

EICEE – Western Balkan Eco-Innovation and Circular Economy
Ecosystem

BASELINE REPORT –Potential for development of smart infrastructure,
promote fostering of green technologies and strengthening intra-
regional cooperation via social economy in Kosovo

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Prishtina, October 2023

Table of Contents

Introduction.....	3
1. Definition, overview and state of play of social economy and social enterprises.....	4
2. Strategic direction of development of the country and role of the social economy.....	7
2.1. Current status related to Energy, Circular Economy and Environment.....	10
2.2. Current Status of European and Regional Initiatives.....	16
3. State of play of green and digital initiatives in the country.....	18
3.1. Notable initiatives in Green, Digital and Circular Economy in Kosovo.....	22
Conclusions.....	25
References.....	27

Introduction

This report is written with the framework of the regional project EICEE – Western Balkan Eco-Innovation and Circular Economy Ecosystem. The aim of the report is to provide a baseline of the current situation in Kosovo regarding social economy, circular economy, green and digital state of play as well as initiatives. The report will also provide information on the current direction of the economy and the state of play of regional and European Union integration processes, especially in relation to the abovementioned topics.

The research for this report has been conducted during late September and early October 2023 and has included secondary sources both in the policy world and in academic sphere, but also limited contacts with state institutions, especially related to statistics.

The report is organized as follows: initially we look at the state of development and operation of the social enterprises and the social economy in the country. Then, the current state of strategic direction and economic development of the country is assessed. Finally, we turn to the green and digital economy and initiatives related to these sectors. Across the report, linkages with regional and European integration processes are sought and outlined.

1. Definition, overview and state of play of social economy and social enterprises

The push for creating an environment conducive of development of social enterprises in Kosovo has been long coming. Since 2011, Ministry of Labour and Social Welfare (MLSW) driven by donors, internal pressure from non-governmental organizations, as well as good practices from European countries has started trying to create a legal framework to support the development of social enterprises. However, to this day, social economy in Kosovo is relatively new and still can be considered being in its inception. Typically, social enterprises in Kosovo are very small entities, most commonly non-profit organizations that have been operating with a social mission, which have created commercial programs to aid financial self-sufficiency. Despite their existence, social enterprises remain relatively unknown and their focus has been mainly to provide services for the community¹.

In 2018, the Government of Kosovo approved the Law on Social Enterprises. The law nr. 06/L-022² on Social Enterprises sponsored by then the Ministry of Labour and Social Welfare (now Ministry of Finance and Transfers) regulates the establishment and operation of Social Enterprises. According to the Law, the definition of social enterprise is as follows:

A Social Enterprise- is a legal person irrespective of the manner of its establishment, which contains social objectives in its charter, conducts economic activities, carries out production of goods and provides services in the general interest of society and integrates into the work the persons from vulnerable working groups;

Following the adoption of the Law in 2018, in 2020 the Government has adopted five administrative instructions that regulate procedures on the establishment and operation of social enterprises, including their financial reporting obligations and oversight by the Ministry. A special administrative instruction has been adopted to regulate social enterprises providing welfare services.

Independently of the adoption of laws and regulation, the understanding and operation of social enterprises in Kosovo is still lagging behind best European practice. According to a broadly accepted definition in the EU, “the term 'social economy' refers to all business activities that are not only driven by a strong social mission but also intended to be economically viable. This includes cooperatives, mutual societies, non-profit associations, foundations and social enterprises, covering a wide range of activities. The aims of social economy organizations are generally to provide goods and services (including employment opportunities) to their members or community, and pursue general interest goals such as

¹ Kartalozzi & Xhemajli (2017), The Rise of Future Leaders: Developing Social enterprises in Kosovo, LENS

² Law 06/L-022, Government of Kosovo, Available at:
<https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=18187>

environmental protection. In this way, social economy organizations aim to make a profit for people other than investors or owners.”³

In Kosovo, however, the Ministry defines the activities that social enterprises can do in two categories⁴:

- Category A enterprises that provide services that guarantee inclusion of marginalized persons and strive for improvement of their conditions, and
- Category B enterprises that employ at least thirty percent (30%) of their employees from marginalized groups.

The definition of what is a social enterprise, as well as this categorization of social enterprises activities, constitutes one crucial difference to best European practices in that the Law on Social Enterprises makes it mandatory for vulnerable/marginalized groups to be included whether that is in the provision of goods and/or services or on the receiving end of such goods and/or services. This puts a limitation on how social enterprises operate in Kosovo⁵. While the inclusion of such groups is desirable, it does not necessarily mean that every single social enterprise has to do so. This is because there are issues that not only affect such groups but the society as a whole. It has been recommended to provide a broader definition of social enterprises, include more activities that social enterprises can operate with to encourage more and more organizations to further their social missions, provide more incentives for social enterprises.

Thus, most of the active social enterprises currently can be found in the social and welfare provision of services in Kosovo. Most of the time operating under a non-governmental organization status. A study conducted in 2019⁶ found that besides most of the social enterprises being small, they also faced challenges in their operations, staffing and marketing of their products and services.

Recent research⁷ mapped 26 organizations operating as social enterprises; most of the organizations (81%) operate within associations as programs designed to ensure financial self-sufficiency. This finding is consistent with the Ministry of Labour and Social Welfare’s apparent preference for transforming NGOs into social enterprises, rather than setting up independent businesses with a social mission. Research identified only a small number (4%) of organizations that had a clear business mind-set and were currently operating within the labour market as registered businesses.

³ European Foundation for the Improvement of Living and Working Condition, <https://www.eurofound.europa.eu/en/european-industrial-relations-dictionary/social-economy>

⁴ Ministry of Finance, Criteria for social enterprises, available at: <https://mf.rks-gov.net/page.aspx?id=1,213>

⁵ See 1.

⁶ Dervishi, Majlinda, "Being a Social Enterprise: Value-added or Fuel to the Misconceptions? The Case of Social Enterprises in Kosovo" (2019). Thesis. Rochester Institute of Technology.

⁷ Regional Study on Social Entrepreneurship in Western Balkans, 2020, Published by Regional Incubator for Social Entrepreneurs.

Moreover, the inter-institutional setup for social enterprises is still not fully functional and more legislative advancement has to be made. As recently as June 2023 an enterprise producing paper for use in homes, was denied registration as a social enterprise. The owner reported⁸ to have fulfilled all the criteria required by law (including the employment of marginal group members) however the case was passed on between Ministries of Labour and Ministry of Entrepreneurship, Trade and Industry.

The Ministry of Finance runs a website that should display all the social enterprises in Kosovo, but currently there is no data.⁹ The Business Registration Agency also doesn't show social enterprise as a category of registered business.

