-K can support this process by taking influence on education policies, for example through a contribution to coordinated donor interventions on institutional level, such as the proposed donor pool fund for the MEST initiated by SIDA. HPK assets such as for example the aggregator approach or the principles of disbursing grants in an innovative way can be taken up and replicated in another project targeting the horticulture or other agricultural sectors.

Question 3: How to embed the existing interventions (and their assets upon phasing out) in the field of vocational education and horticulture promotion into a new program so that they are utilized at most extent from the Youth Employability program?

Answer: The youth employability program is only one part of the labor market system. It will profit from, both, a strong growth and more articulate demand on the demand side as well as from the institutionalization of the achievements of the VES program. Therefore, the existing interventions and assets should mainly continue to focus on their respective components of the system instead of embedding everything in the youth employability program, which can lead to it loosing its focus. A steady and continuous communication and coordination between the programs in each component should however be ensured.

Question 4: Under the given experiences in the overall portfolio (see point 1.2.) what interventions promise to be supporting functions for a labor market that will benefit unemployed youth?

Answer: Important supporting functions in the labor market are functions that enhance employability of the youth and increase the matching of young job seekers with job opportunities. In the VES program from a perspective of skills development during the actual education and in the upcoming EYE program from a perspective of skills upgrading and match making, these support functions are well tackled within the portfolio of the ENE domain. On the demand side of the labor market, important support functions would be entrepreneurship training as well as business management training for existing entrepreneurs in order to improve their capacities with a specific focus on human resource management. This would lead to a more articulate demand for specific skills and – together with a growing economy – to more and better jobs for the young. By focusing only on matching services for the young, the youth unemployment can most probably not be reduced below the general unemployment rate. A more systemic perspective is needed to tackle overall unemployment, as recommended by the authors of this report.

Question 5: With a focus on the North of Kosovo and minority enclaves: Are there other fields of intervention that would specifically address minority communities in Kosovo in the fields of private sector promotion and skills development, such as "do no harm" and conflict sensitive project management methodologies.

Answer: In the North, the intervention focus has to be very broad, not targeting one specific field. As the report from Riinvest Institute on the integration of the Serbian business community shows, the focus on business activities can help foster integration and reconciliation. This review is, however, not in a position to give concrete recommendations on specific interventions other than described in the recommendations section above.

A.3 Questions related to the new Cooperation Strategy

Question 6: Based on the scenarios form above, what target group and instruments will have the most impact on reducing youth unemployment?

Answer: As discussed above, there is no immediate need to differentiate between the scenarios. A flexible program management has to be ensured in order to be able to change the weight of specific intervention if the general situation is changing. Because of the current demand structure of the private sector, intervention that target graduating and unemployed youth with only limited skills and put a system in place that enables them to find a job are seen as the most effective in specifically reducing youth unemployment in the short-term. Because of the limited absorption capacity of the demand side, they will, however, only have a limited impact. In certain sectors that show some dynamism such as IT, agribusiness, or tourism, more technical and managerial skills will be needed in the future and the education system should be adapted to that need – considering the high inertia of this system, interventions that target changes at this level will, however, only have a visible effect on reducing youth unemployment in the medium to long-term. Increased investment in private sector development on the other hand is expected to have a high and sustainable effect on the general level of unemployment.

Question 7: What is the most suitable set up for implementing the supporting functions to the youth employability and what would be the most suitable aid modalities?

Answer: As argued in this report, a too narrow focus on the youth employability should be avoided to have a systemic and sustainable impact. Hence, a balanced portfolio that covers the whole system of the labor market should be aspired. A mix of aid modalities from direct project funding to combined funding of projects with other donors and contributions to pooled donor funding is seen as most appropriate to find a balance of impact on a systemic level and requirements in terms of program staff.

Question 8: How to design a program where different interventions, existing or new ones (at supply side/skills development and demand side –jobs) serve as supporting functions to the core intervention?

Answer: As argued in this report, a too narrow focus on the youth employability should be avoided to have a systemic and sustainable impact. Hence, a balanced portfolio that covers the whole system of the labor market should be aspired.

Question 9: Where can Switzerland make a difference to other donors?

