

REPORT – KOSOVO

1. Institutional and legal framework

There is no specific institution in charge of the overall management and coordination of the social economy sector in Kosovo. However, there are several institutions that regulate different aspects of the social economy. The Ministry of Labour and Social Welfare (MLSW) has taken the lead in sponsoring new legislation to regulate the sector, as well as with a number of projects supporting social economy initiatives. Based on the current draft law, the Department of Labour will be responsible for the monitoring of the law implementation and the coordination of work. Moreover, ministries such as the Ministry of Trade and Industry (MTI), the Ministry of Finance (MF), the Ministry of Agriculture, Forestry and Rural Development (MAFRD), the Ministry of Economic Development (MED), the Ministry of Education, Science and Technology (MEST), the Ministry of Public Administration (MPA), the Ministry of Local Government Administration (MLGA), play an important role in the development of the sector. In this regard, the MTI and its agencies are supporting the development of the private sector. The Department for Registration of NGOs within the MPA is the responsible institution for the registration of civil society organizations (CSOs), while there is no specific unit within MAFRD that monitors the operation of cooperatives.

There is a low level of cooperation between these institutions, and no specific coordinating body that deals directly with inter-institutional cooperation in the social economy (SE) sector. However, due to its active involvement in the sector and donor support the MLSW has recently taken the lead in coordinating and defining the roles and responsibilities in the SE sector with other relevant Ministries. In terms of general economic development cooperation, the National Economic Development Council (NEDC) is the forum responsible for the coordination of policy development and the implementation of reforms, with the goal of improving the business and investment environment and achieving sustainable economic growth in Kosovo*.

There is no national strategy on SE development, but there are several strategies that foster economic and social development. The main priorities of the Government Plan 2015-2018, as well as the Mid Term Expenditure Framework 2016-2018, include sustainable economic development, employment and welfare, thus contributing to the development of human resources and improving citizens' lives and social welfare. These objectives are also reflected in relevant sectoral strategies.

Several of the main strategic goals of the Small and medium-sized enterprises (SME) Strategy with a vision for 2020 that could promote social enterprise sector development in Kosovo* include: improving the SME's access to finance, promoting and developing an entrepreneurial culture, improving dialogue between the private sector, the public sector and civil society, strengthening SME support institutions and encouraging the inclusion of marginalized social groups in entrepreneurial activities. In addition, the MLSW identifies SE development as one of the priorities in the draft Sectoral Strategy 2014-2020 and draft action plan 2014-2016, which are currently being implemented. The specific objective for the development of alternative and innovative forms of service provision for social protection and promotion of social inclusion specifies activities including the drafting of a new law and the developing of a model for social enterprises.

In terms of the legal framework, the MLSW has initiated the drafting of a law on Social Enterprises supported by the UNDP which is currently undergoing a public consultation process, before it is sent to the Government for approval. The draft law will regulate the main principles and activities of the social enterprises, the licensing of a social enterprise, including rules for monitoring and supervision of social enterprises. However, there is still need for a clarification of the main institutions responsible for the registering, supervision and monitoring of the work of social enterprises. The new draft law has specified that the registration of the social enterprises will be conducted based on the existing legislation. These laws include the Law No. 03/L-134 on Freedom of Association in non-governmental organizations (NGOs), that sets out the establishment, registration, internal

management, activity, striking off and closure of legal persons organized as NGOs in Kosovo*; Law No. 02/L-123 on Business Organizations and the 2011/04-L-006 Law on amending and supplementing Law No. 02/L-123 on Business Organizations, that promotes and facilitates the efficient creation, registration, operation and dissolution of the usual and customary types of business organization found in economically successful countries; and Law No. 2003/9 on Farmers' Cooperatives and Law No. 03/L-004 on amending and supplementing Law No. 2009/3 on Farmers' Cooperatives that regulates the work of farmers' cooperatives for the benefit of agricultural development and to increase the productivity of farmers.

Currently Law No. 02/L-123 on Business Organizations and the 2011/04-L-006 Law on amending and supplementing Law No. 02/L-123 on Business Organizations, Law No. 03/L-134 on Freedom of Association in NGOs, are being amended, therefore, the MLSW is working on streamlining the three draft laws to regulate the functioning of social economy sector organizations.

Other laws with a bearing on economic and social activity include the Law on Social and Family Services No. 02/L-17 that specifies the tasks of municipalities which provide social services. The law also allows the Ministry to provide grants and other support such as facilities and technical assistance to licensed NGOs providing social and family services across Kosovo*; Law No. 03/L-019 on Vocational Training and Employment of Persons with Disabilities (PWDs) aims to advance the socio-material position of persons with disabilities and help integrate them into the labour market thus implementing their fundamental right to employment. The Law on Local Self-Government No. 03/L-040, Article 18.2 gives the right to central authorities to delegate other competencies to municipalities. Based on this article, the MLSW delegated the responsibility for delivery of social and family services to local authorities in 2008.