Notwithstanding limited activity in the field of social entrepreneurship, there is funding available for social enterprises, mainly donor driven. Still, most of the programs target vulnerable groups, including youth with the aim of generating employment and are implemented by non-governmental organizations. This is in line with the overall focus in the country to address the issue of youth unemployment. In 2020, youth unemployment stood at 49.5%, decreasing to 38% in 2021 and the all time low in 2022 of 21.4%¹⁰. However, this decrease in the unemployment rate among young people in Kosovo is linked to increased rates of migration and inactivity of labour force.

The EU Office in Kosovo through different programs and calls for proposals prioritizes and supports social entrepreneurship initiatives. UNDP supported the Ministry in drafting the Law on Social Enterprises and supported financially and technically the piloting and presentation of social entrepreneurship concept among local non-profits. USAID supported the Kosovo Social Enterprise Fund (KSEF), a local NGO, to implement the Advocacy for Regulation on the Registration procedures of social enterprises in Kosovo. KSEF supports the development of social entrepreneurship in Kosovo with the aim of alleviating poverty and unemployment for vulnerable groups through the provision of resources and expertise. Also, USAID has a project called "Up to Youth", devoted to working with youth in order to make them resilient to social or cultural extremism. Through the project's objective two, "Up to Youth" supports social entrepreneurship initiatives coming from youth. Lately, the Chamber of Commerce of Kosovo expressed the interest to support and promote social enterprise initiatives.

Key findings:

- ✓ Despite being long time coming, social enterprises in Kosovo are still in their infancy.

⁸ Social Enterprises are not being able to register in Kosovo, Radio Plus. Available at: <https://www.radioplus.fm/newsitem/?id=11815>

⁹ Social Enterprises in Kosovo page: <https://mf.rks-gov.net/Page.aspx?id=2,215>. Last accessed, October 10, 2023

¹⁰ According to data published by Kosovo Statistical Agency.

- ✓ Legal framework basics have been created, however there is still work to be done on the implementation and institutional coordination to ensure fully functioning environment for social enterprise development.
- ✓ There is potential for growth of social enterprises in Kosovo economy and move away from traditional focus on social service delivery, however this needs a more strategic push.
- ✓ Financing is available for development of social enterprises, mainly donor driven, but needs to be used as a good starting point.

2. Strategic direction of development of the country and role of the social economy

Kosovo has traditionally had challenges in adopting and implementing a strategic development vision. After adopting a development strategy in the early 2000, because of a process that was too cumbersome and complicated, the next strategy was developed and adopted only in 2016.

The National Development Strategy 2016-2021, called shortly PLAN (an abbreviation from Albanian to mean Work, Law, Education and Construction) was adopted by the Government of Kosovo and introduced a couple of innovations in thinking about strategic direction of development of the country. Most notably PLAN introduced a strategy spanning the mandate of one government but also full alignment with the EU aspirations of Kosovo and the implementation of the Stabilization and Association Agreement (SAA) that Kosovo had just signed at that time.

Structurally, PLAN was divided into four thematic pillars: human capital, the rule of law and good governance, development of competitive industries and development of infrastructure. These pillars make the strategy to promise Employment, Law, Business and Construction.¹¹ Most of the measures that might be relevant to this report could ideally be found in pillars 3 and 4. However on closer inspection of the pillars, the focus is put on two broad goals: re-industrialization of the economy and the state support for it and on development of infrastructure including energy infrastructure, but without a clear focus on the green.

Nevertheless, the achievements from PLAN were limited, mainly due to political and institutional instability of the country during the implementation period.

¹¹ National Development Strategy 2016-2021, Government of Kosovo.

The current Government of Kosovo is working on elaborating and adopting a National Development Strategy 2030. From the limited information that is available, the strategy will again be based on four pillars:

- ✓ Sustainable Economic Development
- ✓ Good governance
- ✓ Safety and Rule of Law
- ✓ Equitable human development

Under the pillar of Sustainable Economic Development, the Government considers that:

“While economic development is necessary, the burden should not fall on the environment. We will work for a clean environment, mainly by increasing the production and consumption of energy from renewable sources such as the wind and the sun; by investing in measures for saving and rational use of energy and water; and by promoting environmentally friendly transport. Also, more waste will be recycled, while forests will be managed sustainably.”¹²

In terms of strategic objectives, it could be considered, that the current thinking about the development of the country has advanced in line with the development that has already happened but at the same time also in line with the progressing priorities presented by increased integration in the region and with the European Union.

The strategy is presented only in general goals terms, and no clear action plan and indicators of performance have been published. One of the traditional challenges of Kosovo has always been the ability to transform good strategies into actionable policy and implementation.

It is also fair to say that neither in the past or in the current strategy (from little that is available) there is no mention of social enterprises or social economy as an area of increased focus or priority. It is fair to say that the current government is more “social”, however that is mainly translated in increased social transfers, but not in social initiatives in the economy.

Notwithstanding the state of strategic planning in the country, the economy has performed much better over the years.

¹² Office of the Prime Minister of Kosovo at:
<https://kryeministri.rks-gov.net/en/national-development-strategy-2030/>

According to World Bank¹³, Kosovo has experienced steady economic progress since independence, allowing its transition to upper-middle-income status in 2018. Growth in gross domestic product (GDP) averaged 4.6 percent between 2010 and 2019, translating into a nearly 50 percent increase in per-capita income and a 35 percent reduction in the poverty rate. Over the past decade, the country successfully transitioned away from a growth model based on high dependence on foreign aid inflows, outperforming peer countries of similar per-capita income thanks to a steady expansion in consumption and investment, with a strong impetus from diaspora inflows, public investment in infrastructure, in an environment characterized by stable fiscal policy and low inflation.

In 2022, GDP growth moderated to an estimated 3.5 percent, after reaching a record of almost 11 percent in 2021. The negative terms-of-trade shock driven by Russia's invasion of Ukraine continued to impact economic recovery in 2022, but the economy showed signs of resilience. Growth reached 3.5 percent for the year, driven by exports and private consumption. Growth was stronger during the first quarter of 2022, decelerating thereafter as elevated price pressures eroded disposable incomes and private demand. As a net importer of food and energy, Kosovo remains highly vulnerable to imported inflation.

During 2022, the rise in energy and food prices caused inflation to peak in July, weighing on private demand throughout the year. Private consumption, increasing by 4 percent (year on year), was the main contributor to growth, supported by positive nominal credit growth, remittances, and crisis-related fiscal support. Investment contracted amid higher construction prices and uncertainty, and low execution of the capital investment program. Nominal export growth was strong, reaching 29.7 percent on a year-on-year basis. Similarly, growth in services exports remained high, driven by travel, telecommunications, and information services¹⁴.

