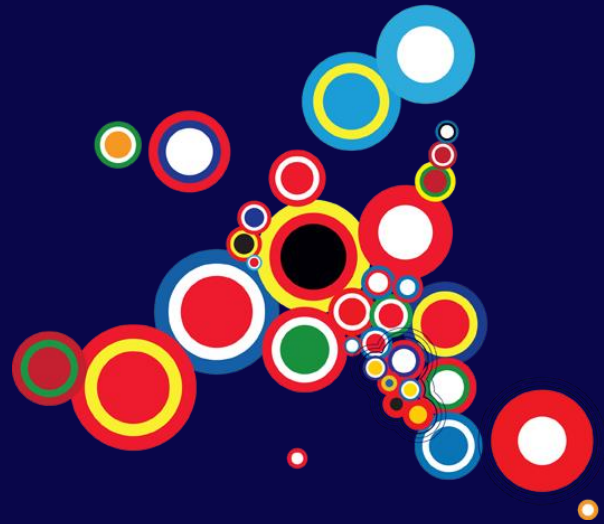




## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

**Kosovo\***  
EU for Innovation



### **Action summary**

The overall objective of the action is to increase the efficiency and productivity of the private sector through increased use of ICT, create proper and safer e-business/e-commerce ecosystem, and improve electronic service delivery for citizens and businesses.

This action will contribute to Kosovo government efforts to digitalise and increase competitiveness and profitability of Kosovo businesses.

By providing a proper e-ID system and a good environment for e-business/e-commerce, interoperability between Kosovo and Member States would be more productive and more efficient.

\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

<b>Action Identification</b>	
<b>Action Programme Title</b>	Annual Action Programme for Kosovo for the Year 2019
Action Title	EU Support to digitalisation of businesses through ICT
<b>Action ID</b>	IPA 2019 /041 247 / 03 / Kosovo / EU support for ICT
<b>Sector Information</b>	
<b>IPA II Sector</b>	6. Competitiveness and innovation
<b>DAC Sector</b>	43010
<b>Budget</b>	
<b>Total cost</b>	EUR 4 000 000 million
<b>EU contribution</b>	EUR 4 000 000 million
<b>Budget line(s)</b>	22 02 01 012
<b>Management and Implementation</b>	
<b>Management mode</b>	Direct management
<i>Direct management:</i> <b>EU Delegation</b> <i>Indirect management:</i>	European Union Office in Kosovo
<b>Implementation responsibilities</b>	European Union Office in Kosovo
<b>Location</b>	
<b>Zone benefiting from the action</b>	Kosovo
<b>Specific implementation area(s)</b>	Kosovo
<b>Timeline</b>	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	At the latest by 31 December 2020
<b>Final date for concluding delegation agreements under indirect management</b>	
<b>Final date for concluding procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
<b>Final date for operational implementation</b>	6 years following the conclusion of the Financing Agreement

<b>Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)</b>	12 years following the conclusion of the Financing Agreement		
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	X	<input type="checkbox"/>	<input type="checkbox"/>
Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	X	<input type="checkbox"/>	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

The Private sector and digital economy play a vital role for the economic development of any country. This is the same in Kosovo. The way by which business is conducted today is very different from the way it was conducted before the turn of the millennium. Digital economy opens up unprecedented possibilities. These innovations are changing economies and markets, and reinventing relationships between organisations, suppliers, and customers, thus becoming critical elements for growth, innovation, and job creation.

Digitalisation can bring great benefits to a society and an economy. However, it tends to progress unevenly. Whilst new technology can create opportunities for businesses and citizens, it can also be disruptive, displacing workers, creating new digital divides, and worsening inequality. Thus, cross-sectoral digital strategies are focused on enabling the positive economic and social conditions necessary for boosting competitiveness, economic growth and social well-being (OECD, 2015a)<sup>1</sup>.

Digital economy, also known as the Internet economy, by its definition refers to the economy based on ICT technologies. In today's world, the boundaries between the digital and traditional economy have been blurred and we can safely say that "*digital is traditional*". Based on "The Digital Economy in SEE"<sup>2</sup> the digital economy grows seven times faster than any other branch of economy and produces almost five new jobs for every two people that are lost in the "offline" economy. The main building blocks of a successful digital economy are:

- supporting infrastructure (networks, telecom, hardware and software);
- e-commerce; and
- modernised ways of conducting business, which include new skills and processes.

In recent times, social networks and Internet platforms have also become essential parts of digital economy. In addition to this, the digital economy holds great potential as a sector to drive Kosovo's economic development. The digital economy does not require extensive physical input or mobility of the workforce. It also represents a promising field for generating jobs, increasing export, and income for Kosovars.