Even though there is no specific legislation in the sector, the existing legislation allows for the development of an SE sector with certain limitations. The Law on the non-profit sector allows for CSOs to engage in economic activities, for the purpose of supporting their non-profit activities, and provides that the income is used solely to realize the mission defined in the CSO's statutes.

The law on Farmers' Cooperatives states that cooperatives are service providers for their members and shall not be based on making profits for themselves. A minimum of 75% gross turnover shall be generated from the activity of the members. Agricultural cooperatives can be established by at least five farmers who are the signatories of the obligations. Cooperatives cannot be established without capital nor can they exist without capital. The capital is divided into shares of equal value with a minimum value of 10 EUR. In addition, the director may not be a member of the cooperative.

Overall we can conclude that there has been some progress and that the new draft legislative framework, as well as institutional environment, will be more enabling for the development of the social economy, once it is approved and implemented.

2. Analysis of financial incentives and support mechanisms

There are no financial support schemes that contribute explicitly to the development of the SE in Kosovo*. However, the government is contributing significant funds to creating the necessary infrastructure and a suitable environment for economic development and social inclusion.

In terms of the improvement of social service delivery the MLSW has co-financed a project through the Instrument for Pre-accession Assistance (IPA) that has established 4 day care centres for children with disabilities and 2 day care centres for elderly PWDs, all completed successfully. The municipality of Fushe Kosova/Kosovo Polje has allocated around 300,000 EUR for funding the establishment of a social enterprise through a UNDP project, which has been implemented successfully and the social enterprise is still functioning.

In addition, the MLSW is co-financing an IPA project to support the creation of new jobs, including vulnerable groups, which is ongoing.

The draft Law on Social Enterprises has foreseen the provision of government funds for the promotion and development of social enterprises as well as subsidies for the employment of vulnerable groups.

In addition, the draft Law on Social Enterprises has foreseen exemption of social enterprises from profit taxes, regardless of their form of organization and/or operation, exemption from VAT on supply with equipment or services, and other facilities to be specified through sub legal acts by the relevant institutions.

Currently there are some exemptions for the delivery of services of public interest. Chapter 8, Article 27 of the Law on Value Added Tax (VAT) No. 03/L 146, includes exemptions for certain activities in the public interest such as for the supply of services and of goods closely linked to welfare and social security work, including those supplied to old people's homes; supply of services and goods closely linked to the protection of children and young persons; the provision of children's or young people's education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto, by bodies governed by Kosovo* or by other organizations recognized by the Kosovo* Authorities as being devoted to social welfare and at comparable prices. In addition, the Law also provides for the reduction of standard VAT rates. The VAT rate applicable in Kosovo* is 16%, however, the Ministry of Economy and Finance may, following a decision of the government of Kosovo* after the approval of the Assembly, issue a sub-legal act for introducing a reduced rate not lower than 5% for designated supplies of goods and services. However, there are no other benefits provided by the state for SE organizations or activities. The Law on Public Procurement No. 04-L-042 and Law No. 04/L-237 on amending and supplementing Law No. 04/L-042 do not provide any exemption for the provision of social services by non-public actors.

Despite the efforts towards adopting policies that would secure the legal and financial conditions for the establishment of social enterprises, the majority of the existing social enterprises are financed by the donor community. One of the main donors is the EU through the IPA for the period 2007-2013, continuing with IPA II during the period 2014-2020. Among other projects the EU Office in Kosovo* has supported the development of 5 Regional Development Agencies in Kosovo* founded in December 2008, as inter-municipal institutions to act as co-coordinators and drivers of development activities in their economic regions and to provide support to potential applicants for the EC - related grants including cross-border projects (OECD, 2013). While in terms of direct support to social enterprise development a 2.6 Million Project through IPA 2014 is co-financed by the Kosovo* government to support the establishment of sustainable partnerships between the government, social CSOs and social enterprises, in order to provide social services to the most vulnerable groups in Kosovo* that will enable contracting organizations in the delivery of social services. In addition, the MLSW has initiated a number of projects through IPA 2016 which are being reviewed with a view to increase employment, skills development and improve the functioning of the labour market with particular focus on vulnerable groups and gender equality, as well as to offer institutional support for the development of social entrepreneurship.