As the data shows, Kosovo growth model has been traditionally based on remittances and public investment, but has lately started to pick up on the export of services, especially in new technologies (mainly ICT services). Kosovo's GDP in 2022, according to World Bank data has been 9.5 billion US dollars.

¹³ Country Partnership Framework 2023-2027, World Bank, Published in April 2023.

¹⁴ Ibid, pg. 3.

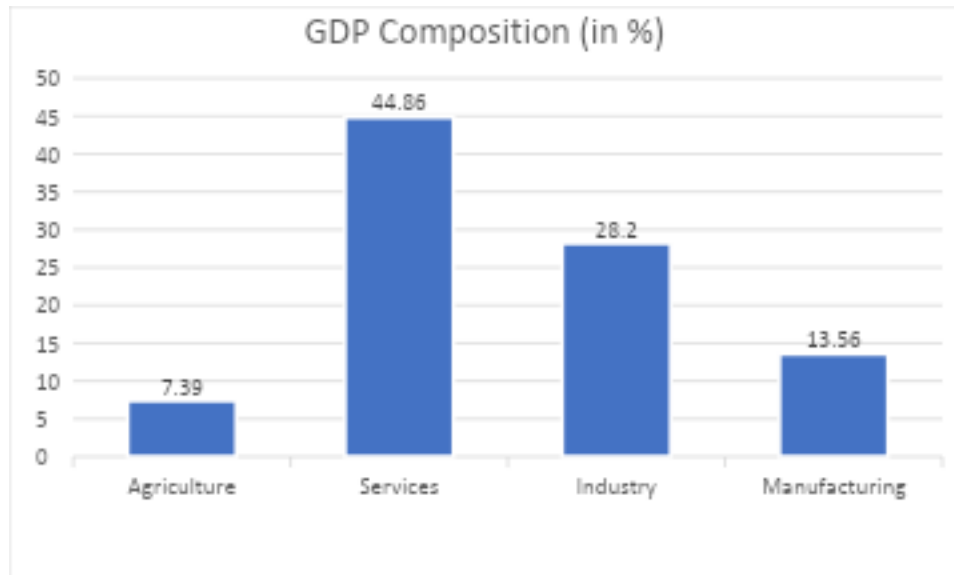


Figure.1 Main sectors in Kosovo's GDP¹⁵

As the graph shows, services are the main sector of its economy, with industry and manufacturing following suit. It is considered that main industries in Kosovo are: mineral mining, construction materials, base metals and leather.

To achieve sustained development, Kosovo needs to transition to a competitive growth model that creates more and higher-quality jobs in an increasingly competitive private sector. Achieving this growth model will require an accelerated transition from a consumption-based economy to one driven by exports.

Social economy could potentially be a way to encourage this shift in the Kosovo economy. As we will see later in the document, there are a number of initiatives that are trying to start this shift.

Table 1. Key Macroeconomic Indicators and Projections¹⁶

Kosovo	2020	2021	2022	2023	2024
Real GDP Growth	-5.3	10.7	3.5	3.7	4.4
Consumption	2.4	8.2	3.2	2.6	3.5
of which Investment	-2.8	4.4	-2.3	1.8	1.8
Public Expenditures (% of GDP)	33	28.8	28.2	29	29
Remittances (% of GDP)	13.7	13.3	12.7	12.2	12.2

¹⁵ Graph assembled from data from multiple sources.

¹⁶ Ibid

Unemployment rate	25.9	20.7			
Youth unemployment	49.4	38			
Poverty Rate (% of population)	32.4	27	25.3	23.6	22.2

Source: World Bank, Statistical Agency of Kosovo

2.1. Current status related to Energy, Circular Economy and Environment

Energy remains one of Kosovo’s biggest challenges. Energy system relies on lignite, a low-energy and highly polluting fuel. Almost all electricity is generated by two outdated and inefficient coal-fired power plants (Kosovo A and Kosovo B). Uncontrolled air pollution from the energy sector and household heating remains a serious issue, with a severe health impact. Energy intensity is among highest in the region and almost four times higher than the EU average. Main renewable source of electricity are hydropower plants, many of which are small ones, often causing environmental damage.¹⁷

The modernization of Kosovo’s energy sector is a precondition for more sustainable growth. Although Kosovo achieved its target share of energy consumption from renewable sources in 2020 (25.7 percent), its energy mix should shift progressively away from lignite toward a heavier reliance on renewable sources, in line with commitments to the Energy Community Treaty and EU Directives and in anticipation of the implementation of the EU Carbon Border Adjustment Mechanism on Kosovo’s exports. That would require balancing the energy supply to include more renewable sources (including through regional integration) and revised targets for 2030 and beyond, to be included in the National Energy and Climate Plan. It will also require funded programs to ensure a “just transition” from coal by mitigating social impacts in coal mining regions and on vulnerable consumers.

Some positive examples of efforts in this area could be mentioned in the heating sector. Kosovo has recently inaugurated the first district heating plant fully based on bio-mass in Gjakova, funded by the European Union. Of course, more investment should be planned and implemented in expanding the network of heating. This comes on top of the co-generation project implemented through a broad donor support (EU, EBRD, GIZ) in District Heating in Prishtina. This project uses the steam generated by Kosovo B power plant to heat residential areas in Prishtina.

In 2022 Kosovo Government has approved an **Energy strategy 2022-2031**¹⁸. This strategy replaces the previous Energy Strategy of 2017-2026, which has become outdated due to

¹⁷ EBRD Country Strategy 2022-2027.

¹⁸ Kosovo Energy Strategy 2022-2031, Ministry of Economic Development. Available at: <https://me.rks-gov.net/wp-content/uploads/2023/04/Energy-Strategy-of-the-Republic-of-Kosovo-2022-2031-1-1.pdf>

fundamental requirements to restructure the energy sector in Kosovo with the aim to address the recent developments in Kosovo, the wider region and Europe.

As a member of the Energy Community, Kosovo is required to transpose core EU climate, energy and environmental legislation. Thus, it is required to reform the legal and regulatory framework to facilitate the implementation of the Energy Strategy, including acts such as: Clean Energy Package, Governance Regulation, Electricity Directive and Risk Preparedness Regulation, Energy Efficiency Directive and Climate Law.

Certain aspects that are linked to other sectors and overall targets, such as climate, transport, agriculture, construction standards, etc., need to be considered under the framework of an integrated plan such as the National Energy and Climate Plan.

Kosovo also signed the Sofia Declaration on the Green Agenda for the Western Balkans in 2020, committing to achieve net-zero emissions by 2050. In the Declaration, Kosovo pledged to transpose and implement EU legislation related to the EU Emissions Trading Scheme and gradually phase out coal subsidies.