Answer: The Swiss cooperation has been mentioned mainly because of its continuity in supporting one sector (horticulture) or institutional segment (VET schools and universities). This long-term involvement builds trust with the stakeholders and eventually leads to more sustainable results. The time to achieve such change should not be underestimated. Intervention horizons of 10 years should also in the future be considered. Furthermore, based on the interviews with a wide variety of stakeholders it can also be said that the systemic perspective that the Swiss cooperation adopts had a big positive effect on its credibility. Common statements are in line with the notion that the Swiss do not just distribute big money but contribute to real change. This is also reflected in the commitment towards it's local and international partners, which also contributed a lot to the trust and continuity that has been achieved over the last ten years. The assets that have been built at the partner level, especially considering local staff, should not be dismissed lightly but whenever possible be used in future interventions. Unfortunately, this opportunity was missed when establishing the local facilitation entity for the HPK program.

Question 10: Are other aid modalities more suitable for developing a programmatic approach?

A mix of aid modalities from direct project funding to combined funding of projects with other donors and contributions to pooled donor funding is seen as most appropriate to find a balance of impact on a systemic level and requirements in terms of program staff.

Question 11: What would be the most suitable level of intervention? Considering the strong stake the Swiss government has in the field of local governance and decentralization is it better to use the Swiss interventions in the field of local governance and decentralization, as entry point for developing interventions in the field of youth employability and private sector development at local level, for e.g. focusing on regional economic development?

Answer: Many problems that were identified during this review are located on national level. Kosovo is not a very big country and especially macro-economic framework conditions that are the biggest obstacles for economic growth at the moment have to be tackled on a national level. Nevertheless, with a view of creating synergies between the different domains, is it advisable to also use interventions at municipal level to improve the situation of businesses, for example through strengthening the municipal bodies in local economic development planning. Hence, if a new project is considered, it should be targeted at the national level but wherever possible use synergies with other Swiss programs to foster change also on local levels.

Question 12: How to address the specific challenges for economic integration of minorities?

Answer: This question was tackled specifically in a separate report commissioned to Riinvest Institute to which one member of the review team was a backstopper. See Annex C for a late draft version of the executive summary of the forthcoming report including summarized recommendations.

Question 13: How to amalgamate a program for economic development that will focus on unemployed youth with the strengthening of rule of law and democracy portfolio?

Answer: The dysfunctional enforcement of the rule of law is seen as a major constraint for the private sector. In this sense, the rule of law and democracy portfolio could contribute to improving the framework conditions for private sector growth. Due to its focus on decentralization, the domain could include some projects in its portfolio that improve the capacity of the municipalities in local economic development planning and tackle issues regarding the rule of law with a local focus.

Question 14: How to put in practice the existing synergies between the interventions in the area of youth employability, private sector development and the Swiss interventions related to Diaspora for Development.

Answer: Remittances from the Diaspora are currently the major source of foreign investments besides donor grants. The Diaspora significantly contributes to the growth of the private sector, especially of SMEs. As was described above, growth in the private sector is a major precondition for sustainable reduction of youth unemployment. The synergies between the programs should target a better and more effective use of remittances by supporting entrepreneurship and business management trainings, ensuring that the money of the Diaspora is invested in sound and healthy SMEs with a potential to grow.

B Stakeholder analysis – SWOT

Since the performance of institutions involved in economic development is one of the key success factors we have prepared a basic SWOT analysis for each actor to show to SCO-K possibilities for specific interventions.