In addition, there are other donor organizations supporting sustainable economic development contributing to employment and social inclusion such as the World Bank (WB), United States Agency for International Development (USAID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the United Nation Development Programme (UNDP), etc. The WB supports several sectors, including social inclusion, environment education, and agriculture (WB, 2012). The Second Youth Development Project promotes social cohesion, economic opportunities and sustainable access to youth services in Kosovo*. The Agriculture and Rural Development Project 2011-2017 aims to transfer knowledge to the rural sector as well as to provide grants to foster growth and competitiveness in the rural sector (WB Kosovo*). One of the main USAID programmes offering financial and technical support is the Young Entrepreneurs Programme (YEP) (2010-2015) providing grants and training for young entrepreneurs.

The private sector offers support through the corporate social responsibility (CSR) network which is a joint business initiative currently including 22 business organizations aiming to implement best CSR practices in compliance with the Global Compact Principles, contributing to smart, sustainable and inclusive growth. One of the main donors of the network is Raiffeisen Bank which, over the years, has funded a number of projects primarily related to education, culture, sports and social welfare, including various voluntary activities.¹

In addition to financial support, there are a number of programmes and initiatives offering technical assistance to increase capacities in the economic and social sector. The EU office funds the KOSVET VI Project for the development of Vocational and In-Company Training Schemes and Development of the Entrepreneurship Scheme. GIZ also provides significant support in terms of economic and rural development with several projects such as: Economy and Employment Promotion (2011-2018), Rural Economic Development (2010-2018), Promoting Skills Centres as part of the Reform of Vocational Training (2003-2017) and social development with projects such as Improving Basic Education 2010 to 2018. The UNDP is implementing, through the Inclusive Growth programme, a number of projects contributing to employment and social inclusion such as: the Area Based Development Programme in Mitrovicë/a and Zvečan/Zvečan; Entrepreneurship and Local Economic Development; Aid for Trade (2012 - 2016); Active Labor Market Programmes for Youth (2005 – 2014) Building a Better Future for Citizens of Fushë Kosovë/Kosovo Polje and Obiliq/ë (2012-2015) by establishing two social enterprises as well as Local-level Response for Employment Generation and Integrated Territorial Development (2014-2017), which supports the establishment of social enterprises in Dragash/Dragaš, and the recent establishment of one in the Shtërpçë/Štrpce municipality as well. The project will contribute to 450 direct and 1,400-1,700 indirect beneficiaries at risk of economic and social exclusion in the selected municipalities, in particular (smallholder) farmers and other small and micro production units that are largely underserved by the current provision of services in support to business and market access (UNDP, 2015).

The International Organization for Migration (IOM) in cooperation with the MLSW has completed the first phase of a 5 Million IPA funded programme “Beautiful Kosovo” 2011-2013, and is implementing the second phase of the project 2013-2016 with an additional 5 million allocated by the EU. The programme is aimed at fostering economic development and reducing poverty in selected municipalities by enhancing economic opportunities for Kosovo’s population, in particular marginalized groups.

In addition to the projects mentioned above, there are a number of other initiatives including incubators aiming to support job creation with an innovative approach and training for entrepreneurship such as Innovation Lab Kosovo* funded by the United Nations International Children's Emergency Fund (UNICEF), the Innovation Centre Kosovo* funded by The Norwegian Ministry of Foreign Affairs, the Centre for Entrepreneurship and Executive Development (CEED) funded by USAID, 3 Business Advisory Centres (BAC) in Mitrovica North, South and Zvecan, the Business Support Centre in Kosovo* (BSCK) the Genesis Technology Centre and the Kosovo* Association for Information and Communication Technology (STIKK) (OECD, 2013).

The European Union Office in Kosovo* is one of the main donors for regional and cross border cooperation. The support is given through IPA component 2 that provided 1,200,000 EUR of funding in 2010, 1,800,000 EUR in 2011, 2,929,148 in 2012 and 2,987,731 EUR in 2013 through the Regional Development Agencies which were responsible for supporting the implementation of several cross border cooperation projects aiming to foster economic development and social inclusion activities. The cooperation projects included several neighboring countries - Albania, Former Yugoslav Republic of Macedonia and Montenegro.

¹ Raiffeisen Bank in cooperation with the Ministry of Labour and Social Welfare to open Folk Kitchen; the project of Encompass Centre, "Atom," for the discovery of young people with exceptional intelligence etc. There are many other initiatives from CSR network members including fundraising for children, environment awareness etc.