The vision of the Energy Strategy is to develop a sustainable energy sector integrated into the pan-European market, ensuring energy security and affordability for citizens. Based on this vision, four main goals are defined with five strategic objectives (main policy directions) that ensure the achievement of these goals (see Figure 2)¹⁹.

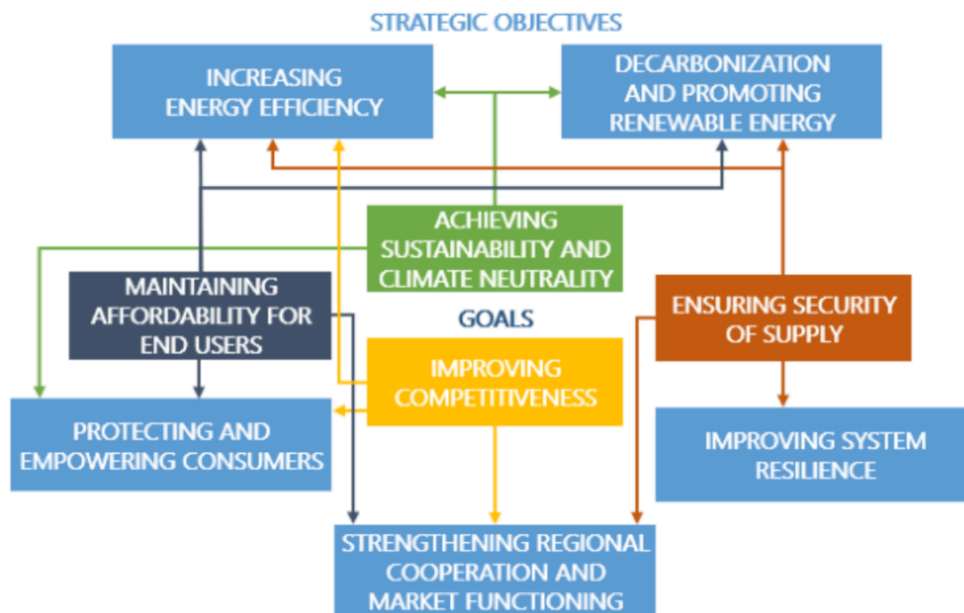


Fig. 2 Main Goals of the Energy Strategy 2022-2031.

¹⁹ Kosovo Energy Strategy 2022-2031, Ministry of Economic Development, 2022.

These strategic objectives are further divided into specific objectives that provide directions for concrete actions. The Energy Strategy also defines a corresponding Action Plan and measurable short-term (2025) and long-term (2031) targets.

What is worth mentioning is that the strategy foresees that Kosovo will achieve the share of renewable energy in consumption in the sector to a minimum of 35% by the end of the period (i.e. 2031). In order to do so, the strategy foresees to develop wind and solar power capacity to reach a total of 1.4 GW in renewables in 2031. The goal for 2025 is 490 MW, two times more than in 2021. Wind power contributed 137 MW to the mix last year, compared to 101 MW in hydropower and just 10 MW in photovoltaics and 1.2 MW in biomass.

However, the strategy has yet to be adopted by Kosovo Parliament and there has been quite some critique by independent experts and opposition that targets in the strategy are not feasible and achievable in the planning timeframe.

Kosovo is benefiting from the European Union Energy support package for the Western Balkans²⁰. In the first stage of the package Kosovo has used the support to provide financial support to vulnerable households to incentivize energy savings as well as provide financial incentives to improve the energy efficiency of buildings, mainly households, with some funding going to public buildings. Kosovo will also benefit from the second stage of the support; however concrete projects have not been announced yet. The Government has committed to use the financing towards energy transition projects.

Circular economy, similarly to social enterprises is still in its infancy. Circular economy is not yet included in the legislation of Kosovo, so its implementation is difficult. The environmental sector in general, and the field of waste management in particular, water, air, etc. are areas where information is scarce. The origins of circular economy in Kosovo can be found in the initiatives of companies in the private sector, in discussions by nongovernmental organizations, and rarely in national or local policies and legislation²¹. Citizens of Kosovo currently consider circular economy as a good idea but without economic interest, while waste as an expense and not a profitable opportunity. In a survey, conducted in 2019²², more than 60% of population Kosovo doesn't know what is circular economy. Nevertheless, in some industries, especially in fashion, Kosovo consumers are apparently²³ ready to pay higher prices for sustainable goods.

²⁰ https://ec.europa.eu/commission/presscorner/detail/en/AC_23_3196

²¹ KASTRATI, A., KALAJ, E., & BARBULLUSHI, E. (2022). Accounting for Circular Economy in Western Balkan Countries. *CIRCULAR ECONOMY*, 90.

²² Ibid.

²³ ÇALI, M. (2022). Attitude and willingness to pay for circular fashion, Comparison between Albania and Kosovo. *CIRCULAR ECONOMY*, 605.

In March 2023 Kosovo has adopted **the Roadmap for Circular Economy**²⁴. The Roadmap identifies six priority areas, including food and forest systems, the creative and retail sectors, the built environment and the manufacturing sector. Given the strong interdependency of these sectors, the Roadmap also introduces horizontal areas that enable and support priority areas and further enable circular transition. They encompass waste and water management, transport, green public procurement, digitalization and ICT, energy, and education for sustainable and circular practices. Ultimately, to foster systemic change, encourage further stakeholder engagement and stimulate collaboration and industrial symbiosis within Kosovo's economy, the Roadmap provides a concrete overview and recommendations for possible next steps, manifested in the collaboration between network and public governance.

The drafting of the Roadmap was very much driven by the external need to comply with UN Sustainable Development Goals (SDGs) as well as the requirements stemming from the European Green Deal, more specifically the Green Agenda for the Western Balkans.

The development of the Roadmap has been supported by the UNDP and prepared by Deloitte. However, the National Climate Change Council and the Ministry of Environment, Spatial Planning and Infrastructure (MESPI) will play an important role in the overall process of coordinating and supervising the relevant activities linked to the implementation of this roadmap. The National Climate Change Council was established in 2022 by Decision No. 07/54 of the Kosovo Government. The Council is responsible for ensuring the implementation of strategic documents and action plans related to climate change, in compliance with commitments within the framework of the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement and the Green Agenda for the Western Balkans.

However, the document acknowledges that circular economy is still a concept that needs to be embraced. For example, most of the strategies that the National Climate Change Council will monitor in implementation, do not even mention circular economy as a distinct concept²⁵. An obvious example is the Law on Waste Management.

That there is scarce awareness and focus on circular economy can be seen also from the research produced on the topic in Kosovo. A simple search on Google Scholar shows that most articles authored on circular economy in Kosovo are from a regional or comparative perspective, mostly in relation to comparisons between Kosovo and Albania.