<table>
<tr><th>Entities</th><th>Strengths</th><th>Weaknesses</th><th>Opportunities</th><th>Threats</th></tr>
<tr><td rowspan="2">MAFRD</td><td colspan="4">The Ministry of Agriculture, Forestry and Rural Development is the major government body in charge of rural Development, Agriculture and Forestry. Since the start of the new minister, it has managed to double the ministry budget (government and donor money) and also started with many grants schemes subsidizing farmers. They have a very good cooperation with SCO-K and are very satisfied with the support of the Swiss Government and especially with the HPK program. Their request for support is about technical assistance for framers and specifically Integrated Pest Management Systems.</td></tr>
<tr><td>• More proactive minister than in the past
• More structured on their requests
• Focused on sustainable projects
• Bigger budget</td><td>• Still low absorption capacities
• Small sizes of land
• Small framers
• Narrow production season (small number of green houses)
• Small agro-processing businesses</td><td>• Donor focus on agriculture projects
• Development of agriculture is a among highest priority in government agenda
• Labor intensive
• Undeveloped agriculture sector in general</td><td>• Negative media campaign about land contamination with heavy metals
• Bad image of local products</td></tr>
<tr><td rowspan="2">MLSW</td><td colspan="4">The Ministry of Labor and Social Welfare is the major government body in charge of labor development. It seems that the role of this ministry is getting more and more important in the agenda of donors and especially the EU due to the high unemployment rate. MLSW has a very good cooperation with SCO-K and are very satisfied with the support of Swiss Government and especially the VES Project. Their request for the support is about technical assistance for training department and also contribution to training fund, which has been established with money from Lux Development.</td></tr>
<tr><td>• More proactive role
• More structured on their requests
• Focused on sustainable projects
• Training Foundation
• Support from many multilateral organizations like WB, UNDP, and EU</td><td>• Still low absorption capacities
• Low level of staff motivation
• High Staff fluctuation rate</td><td>• Donor focus on employment projects
• Reduction of unemployment is a among highest priority in Government agenda</td><td>• Increase of unemployment due to privatization of the biggest Public Companies
• Economic crises may deteriorate country's economic development</td></tr>
<tr><td>IPAK</td><td colspan="4">The Investment Promotion Agency of Kosovo is part of the Ministry of Trade and Industry and is a specialized agency for promotion of investments in and exports from Kosovo. Based on good examples (e.g. Czech Invest) they are developing a number of activities. The current main activities are: Kosovo promotion campaign in CNN, Preparation of Investment Promotion Strategy, Preparation of a hit list of 200 potential companies that will be contacted directly, promotion of Kosovo investment opportunities outside traditional markets like Kuwait, Japan, UAE, etc. They had experiences with SCO-K on investment promotion activities in German speaking area and they are very satisfied with the support. Their request for support is about support for preparation of Kosovo Investment Strategy based on best practices approach, which will include Kosovo on the list of attractive countries for investment. There is a plan to integrate IPAK and SMESA in one agency.</td></tr>
</table>

	• Dynamic & Skilled management • Pool of possible activities • Result driven management	• Not very good record from the past	• Strong Diaspora • Donor support • Un explored local investment opportunities • CNN promotion campaign	• General political situation • Kosovo image abroad • Permanent sabotages of main investment subjects by Serbia (i.e. Privatization of Telecom)
SMESA	The SME Support Agency is also part of the Ministry of Trade and Industry and in charge of developing the SME sector in Kosovo. The current activities are related to EU Small Business Act (SBA), finalization of the SME Strategy and action plan and also finalization of the Drenas Business Park. SCO-K is considering supporting SMESA through the KOSME project on with capacity building activities. SMESA's request for support is related to implementation of their strategy (specific activities), capacity building, material support for improvement of working conditions and technical assistance on specific projects like management of Business Incubators, management of Economic Zones, etc.			
	• Efforts to orientate strategically the development of SME Sector in Kosovo • Participation in EU Small Business Act	• Not very focused management • Very often out of scope initiatives • Weak staff • Low on top Government agenda	• EU SME project support • Review of strategy • KOSME project support • SBA recommendations	• Merge with IPAK may affect negatively resources
KCC	The Kosovo Chamber of Commerce is a business association established by law to support and represent business community in Kosovo. Membership is not mandatory but KCC today counts around 17,000 members, including 35 member associations. KCC's intention is to become key player in the labor market by supporting all steps of the employment value chain.			
	• Broad membership base • Strong connections with private sector actors	• Weak project implementation track record • Perceived as political institution	• Donor support • Connections with foreign chambers for specific trainings	• Politization of their work • Spinning off of member associations
STIKK	The Kosovo Association of Information and Communication Technology is a business association representing companies of the ICT sector, set up and supported with money form the Norwegian Government. Their current activities are related to raising awareness of Kosovo institutions about the potentials of the ICT sector and possibilities for sector growth and reduction of unemployment. While in neighboring countries ICT is managed by a specific government institutions, for example in Albania by the Ministry for ICT development, Kosovo does not have a single leading institution for the sector. STIKK's request for support is mainly related to lobbing and education activities for top government people about ICT sector.			
	• Strong and dynamic management • Leader in ICT sector development	• Small number of members • Lobbying influence is small	• Very broad support by donors • Connection with international ICT companies • Innovation center	• Legislative environment not supportive for ICT • Lack of understanding of Govt. institutions • No Govt. structure responsible for ICT