3. Analysis of the current situation within the sector

The term SE is not widely known in Kosovo*. The term social enterprise is mostly associated with the old state-owned enterprises that are undergoing a privatization process. The concepts of SE and social enterprise as a form of organization have been introduced and promoted mostly by donor organizations who offer support for innovative entrepreneurship with the idea of increasing employment and addressing social needs. To date it is mainly known by the leading government institutions such as the MLSW and the MTI, but it is becoming a topic of interest for civil society as well and in particular for the business community. Despite this, the concept is still new and there is very little or no public awareness of the sector, due to the fact that the regulatory framework on the establishment and functioning of these enterprises is still not complete.

Data collection on the social and economic sector is done by the Kosovo* Agency of Statistics. To date, MTI is responsible for maintaining data on businesses registered and operating, while MPA is responsible for maintaining the database of existing NPOs registered and operating in Kosovo*. There are about 4,882 CSOs registered in Kosovo*, however, only 500 are active. In terms of cooperatives, MAFRD has listed 15 cooperatives that are currently active. However, the new draft Law on Social Enterprises has envisaged the establishment of a database for gathering information on existing and new social enterprises.

Development of social enterprises is at an early stage. There are very few organizations that can qualify as social enterprises in Kosovo*. To date, there have been a few initiatives from the EC and the UNDP that have created several pilot social enterprises. There are around 7 known social enterprises, and the MLSW aims to encourage the establishment of other enterprises, once the legal basis has been set. The European Commission (EC) project has established two enterprises that have been transformed from social incubators to social enterprises, one operating in Gracanica with the purpose of delivering services to PWDs, and the other in Mitrovica offering services for employment and entrepreneurship. In addition, a new enterprise has been established in Vushtri funded by the EC dealing with waste collection and recycling. The UNDP has supported the establishment of four social enterprises, one in the Fushë Kosova/Kosovo Polje Municipality where a business organization is providing household maintenance, one in Obiliq for manufacturing clothes, another in Suharekë/Suva Reka, as well as in the Dragash/Drage and Shtërpçë/Štrpce municipalities.

The EC project funding the establishment of two enterprises for rehabilitation of persons with disabilities, located in Ferizaj/Urosevac and Prishtine/Pristina to provide daily shelter for disabled adults and home social services has been completed successfully. In addition, the One to One Children's Fund organization in cooperation with the Ministry of Labour and Social Welfare, has established four enterprises serving as day centres offering psycho-social advice/activities to children with disabilities. These enterprises are located in the following municipalities: Prishtine/Pristina, Peje/Pec, Prizren, and Ferizaj/Urosevac. Despite their success these organizations are facing difficulties in maintaining the sustainability of the provision of these services due to lack of funds.

In terms of the agricultural associations and cooperative activities, around 1.5% of farmers are organized in the form of associations, while only 0.8% in the form of cooperatives. However, their activities are limited and have mainly been supported through donor funding such as the UNDP Supporting the Agricultural Organizations Project – SAO implemented in 2006.

The overall number of all types of SME in Kosovo is 103,755 enterprises: 102,070 (or 98.37%) are micro enterprises; 1,406 (1.35%) are small; 221 (0.22%) are medium; and, only 58 (0.06%) are classified as large. In terms of sector breakdown, SMEs are mostly concentrated in: retail (around 50%); transport, storage and distribution (14%); food products, beverages and tobacco (9%); and, hotels and restaurants (9%). The SME sector in Kosovo* faces several barriers to business development and is consequently contributing less to social inclusion. The barriers are divided into cultural, infrastructural, operational, regulatory and internal skill barriers. Lack of managerial skills,

bureaucracy, lack of trust, lack of capital for start-ups, and the informal economy are the main barriers to the development of SMEs including social businesses/social enterprises (SME Development Strategy, 20012-2016).

In terms of the capacities of the non-profit sector in Kosovo* there are many challenges. The sector is over-dependent on donor funding, has low capacities, a low level of public acceptance of CSOs and lacks sustainability. This situation mainly results from the changing of donor priorities from human rights to conflict mitigation to think tanks and advocacy. CSOs mainly offer support in the form of training and workshop delivery while they have little experience in economic activities. This has recently changed, as a number of non-profits are engaged in production and service provision. CSOs showed readiness to engage in economic activities but lacked the experience. The non-profit sector is involved in economic and social activities supporting employment and delivery of social services such as the Kosovo* Women Network implementing different economic activities for women's employment or organizations supporting the social sector such as Handikos which provides services and employment for people with disabilities, also UNICEF One to One Children's fund and One to One Kosova, that offers services for children with disabilities.

Overall, there is potential for the development of the SE, including organizations from the private sector that are beginning to understand the importance of contributing to a social mission, as well as those from the non-profit sector which are moving towards the development of economic activities to ensure social inclusion.