As the Circular Economy Roadmap notes, Kosovo faces various **environmental issues** such as climate change, natural disasters and various pollution. These environmental issues pose

²⁴ Circular Economy Roadmap of Kosovo, Ministry of Environment, Spatial Planning and Transport, March 2023. Available at: https://mmphi.rks-gov.net/MMPHIFolder/DocumentsFiles/2023_8171e270-643b-4de3-9387-91794084eb8b.pdf

²⁵ Ibid.

significant development challenges for Kosovo institutions, which still do not have sufficient capacities to address them.

Air pollution in urban areas and especially in industrial areas is estimated to be high, based on data from continuous air quality monitoring through the National Air Quality Monitoring Network in Kosovo. Kosovo has an air quality monitoring network consisting of 13 monitoring stations (12 static and 1 mobile station). Six air quality parameters are monitored at these stations (PM10, PM2.5, NO2, SO2, O3 and CO). The monitored data is reported through the online system, through which it is possible to provide accurate real-time information to the public in several municipalities of Kosovo. The monitoring data for 2021 indicate that the maximum allowed values for some parameters, in particular for PM10 and PM2.5, mainly during the winter season have been exceeded. The largest number of days where values have been exceeded was recorded at the measuring stations in Prishtina (Rilindja 59 and KHMI 370, Peja (41) and Gjilan (37). The highest concentration of the annual average for PM10 was recorded in Rilindja-Prishtina stations at 33.4 µg/m³ and in Gjilan 31.3 µg/m³. The largest contributors are power plants, high combustion plants, the transport sector, low combustion plants, agricultural activities, household waste and waste incineration sites.

In terms of municipal waste, the amount generated at the country level is approximately over 450,000 tons. Based on the composition of municipal waste generated at the country level, over 90% of them can be recycled. Currently, over 10% go to the recycling line (including exports dedicated to recycling). Almost the entire amount of municipal waste ends up in sanitary landfills and some of it ends up in illegal landfills. On the other hand, the legislation regulating this area is harmonized with the EU Acquis. However, the waste sector needs reform and support. The circular economy would create opportunities for investment and new jobs, by providing sources of raw materials for production. The implementation of the Deposit Refund System (DRS) would result in investments from the private sector, including foreign direct investment. This is in line with the principles of extended manufacturer liability as well as the 'polluter pays' principle.

In recent years, special attention has been paid to the *conservation of biodiversity*, through the proclamation of nature-protected areas. About 11.55% of the total territory has been proclaimed as Nature-Protected Areas including: 19 strict nature reserves, 2 national parks, 229 natural monuments, 1 natural park, 6 protected landscapes and 1 special protected area for birds. So, in total, the number of protected areas is 210. Despite this positive fact, their effective management is at unsatisfactory level. Illegal construction, deforestation, hunting and other human activities are seriously threatening the natural values of these areas. This situation has resulted due to the partial implementation of existing legislation and the lack of relevant institutions for management, monitoring and inspection.

The current legislation in the *field of waters* has many shortcomings and policy reforms in this area are necessary. They are intended to be implemented through several planned activities, in order to meet the objective of the measure. The small amount of water in local

watercourses, with an average annual volume of less than 100 m³/s, implies the need to build urban and industrial Wastewater Treatment Plants (WWTP). Currently, there are plants in operation (Skenderaj, Prizren, Junik, Pejë), while 1 is in the testing phase (Gjakovë). In addition to the urban plants there are also 13 small plants in some rural areas. The Municipality of Prishtina is in the process of completing the documentation to start with the construction works of the regional plant for the treatment of wastewater (including the municipality of Fushe Kosova, Obiliq and Graçanica). Mitrovica, Ferizaj and Gjilan are in the initial stages of administrative procedures for contracting consulting companies. Illegal exploitation of alluvium in rivers, then regulation of rivers without ecological/hydro morphological criteria, implies the urgent need for restoration of rivers, according to protective and ecological criteria. These actions directly affect the conservation of the biodiversity of the water environment.

For the first time in 2023, the government of Kosovo has included addressing these issues in its Economic Reform Program (ERP)²⁶ that is prepared annually. ERP 2023-2025 is also one of the first government prepared documents that mentions focus on circular economy. Waste management could be the first sector to see involvement of private sector investment and the start of circular economy initiatives. Such initiatives have been present in Kosovo even earlier, sometimes even through Foreign Direct Investment initiatives, however due to lack of institutional preparedness and awareness they never resulted in actual projects.

On top of working on policy documents and strategies, Kosovo has continued to strengthen its institutional capacity as well, both in terms on organization as well as seeking integration in regional and European institutions. Kosovo has joined **European Environment Agency** reporting in 2019²⁷ and is making progress in its reporting capabilities. However current capacities of the Kosovo Environment Agency are limited and their tools and resources are limited as well. Better inter-institutional coordination is also required to coordinate full implementation of new ambitious strategies.

2.2. Current Status of European and Regional Initiatives

Ever since its declaration of independence in 2008, Kosovo has made European integration one of its key foreign policy objectives. Having made headway over the past years in its efforts to draw nearer to the European Union – by signing a Stabilization and Association Agreement (SAA) with the EU – Kosovo is now eager to take the next step in its EU integration process: in December 2022 Kosovo has applied for EU membership and is hoping to receive candidate status. However, with five-member states still unwilling to recognize its statehood, Kosovo finds itself in a unique and difficult position regarding its eligibility to advance towards the EU and eventually accede to the European Union.

²⁶ Economic Reform Program 2023-2025, Government of Kosovo.

²⁷ <https://www.eea.europa.eu/en/countries/>

Visa-free travel for Kosovar passport holders will become a reality on 1 January 2024 at the latest, following agreement between the European Parliament and the Council on a proposal by the Commission.

This makes Kosovo the last country in the Western Balkans to join the visa free travel, but also the last country to still wait for the candidate country status. It is important to note, that independently of working on technical criteria and focusing on reforms in different sectors of governance, the progress of Kosovo towards EU has been linked closely with the progress of the dialogue process between Kosovo and Serbia.

Kosovo has been **implementing** Stabilization Association Agreement with the European Union since April 2016. However, by reading continuous country reports produced by the European Commission, one could conclude that Kosovo is still struggling to implement the fundamentals in each area. This is very much driven by the political volatility in the country as well as by the non-functional assembly in reaching the consensus needed to drive forward the legislative and institutional agenda.

The slow progress on majority of governance issues, had taken its toll on the implementation of initiatives related to social economy, entrepreneurship, environment and most of the issues relevant to this report.