As stated in "OECD Competiveness in South East Europe – a policy outlook 2018", small businesses can find it harder to benefit from digitalisation than larger companies can. This gap can be largely attributed to insufficient knowledge and financial resources, and barriers to organisational change, such as the absence of internal IT departments and in-house know-how. As the productive structure of Kosovo is predominantly composed of Small and Medium Enterprises (SMEs), adoption of ICT is of great importance. This report clearly illustrates Kosovo needs to intensify its efforts in promoting the adoption of ICT by small businesses. It also emphasises the fact that the modernisation of SMEs and supporting e-business activities continue to be challenges for all the South East Europe economies. Moreover, this report recommends the government to devote sufficient attention or financial resources to awareness raising and capacity-building activities among SMEs to improve skills and trust in digital technologies.

Furthermore, the declaration made at the Western Balkans Summit in Sofia on 17th May 2018, highlights the importance of "a market- and investment-friendly environment in the Western Balkans to move faster towards a digital economy. This declaration together with European Commission's strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" reflect the issues which we need to tackle, among others: capacity building in digital trust and security in parallel to efforts to enhance **digitalisation** of industries; and the adoption, implementation and enforcement of the *acquis*. Digitalisation is the process of converting information of any form into a digital format that can be understood by computer systems or electronic devices.

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<sup>1</sup> OECD

<sup>2</sup> <http://library.fes.de/pdf-files/bueros/kroatien/13788.pdf>

From the beginning of its transition to the market economy, Kosovo was constantly faced with obstacles of different natures, which prevented the development of the private sector in Kosovo.

In terms of using the internet and other electronic services for business purposes, it could be demonstrated that businesses in Kosovo are generally at an early stage. However, it is worth mentioning that the population of Kosovo is gradually becoming more educated in the field. For instance, a lot of SMEs in Kosovo have begun to use social media and own a Business page on Facebook.

E-commerce is being adapted around the world and EU is having positive trends, but not in Kosovo. The service and trade sectors are the primary users of e-commerce, but the majority of their sales are still done through traditional methods. Even though sufficient data or analysis is not available as to how many companies in Kosovo are digitalised, we can say that online sales have increased over the last years. For example, a domestic e-commerce market has started to develop and is growing. There are only few new websites offering consumer goods as for example: (a) Gjirafa 50; (b) Smard Online; (c) Fafi; (d) AgnesaVuthaj.com etc.

In Kosovo, most of the e-commerce businesses operate with cash on delivery. There are some essential problems regarding e-commerce in Kosovo:

- a) lack of payment system offered by financial institutions and its high cost;
- b) use of e-commerce and online payments by using a credit card or other e-payment methods are underdeveloped;
- c) the safety of existing possibilities for online transactions is not at the standard recognised by eIDAS
- d) most of international e-commerce sites and international e-payment methods do not recognise Kosovo;
- e) Kosovo does not have a specific code top level domain (ccTLD), so most domestic e-commerce businesses use .com or .al (Albania) registered domains.

The main issue regarding e-commerce in Kosovo is **the lack of online payment system**: Banks in Kosovo do not support online payment processes or if they do, the fee per transaction is very high. At this stage, the only bank offering e-commerce payment services is Raiffeissen Bank. However, companies have to pay a fixed fee first and in addition yearly fee, and approximately 3% for each individual transaction. This leads to another issue when deciding whether or not it is worth implementing e-commerce payment systems.

According to the Kosovo Association of Information and Communication Technology report of 2013 the internet penetration in Kosovo based on users is at least 76.62%. Based this report, due to the lack of online payment options and low interest rates, Kosovo did not manage to move ahead with online payment services compared to, for example, its expansion of Internet penetration. There are also other reasons such as the overall wealth of citizens, lack of coordination among local banks, as well as shipping services that are poorly developed within Kosovo and internationally. Responses to the question in the report: "Would you shop online if products and services were available to be purchased using your bank card?" show most respondents (41.37%) do not actually believe in online shopping while, on the other side, the second group represents the users who do not have any problem with purchasing products and services online (27.78% will buy online). This shows that, the Internet-user community is deeply divided and this is the result of the **lack of online payment services**. Therefore, when building an e-commerce platform, it is very important to bear in mind the culture within particular cultural groups in Kosovo

One reason leading to this is that Amazon, PAYPAL and other bigger e-commerce and e-payments platforms do not have Kosovo in their payment list. One of the factors to why people don't buy online, is that trade is in majority still done through human contact.

The lack of a trusted, interoperable and easy-to-use form of electronic identification, and authentication present a serious obstacle in faster development of online transactions in secure and efficient way.