Municipalities	Kosovo has 36 operating municipalities, which are in different economic shape, and different development stages. The economic development in municipalities is addressed very differently by different structures. There is a need for standardization of processes and setup of proper performance management system based on Key Performance Indicators. Regarding economic development there is an interesting initiative by the Austrian Development Agency in Kosovo, which can be replicated to other municipalities.			
	• Close connection to local community and businesses	• Low capacities • No resources • Bureaucratic and un-standardized processes	• Unexplored local investment potentials • Increased importance through decentralization	• Wild developments mainly construction • Negative effects that re-centralization processes may cause
Donors	In general the cooperation climate among all donor organizations in Kosovo is improving though still there is a lot of room for improvement. SCO-K is highly respected donor by local authorities and other donor organizations due to its great impact and systemic approaches in sectors where intervened			
	• Amount of funds available in Kosovo • Power to influence the government	• Coordination	• Coordination	• Domestic negative political changes and deterioration of relations with international community

C Executive Summary of the report on integration of the Serbian business community

This is a late draft version of the executive summary of the forthcoming report titled “Improving the Kosovo Serbian Business Community Involvement in Economic Activities in Kosovo”. This study was commissioned by SCO-K to Riinvest Institute.

Executive Summary

This report provides an analysis and evaluation of the current situation and prospects of the Kosovo Serbian business community in Kosovo. It shows that the participation rate of the Serbian community in economic life of Kosovo remains very low. There is a lack of an active approach to mitigate concerns and problems of the Serbian community to participate in the economic system of Kosovo in general, and there is a lack of promotion of supportive policies for equal access of all citizens to government services and economic opportunities. In this respect, Riinvest Institute and the Swiss Cooperation Office in Kosovo (SCO-K) identified a need for a study in order to analyse barriers, challenges and options for development in this very sensitive issue, to identify actual circumstances of the participation of the Serbian community in Kosovo’s market system and to analyse whether the Kosovo’s economy is discriminatory or not and whether it stimulates further participation of the Serbian community in socio-economic life

Methods of analysis include desk research, interviews with key stakeholders, case studies and systems analysis. Report also portrays results from a survey with 300 businesses (managers), who reflect information regarding their perceptions on inter-ethnic businesses interaction, barriers and opportunities for business development, incentives for business cooperation and the current situation of their business. 100 survey interviews were conducted with K-Albanian businesses and 200 survey interviews with K-Serbian businesses where of 100 businesses were selected from the North[22] of Kosovo and 100 from the rest of the country

Results of the survey show that the majority of K-Serbian businesses are small. According to the data from the survey, around 86% of K-Serbian firms cooperate at a low or medium level with K-Albanian firms, and only 14% stated that they cooperate at a high level with K-Albanian businesses. From those firms that stated a high level of cooperation, 80% are from the South of Kosovo, whereas there are no differences between differently sized companies. The generally low level of cooperation of K-Serbian businesses in the North with companies in the South is also confirmed in the latest ICO opinion poll in North of Kosovo[23]. K-Serbian firms considered **economic growth in Kosovo** as the main factor that influences cooperation between different communities in Kosovo, followed by **potentials for profit increase through cooperation** and **establishment of regional and central business networks** between all business communities in Kosovo. For K-Serbian businesses, **language** was ranked as the highest barrier to cooperation, followed by **security**, black market/organized crime, and trust. Willingness from other business communities and peer pressure were ranked at the last positions with lower scores. These results show that there is a willingness among K-Serbian firms to cooperate, and that there is no significant peer pressure from the society, as may be expected. It is interesting to see that language is the highest barrier to cooperation, when we have in mind that Serbian businesses from Serbia and their products are widely present in Kosovo’s market (more than 300 million euros annually). The leading barrier according to K-Serbian businesses in general is corruption. Corruption is followed by fiscal evasion and black market.