As a result, Kosovo has made limited progress in implementing provisions related to green transformation. According to Country Report published by European Commission in 2022, on Chapter 27²⁸, Kosovo is at an early stage of preparation on environment and climate change. Kosovo made limited progress, notably on environmental reporting and air quality monitoring.

The report further prescribes that Kosovo needs to increase its political commitment to address environmental degradation and climate change challenges and substantially improve the implementation of its legislation, to align it with the Green Agenda for the Western Balkans' goals.

What is most worrying is that it is hard to register progress across years on the issue of Green Agenda. For example, in 2022, most of the recommendations from the previous report are still pending, meaning the country has not implemented any of the recommendations. According to EC some of the key issues that Kosovo should focus on, in particular are similar to some of the key problems that Kosovo faces in this area, most visibly the municipalities

→there is a need to increase and make waste collection more efficient in the whole of the country. Not just in terms of collection, but also in terms of treatment and the need to start introducing circular economy measures to reduce waste. One of the ongoing challenges of municipalities in Kosovo continues to be the cooperation with neighboring municipalities.

²⁸ Kosovo Country Report 2022, European Commission at: <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Kosovo%20Report%202022.pdf>

For example, the waste collection company of Prishtina, Pastrimi, serves four other municipalities, but fails to perform its job fully in Prishtina. Adoption of joint plans and measures is required to increase efficiency and fulfill EU requirements.

→ furthermore, it is required for Kosovo to start implementing the polluter pays principle and to increase public awareness on environmental protection. This has traditionally been stalling especially due to the pollution coming from electricity power plants and the district heating in Prishtina.

→ Finally, Kosovo needs to start implementing its own adopted documents and strategies. As already noted, there is a decent progress in adopting legislation and strategies but a limited success in implementing them in practice. This means that Kosovo needs to implement the climate change strategy and the action plan on climate change, prepare a roadmap for alignment with the Green Agenda for the Western Balkans and climate acquis and adopt a National Energy and Climate Plan, in line with the Energy Community requirements and finalize the drafting the long-term decarbonization strategy.

Work on most of these requirements is still ongoing. As this report is being written in October '23, the new enlargement package is to be published very soon, so progress in these areas could be compared with the situation in 2022. It is worth noting as well that at the time of writing of this report, all SAA structures between EU and Kosovo have been suspended due to measures taken by EU towards Kosovo.

Kosovo has joined all regional initiatives, especially after 2012 Agreement on Regional Representation in the EU facilitated Kosovo-Serbia dialogue. As such, Kosovo is part of the Berlin Process and has adopted both MAP REA and the CRM initiatives. Since the Sofia Summit in 2020, **Kosovo has joined Green Agenda for the Western Balkans** initiative.

However, being member of these initiatives has not resulted in faster progress in policy implementation (as we have seen already). But, at the same time it has not resulted in more regional cooperation either. With both Serbia and Bosnia and Herzegovina having political issues towards Kosovo, this has very often resulted in prolonged processes in the region (e.g. CEFTA) or full standstill of important initiative (e.g. Four agreements in the Berlin Process).

Key Findings

- ✓ Kosovo is still in early stages of implementing a strategic process of development in its governance. Strategy 2030 is in development and still at vision stage.
- ✓ The economy has been progressing, despite challenges. It is still very much reliant on consumption driven by remittances and public investment, but some export growth can be seen, especially in the service industry.

- ✓ Energy, environment and green transition remain among most serious challenge for the country. Moving beyond laws and strategies to implementation is of utmost urgency.
- ✓ Kosovo is committed to regional and European integration and has made steps in both directions. However, its progress and cooperation is often hampered by political issues.
- ✓ Statistics and indicators remain scarce in Kosovo. This limits country ability to improve its planning and increase efficiency of implementation.
- ✓ However, there are positive developments in all areas, that could serve as a good base for future development. While most of them are donor driven, they need to be internalized and owned by Kosovo institutions, businesses and citizens.

3. State of play of green and digital initiatives in the country

The development of digital economy is much more advanced than green economy in Kosovo. Building on the availability of young population and good digital infrastructure, as well as exposure to need for interconnectivity due to presence of international community, Kosovo has made concrete steps forward in building a digital economy.

Fixed broadband electronic communications infrastructure now provides access to 100% of residents/households nationwide. Towards a gigabyte digital infrastructure, there are bottlenecks in the backbone infrastructure and insufficient capacity for international connections. Fixed access internet penetration is estimated to be 125% of households compared to 89% in the EU. Mobile telephony penetration is around 95% of the population and it is estimated that internet users via 3G and 4G network are 78% of the population compared to 100% in EU. Mobile internet speed at unsatisfactory level - due to insufficient utilization of frequency resources, regulatory authority of telecommunications (RAEPC) is in the process of issuing additional frequencies to mobile operators. Demand for additional Internet capacity/speed has increased significantly since the COVID-19 pandemic.

Government of Kosovo in order to address the growing demand for broadband Internet services, through the KODE Project is acting to create the preconditions for the extension of robust broadband telecommunications infrastructure by interconnecting mobile network stacks with optical cables to enable the development of technologies and services based in 5G and 6G generation networks.

Investments in telecommunication infrastructure have marked a continuous decline since 2015 when they were around €50 million, and during 2020 and 2021, the investments were around €24 million and €15 million respectively (or close to 0.2% of Kosovo GDP).

Despite the infrastructure and the investments in telecoms and internet coverage, the usage of ICT in Kosovo still lags other countries in the region. According to Eurostat²⁹ the proportion of individuals aged between 16 and 74 who access the internet at least once a week is 2.9, compared to 10.7 in Montenegro and 11.9 in Albania (according to 2019 data). While the proportion might have grown in the meantime, it is still very low.

The overall use of Information and Communication (ICT) in the industry is also still limited and many companies lack awareness of competitive benefits. It is estimated that about 0.2% of the total number of employees are employed in the ICT sector compared to 3.64% at the EU level³⁰. About 600 businesses have registered ICT as a primary activity, but only about 120 of them are considered businesses with ICT product-based services, while the rest are hardware sales and servicing businesses.

Government of the Republic of Kosovo has also invested in developing digital services for citizens, but also to ensure an interconnectivity platform among public institutions. In the last couple of years, we have seen the development of State Computer Network, State Data Centre, an Interoperability Platform, a number of central electronic systems for providing electronic services to citizens, businesses and the administration itself, the electronic portal “eKosova” where a considerable number of services have been launched and which will be the only platform whereby the state institutions will provide services to citizens and businesses. However, similarly to other areas assessed in this report, the usage of these services is still lagging. One of the reasons could be found in the fact that some of the legislation that would ensure a wider uptake of these services is still being implemented, like for example Digital Signatures.