In terms of regional or cross-border cooperation (CBC) there were a few recent initiatives mainly through IPA financed programmes. The CBC between Kosovo* and FYR Macedonia, Montenegro and Albania includes cooperation between ministries of local government administration aiming to achieve: 1) sustainable economic, social and environmental development and 2) enhance social cohesion through people to people (P2P) initiatives including environmental protection. Currently the main actors in the CBC are the respective local governments. Kosovo* has signed a free-trade agreement in the framework of the Central European Free Trade Association (CEFTA), and participates in different regional initiatives such as the Regional Cooperation Council. In addition, Kosovo* has signed a protocol with FYR Macedonia for cooperation in the fields of education, investment and tourism. The cooperation with FYR Macedonia also includes cooperation within the civil society sector and inter-municipal cooperation, while in the private sector there are joint efforts at supporting entrepreneurs and SMEs through establishing partnerships, facilitating investments, and increasing trade between the two countries. Cooperation with Montenegro includes inter-municipal cooperation in tourism, green energy, education, rural development and civil society cooperation, while there is no mechanism for supporting partnerships in the private sector. Cooperation with Albania includes inter-municipal cooperation, cooperation between civil society networks and cooperation in the private sector.

4. Summary with recommendations

One of the main incentives for creating a supportive environment for the SE is the willingness of all actors involved, including the government, civil society and the private sector, to develop mechanisms that would foster social economy development.

However, the SE is not a widely known concept in Kosovo* and consequently the lack of awareness makes it more difficult to establish comprehensive support. In addition, there is no clear legal framework or a responsible institution that will push forward the development of the sector. The support initiatives come mainly from the donor community, while the government currently allocates little or no funds to support the sector's activities. Long-term political commitment seems lacking, and support models are unsustainable. There is no coordinating mechanism to ensure cooperation between different institutions on relevant issues. In addition, there are only a few organizations in Kosovo* that operate as social enterprises that are not part of a larger regional network, and therefore

lack support in terms of knowledge exchange with other neighbouring and European countries. Further adding to this, there is no reliable data on the number of social enterprises and their activities, except for a few of the most visible initiatives.

In these circumstances, several recommendations can be made that would ensure a favorable environment for the development of a social economy:

- Awareness of the social economy concept should be raised in government and local level institutions, the private and non-profit sector and a broader discussion should be launched to identify and recognize the benefits of social enterprises.
- The main institutions responsible for the sector should be identified and should agree on a coordinating body to include social economy in the government agenda.
- Necessary regulatory measures, including a law to be approved or/and amendments to other laws to ensure financial incentives for social enterprise development should be drafted.
- Government policies need to be coordinated to ensure the SE sector is included (harmonizing education with market needs and supporting innovation to increase employment and ensure social inclusion), as well as CSOs for the provision of social service delivery.
- Strategies and related policies for the development of the social economy need to be budgeted, and included in budgetary planning. Also, sustainable funding opportunities from the government level should be provided, as well as incentives for the development of new social enterprises that aim to increase employment and social inclusion through different innovative initiatives.
- Enterprises with social goals should be more encouraged to participate in business support programmes and the private sector to participate in activities with social goals.
- New social enterprises and non-profit organizations should receive technical support.
- A data collection system on the social economy should be established.
- Networking between social enterprises or non-profit organizations with a social mission should be increased and supported.
- Inter-governmental cooperation between neighboring countries to share best practices and learn from existing initiatives (regulatory framework, data collection, incentives, etc.) should be stimulated.
- Existing regional cooperation initiatives and networks between civil society organizations may be used to foster development of joint projects on the social economy.
- Regional dialogue for inclusion and cooperation of the social economy sector with neighbouring countries should be stimulated to develop activities with a social mission.
- Regional cooperation should be built on the best practices and lessons learned from existing cross-border initiatives. Also, the continuance of successful cooperation in different sectors such as tourism, education, environment, agriculture, etc. should be fostered.

The monitoring of the implementation of these recommendations should be done by establishing several monitoring mechanisms

- The establishment of a joint inter-ministerial body to coordinate and review the implementation of the legislative and institutional framework, existing strategies and action plans in the social sector, and the allocation of funds for social economy projects.
- A government or relevant ministry to monitor the performance of the organizations in the SE sector by requesting annual reports on the progress achieved, as well as financial reports.
- Government/relevant ministries to ensure that measures are taken in case of social lack of performance or mismanagement of Social Enterprises
- The establishment of a joint network of organizations in the social economy sector to review and propose new legislative/strategic measures to the Government for enabling the development of the sector