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[22] By North we mean all the municipalities in the north of Ibar river whereas South the rest of Kosovo regions.
[23] More than 65% of K-Serbs felt there was no need to have any commercial contact with South.

Conclusions of the report are that political intervention to drive socio-economic integration of the ethnic communities has lead to very slow progress, especially in the North of Kosovo. In contrast, the study shows the possibility of fostering integration by increasing cooperation on the business level. There is willingness to cooperate on both sides if there are chances for profit making and economic development. Especially in agribusiness, forestry and tourism, there is a potential for cooperation. The influence of a strong economic growth on improved cooperation is expected to be higher than from cooperation on economic growth. Therefore, measures to foster general economic growth are a dominant part of the recommendations. Business cooperation is a very strong driver towards creating bridges on the current divisions between ethnic groups in Kosovo. Nevertheless, we do emphasise that business cooperation cannot be seen in isolation and social aspects like trust and political aspects like government institutions that need to be functioning play a similar role in order to make profitable business relations possible in the long-run.

Recommendations are separated in policy recommendations, recommendations for the business community and recommendations for the international donors.

Policy recommendations

- Develop a new integration strategy that will emphasize mid-term (3-5 years) activities towards the integration of the K-Serbian business community and reduce their isolation.
- Strengthen the business environment and work towards economic growth on a macro-economic level.
- Increase the trust of the K-Serbian community in central and local institutions.
- Actively ensure participation of minority companies in bids for government tenders and ensure impartial assessment of offers and awarding of contracts.
- Increase business promotion activities specifically targeting K-Serbian businesses, linking them with other businesses in Kosovo through various events, fairs and other promotional activities.
- Local governments of K-Serbian municipalities should be open and increase incentives for outside investments and hence improvement of general level of cooperation.
- Treat Serbian businesses from the North the same as other businesses in Kosovo if they are fully registered with the Kosovo administration.
- Trading of goods, given all papers are in order, should be possible and even encouraged between the North and the rest of Kosovo.
- Ensure security and freedom of movement for people of the North in whole Kosovo.

Business actors

- Business associations in Kosovo must play more active role towards integration of K-Serbian businesses from the South and North of Kosovo.
- Associations should organize joint fairs with a focus of promoting local products, potentials and other incentives for cooperation.
- Investment agencies should promote business opportunities in K-Serbian regions, with a special emphasis on comparative advantages of these regions.

International donors

- Support the government in implementing the policy recommendations outlined above.

- Establish programs for the support of micro, small and medium enterprises and for market development, focusing on sectors with a high potential for integration
- Work towards reducing the isolation of the K-Serbian business community. Foster integration in business associations, chambers of commerce, trade and business promotion activities, etc.
- Strengthen the capacities of municipalities in local and regional economic development in line with the on-going decentralisation process with a focus on the new Serbian municipalities.
- In the North, support initiatives that work towards integration, on business level (start-up funds, trainings, linkages to the south), level of the society (reconciliation and trust building) and institutional level (business registration, issuing of Kosovo IDs, etc.).
- Launch an information campaign to as impartially as possible inform people about opportunities in Kosovo.
- Develop a common intervention strategy in the North between all present donors and coordinate their interventions accordingly in order not to duplicate each other or worse work against other donor's interventions.

Because of the characteristics of the North, the following principles need to be followed for every intervention:

- The context in the North is different from the rest of the country, as has been outlined in this report. Therefore, to simply extend programmes from the South into the North carries an inherent risk that the interventions will not work or might even harm the goal of integration. For the North, separate context analyses need to be done and the solutions and interventions have to be based on these.
- The effects of every intervention need to be closely and continuously monitor. Interventions that support integration should be strengthened; interventions that might be harmful for the integration process have to be stopped quickly or changed. Interventions can quickly turn from the one type into the other. A consequent "do-no-harm" approach needs to be applied as a minimum.
- Projects need to do careful risk assessments when selecting local partners since there is anecdotal evidence of influential people in the North increasingly grasping donor grants and using them mainly for their own benefit. Donors should exchange their experiences with local partners to improve the fair distribution of donor money.
- The consequent application of conflict sensitive project management needs to be ensured for all interventions in the North.

In the report, some options for concrete activities are specified.