Before the COVID-19 pandemic, Kosovo faced serious challenges in the education system reflected in the PISA results. The closure of schools as a result jeopardized even more the level of teaching - learning and the quality of teaching. To facilitate the implementation of the distance learning curriculum through the digital platform in Kosovo, the digitalization of primary and secondary education had the greatest efforts in the period 2020/21. The electronic platform with digital educational content, known as the Learning Passport, was launched in Kosovo in April 2020 and in February 2021 was unified for the entire pre-university education. So far, there is no official data on the level of use of this platform.³¹

The association of IT companies in Kosovo (STIKK) is well organized and has potential to serve as a support mechanism for furthering of digital transformation of economy and society. Since its establishment in 2008, STIKK was able to achieve numerous successes and become one of the leading drivers of the ICT industry and ICT community in Kosovo. Striving towards the development of the ICT industry, STIKK implemented numerous projects aimed to promote the ICT sector of Kosovo, improve its regulatory framework,

²⁹ https://ec.europa.eu/eurostat/databrowser/view/cpc_inisoc/default/table?lang=en

³⁰ Kosovo Statistical Agency.

³¹ See 10, page 95.

implement research and industry specific analysis, and facilitate professional development of sector's constituents.

STIKK currently accounts for 200+ members, which represents 90% of the whole ICT market of Kosovo. As mentioned before, not all of these businesses are producing services, as a number of them is engaged in sale of hardware and infrastructure.

Also, it should be noted that a growing number of companies (mainly start-ups) who are mainly working in outsourcing are not interested and engaged in STIKK or any other business association in the country.

There is a growing industry of freelancers in the ICT services in Kosovo. The size and the exact number of people involved in this part of the digital industry is not clear.

Under STIKK initiative and with GIZ support, Kosovo has produced a National IT Strategy in 2016. The strategy was adopted with the vision of promoting digital transformation and supporting Kosovo in becoming a knowledge-based economy. Furthermore, the overall goal of the strategy was for ICT industry to become the main driver for economic growth, employment and innovation by 2020 through increasing the international competitiveness of the IT industry based on digital excellence³². The strategy is quite encompassing and covers the whole support cycle from government policy, to clustering and infrastructure for companies and education and training of the workforce.

Data on the implementation of the strategy is not available. This strategy among many others, has suffered due to institutional and political instability during the years foreseen for its implementation. However, limited progress could be inferred by the success of the sector in the last couple of years, independently if it has been linked to implementation of the measure outlined in the strategy.

In June 2023, Government of Kosovo, has approved the Kosovo Digital Agenda 2030, which has been developed and proposed by the Ministry of Economy.

The Kosovo Digital Agenda 2030 is a cross-sectoral government strategy that defines the specific policy and priorities of Kosovo in the context of the ongoing digital transformation of the economy and society, influenced by innovative technologies and global digital trends.

The Digital Agenda takes into consideration the strategic objectives of the national development strategy, the national IT strategy, and other socio-economic policy documents of Kosovo, and is fully aligned with the latest strategies and recommendations of the European Union, such as the 2030 Digital Compass, Green Deal, Shaping Europe's Digital Future, Path to the Digital Decade 2030, Gigabit Society Strategy, 5G Action Plan and Cybersecurity of 5G Networks.

³² Nacional ICT Strategy, STIKK, 2016.

The Digital Agenda, similarly to most of the strategic documents prepared and adopted has been supported by donors and faces the challenge of full internalization in the policy processes and implementation by the government.

There is a supportive ecosystem for digital startups. Over the years, a couple of ICT incubators were founded and are operational. Among them Innovation Center Kosovo (ICK)³³ is the most successful with a number of companies maturing from their incubation process. ICK is a one-of-its-kind incubator for Kosovar entrepreneurs. ICK currently provides training to community members and offers access to finance and infrastructure to start-ups. ICK serves as a hub, recognizing the importance of networks to tech entrepreneurship, and hosting events to enable network growth. Via this incubator, ICK boasts of creating 3,100 local jobs.

Over the years, other similar initiatives have sprung across Kosovo. One of the more notable ones is Jakova Innovation Center (JIC)³⁴ located in Gjakova, initially founded by the Ministry of Trade and Industry and Municipality of Gjakova, but currently running as an independent not for profit organization. JIC provides similar services as ICK, but is much smaller.

Finally, an initiative worth noting is Bonevet Makers Space³⁵. Established as a philanthropic initiative Bonevet runs in a number of cities in Kosovo and serves as an educational space for children and youth in areas of robotics, electronics, ICTs but has recently started focusing on green and digital transformation as a wider concept.

3.1. Notable initiatives in Green, Digital and Circular Economy in Kosovo

Most of the initiatives in Green and Circular Economy are usually driven by donor organizations. There is a slow uptake of interest and support by the government in these areas. However, in the digital economy there is a lot of private sector activity as the sector has been slowly maturing and is already accounting for an important share of country's export in services.

Most recently GIZ has initiated the **Circular Cities Labs**³⁶ in Kosovo – Testing the reusable packaging in selected cities in Kosovo.

The project supports the development of reusable packaging systems in four partner cities through implementation of the following activities:

Baseline studies: A study assesses the local conditions for reusable packaging solutions and opportunities for empowering women as well as cooperation with the private sector

³³ <https://ickosovo.com/incubator>

³⁴ <https://jic-ks.com/about/>

³⁵ <https://bonevet.org/en/about-us/>

³⁶ <https://www.giz.de/en/worldwide/127407.html>

and municipalities. Relevant actors, such as small and medium-sized enterprises, municipal administrations and consumers, are identified.

- Test phase: In each city, the project conducts labs to identify local companies that are interested to integrate reusable packaging into their business models, and supports them. During the selection process, emphasis is placed on addressing companies (co)managed by women. The solutions for reusable packaging are primarily tested for feasibility, user acceptance and financial viability.
- Training: For women working in the private sector and in municipal administration, the project offers training programs on leadership, the circular economy and reusable packaging systems.
- Communication and dialogue: The project promotes the dissemination of the concept of reusable packaging systems in international and national contexts and supports dialogue between companies.

Boost X Kosovo³⁷ is a program supported by UNDP, Government of Japan and ICK Kosovo. An acceleration program aiming to promote green transition, announced the grant awardees for the first edition of BOOST program in Kosovo. The program aims to help businesses tackle global challenges such as pandemics and climate change, and build resilience by embracing sustainable green practices.

BOOST x Kosovo program was launched in mid-September 2022 to provide opportunities for small and medium enterprises (SMEs) and to promote greener growth in the private sector in Kosovo. A total of 50 small and medium enterprises (not social enterprises) from all across Kosovo were selected to participate.