Similarly, the non-existing ccTLD has negative impact on credibility of businesses, in particular those that provide e-commerce services. The ccTLD provides visitors of companies' websites with more confidence, as they can acknowledge the origin of the provider and the website. If they consider the website to be local, visitors may feel that it's easier to make purchases, especially if they see that the address is somewhere that

they recognise rather than a foreign address. Also, many people prefer to complete transactions and visit sites in their own native language, and region.

By digitalising SMEs in Kosovo or specifically targeting improvements in productivity and efficiency levels, with the help of ICT small businesses from different sectors, SMEs can significantly improve their results and increase the volume of higher value products to become competitive in international markets. Kosovo needs to focus on the long term development of the business sector which requires access to market opportunities, as well as to new technology and best practice management. Moreover, businesses in Kosovo still do not realise the full potential of ICT for enhancing competitiveness. They are not fully informed on the advantages the internet gives to their everyday business and reduction of costs.

Cross-Border e-commerce increased dramatically from 2016. Based on Kosovo Custom's data, online purchase increased from 12,000 in 2015 to more than 200,000 in 2016. The Internet provides an opportunity to grow and expand businesses. According to Molla & Licker (2005) e-commerce is conducting one or more core business functions internally within organisations or externally with suppliers, intermediaries, consumers, government, and other members of the enterprise environment through the application solutions that run on Internet-based and other computer networks. The use of the Internet has created new ways, new strategies, and new challenges for marketing as in Business to Business (B2B) and Business to Consumer (B2C).

As of now, demand from Kosovo businesses for IT solutions (particularly Enterprise Resource Planning applications and websites) is picking up slowly. Businesses should use more IT technologies in their day to day work, to increase their efficiency and productivity and opening up to new markets. Particularly, the intervention is needed for applying ICT skills for financial, management, marketing, sales, and human resources.

In addition, e-business solutions can make communication within the company faster and make the management of the companies' resources more efficient. The Internet and e-commerce have great potential for reducing transaction costs, increasing speed and reliability of transactions and reducing inefficiencies. The main challenge to build or develop an e-commerce platform is the adaptation of e-commerce, which also has to do with the vision of the managers leading organisations and their entrepreneur spirit. This needs to be taken into consideration by Kosovo companies as well; especially those who want to take a step forward into e-commerce. According to the 2013 Norman and Yasin report, businesses involved in e-commerce activities require a practical approach in security management implementation in order to combat threats. Another challenge is, should the digitalisation happen in house or have to be outsourced to a local company. E-commerce, as Internet-based B2B interaction and real-time communication, can reduce information asymmetries between buyers and suppliers and build closer relationships among trading partners. Moreover, e-commerce brings the advantage of expanding market potential and better satisfaction of consumer needs as well as improvement in customer relations.

One of preconditions for the faster development of e-commerce/e-business is also a need to develop electronic identification and authentication system. While individuals and businesses increasingly use the Internet to perform tasks that once required them to interact with someone in person, they often cannot complete transactions online that require their identification, such as applying for government services or refinancing a mortgage.

Similarly, electronic identification will greatly improve SMEs' possibilities to participate in e-commerce as well as increase security of transactions.

Electronic ID systems generate a variety of benefits for individuals, businesses, and government, including facilitating commerce in the digital economy, enabling e-government services, and improving security for online transactions. Creating a widely-accepted form of electronic identification will not only enable individuals to use online applications more securely, it will also allow the public and private sectors to offer a wide array of innovative and productivity-enhancing products and services online that require one's identity, or an aspect of one's identity to be confirmed.

Kosovo government has already started the transposition of eIDAS Regulation. eIDAS stands for Electronic Identification (eID) and Trust Services. It is a European Regulation (910/2014), adopted in 2014, that establishes the framework to ensure that electronic interactions between business, citizens and public authorities are safer and more efficient.

The eIDAS Regulation introduces one single framework for eID and trust services making it more straightforward to deliver business services across the EU. It promotes interoperability across the EU Member States, ensuring mutual recognition of electronic identification and trust services across borders.

eID can be used in both business to business and business to consumer transactions. eID provides business with the opportunity to carry out stronger checks on the identity of customers and other businesses. It also allows businesses to expand their customer base, providing a trusted identification of customers and businesses, in other EU Member States. (<https://ec.europa.eu/digital-single-market/en/news/quickstart-guide-eidas-made-easy>)

## Stakeholder Analysis

**The Ministry of Economic Development** - is the key institution for this action, being in charge of:

- Drafting policies and strategies on the overall economic development of Kosovo as well as providing support to information technology, innovations, and electronic trade
- To stimulate the development of information technology training systems
- To cooperate with the business community and business associations with the aim of establishing an attractive business environment;<sup>3</sup>

The Ministry has recognised that Kosovo's economic growth in the ICT sector depends on its ability to support the competitiveness and growth of the ICT businesses. It acknowledges that it needs to strengthen its abilities in order to be able to properly support ICT businesses in their future development for enhancement of their competitiveness and internationalisation.