During the three-month acceleration program, 50 SMEs had the opportunity to deepen their understanding and skills through workshops, and individual mentoring sessions on leadership, business, and green transformation. The program consisted of four training modules: Impact Measurement & Management; Entrepreneurship Business Acceleration; Green Transformation; and Tech and Digital Transformation; and inspirational ‘Tokyo Talks’ with successful entrepreneurs and global leaders from Japan.

Boost X is currently running the next round of calls for ideas and applications.

There are other initiatives in the non-profit sector or government driven initiatives. For example, The Balkan Green Foundation (BGF) based in Prishtina is implementing a project on Decarbonization.

"Decarbonization for Climate Resilience"³⁸ is supported by SMART Balkans and focuses on the challenges faced by Kosovo in dealing with the impacts of climate change, with special emphasis on those related to security and regional stability. Through this initiative,

³⁷ <https://boostimpact.org/boost-x-kosovo-acceleration-programme-announces-grant-awardees/>

³⁸ <https://www.balkangreenfoundation.org/en-us/projects/>

BGF aims to provide support in policy-making, facilitating dialogue between the main actors, as well as raising citizen awareness of the importance of adaptation and taking measures against the consequences of climate change. The overall objective of the project is to reduce the impact of climate change, especially in key sectors for security and stability in the region through the decarbonization process.

“Energy Transition and Decarbonization in the Western Balkans” is a regional project funded by the Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by Balkan Green Foundation in cooperation with German watch, Belgrade Open School and Eko-Svest.

The project aims to support the Western Balkan countries, in particular Kosovo, North Macedonia and Serbia, in accelerating their energy transition and decarbonization. This includes building strong civil society networks in the region that can themselves - in close coordination with academia and the private sector - work together for national and regional reforms.

"Kosovo Green Action" project is financially supported by the International Bank for Reconstruction and Development (IBRD) through the provision of a Global Partnership for Social Accountability (GPSA) Grant and is implemented by Balkan Green Foundation (BGF) in cooperation with Lëvizja FOL (FOL) and Open Data Kosovo (ODK).

The project engages diverse stakeholders in collaborative social accountability on climate and energy-related priorities outlined in the EU-endorsed Green Agenda for the Western Balkans. The project aligns with Green Agenda's key pillars through activities that improve stakeholders' access to information, good governance, accountability and transparency of government institutions and empowerment of youth, while boosting key climate actions.

The Road Map of Social Enterprises project is supported by Erasmus Plus Program and responds to the needs of the partners and their communities in the field of social entrepreneurship by using digital tools at youth work to address youth unemployment and empower young people. As part of this project, eight partners from 8 countries will work for 24 months on the digital tool for knowledge exchange and networking in social entrepreneurship.

The main objective of the project is to contribute to the creation of a supportive social entrepreneurial environment in participating countries; to develop a durable, tool, a map, website and application for networking, and knowledge exchange about social entrepreneurship with concrete examples of social enterprises and tools supporting cross-sectoral cooperation; to support cooperation between program and partner countries and development of new project initiatives addressing youth unemployment and developing the entrepreneurial mindset of young people.

Finally, the Government of Kosovo has started a 200-million-dollar project under the Millennium challenge corporation (MCC) Compact. **The Energy Storage Project** aims to support Kosovo's energy security and transition to a cleaner energy future. The project

includes supporting battery storage systems that will enable Kosovo's transmission system and market operator to cost-effectively smooth out imbalances in the electricity grid, supporting either a public energy storage entity or an entity created through a public-private partnership to deploy additional energy storage, and strengthening the regulatory environment of energy storage systems, renewable energy projects, and climate change management in a more sustainable and gender inclusive way.

Finally, in the recent years, there is a number of private companies that are picking up production and provision of services in the green tech field. One of them is Green Energy Technologies³⁹, but there are also others.

Key Findings

- ✓ Kosovo fairs much better in digital than it does in green. There have been notable investments in infrastructure, but the usage is still lagging behind both among citizens and businesses.
- ✓ Digital Economy is growing and is slowly becoming the main exporter of services from Kosovo.
- ✓ There are a number of initiatives in the green, digital and circular economy, mainly driven by donors, that could serve as a start of more serious development in the country.

Conclusions

The report has tried to provide a summary of state of play in a number of areas linked to the potential of developing of green and digital solutions in Kosovo via the social economy.

As the report shows, most of the areas concerned are still in the early stages of development. The legal framework, infrastructure and awareness (to some degree) are there, however the full potential has not been achieved yet. This is also true concerning the regional and wider cooperation regarding these initiatives, which is often put on the backside of political problems and considerations.

³⁹ <https://get-ks.com/>

Some of the main conclusions for this report are as follows:

Social enterprises in Kosovo are still in their infancy. Legal framework basics have been created, however there is still work to be done on the implementation and institutional coordination to ensure fully functioning environment for social enterprise development.

There is **potential for growth of social enterprises** in Kosovo economy and move away from traditional focus on social service delivery, however this needs a more strategic push. Financing is available for development of social enterprises, mainly donor driven, but needs to be used as a good starting point.

Kosovo is still in early stages of **implementing a strategic process of development** in its governance. Strategy 2030 is in development and still at vision stage.

The **economy has been progressing**, despite challenges. It is still very much reliant on consumption driven by remittances and public investment, but some export growth can be seen, especially in the service industry.

Energy, environment and green transition remain among most serious challenges for the country. Moving beyond laws and strategies to implementation is of utmost urgency.

Kosovo is committed to regional and European integration and has made steps in both directions. However, its progress and cooperation are often hampered by political issues. However, there are positive developments in all areas, that could serve as a good base for future development. While most of them are donor driven, they need to be internalized and owned by Kosovo institutions, businesses and citizens.

Kosovo fairs much better in digital than it does in green. There have been notable investments in infrastructure, but the usage is still lagging behind both among citizens and businesses. Digital Economy is growing and is slowly becoming the main exporter of services from Kosovo. There are a number of initiatives in the green, digital and circular economy, mainly driven by donors, that could serve as a start of more serious development in the country.

However, not everything is dire.

One key conclusion that is could be taken from the current situation, is that social economy, especially in relation to developing green and digital solutions, needs a champion.

This is similar to what has happened to the ICT industry in Kosovo. For years, the potential for growth and development in the ICT went underused. Of course, there were initiatives (as there are in the circular economy right now) but the sector did not reach its potential. The creation of STIKK and later ICK provided a champion for the industry. This helped ignite a drive that made ICT industry in Kosovo one of the fastest growing sectors in the economy. Initially, the industry has been heavily supported by the donor community (USAID, EU etc.), but as time passed and the value continued to arise, the industry became self-sufficient and turned into one of the main drivers of growth.

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