Related to electronic identification and trust services, the Ministry is preparing the law on electronic identification and trusted services in electronic transactions. During the final stages of preparation of the law the Ministry used support of TAIEX instrument (expert mission in September 2018). After the law is adopted, its implementation is the crucial.

**Ministry of Finance - Kosovo Tax administration** is responsible for collection of central government taxes, which include VAT in inner supplies, Income Tax Corporate, Personal Income Tax and Pension Contributions. It has a centralised document processing centre through which all returns are processed, although VAT processing is being decentralised to facilitate earlier compliance intervention. A large taxpayer unit has been established within the Kosovo Tax administration to deal with the largest taxpayers in Kosovo, which is an international best practice. Both the IMF and the European Commission as being transparent and of good international standard have recognised Kosovo tax legislation. With all its development and assistance, the Kosovo Tax administration is becoming recognised as a modern and efficient tax administration and a leading governmental organisation in Kosovo, although there is still much to do to reach the desired state of operating efficiency.

**Kosovo Investment and Enterprise Support Agency** - is an institution operating under the Ministry of Trade and Industry that is responsible for: protecting and promoting investment; supporting the application of public policies and programs for Micro, Small and Medium enterprises (MSMEs); and developing policies related to the establishment and development of economic zones. The agency will be part of the Steering Committee for the implementation of the proposed action.

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<sup>3</sup> [Regulation No. 02/2011 on the areas of administrative responsibility of the office of the prime minister and ministries](#)

**Central Bank of Kosovo**, the successor to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as a legal person under the law applicable in Kosovo. The Central Bank is a distinct public entity with the authority to license, supervise and regulate financial institutions in Kosovo. It acts in accordance with Law No.03/L—209 “Law on Central Bank of Kosovo” (hereafter referred to as “the Central Bank of Kosovo Law”). As per this law, the principal objectives are to: foster and maintain a stable financial system, including a safe, sound and efficient payment system and to contribute in achieving and maintaining domestic price stability.

**Kosovo Association of Information and Communication Technology** was established in 2008 with the aim of acting as a collective voice of the ICT sector. According to its mission statement, it wishes to help create a better ICT business environment by improving standards and educational opportunities, and advocating with the government on behalf of its members to ensure that the sector will attract new business and investment. The Kosovo Association of Information and Communication Technology is a non-for-profit legal entity, with members paying fees in exchange for services. It is one of the entities that co-developed Kosovo’s IT strategy, is part of the Steering Committee for the implementation of the Kosovo IT Strategy (Chaired by the Ministry of Economic Development) and also develops the annual IT Observatory (financed by GIZ) providing an insight of the IT industry of Kosovo and market trends. It currently accounts for 125 +members, which represent 90% of the whole ICT market of Kosovo. The Kosovo Association of Information and Communication Technology will be part of the Steering Committee for the implementation of the proposed action.

**Innovation Centre Kosovo** is a centre whose aim is to connect to scientific research with the development of the business sector, focusing on creating new job opportunities oriented towards the future, based on knowledge and new technology. It was founded to support entrepreneurship, innovation and commercially based business development. The Centre supports both start-ups and existing companies with the potential for growth. Innovation Centre Kosovo offers incubator services, mentoring, consulting and training to entrepreneurs, freelancers, students, public servants, managers and civil society in business planning, accounting, finance, product/service development, marketing/ sales, human resources, technology development, programming, graphics design, animation, multimedia, cyber security, as well as transfer and matchmaking with local, regional and international businesses.

## **OUTLINE OF IPA II ASSISTANCE**

The main focus of this proposed action is to create a proper e-business/e-commerce ecosystem and improve electronic service delivery for citizens and businesses and to increase the efficiency and productivity of private sector through ICT usage

It is necessary to motivate the private sector to digitalise their products. Service-based e-commerce will open entirely new opportunities for sales and will enable Kosovo businesses to place their products and services to a large audience in Kosovo and the region. This is a very efficient way to increase and promote products or services on websites and accept online payments and instant orders.

The action will provide solutions to tackle the main obstacles for the development of e-commerce/e-business and , ie. increase safety of electronic transactions in Kosovo, allow businesses to increase customers trust, lower administrative burden and provide them with more efficient business processes.

There is a need for reinforcement and alignment of the legal framework related to e-business. Furthermore, improvement in cooperation and capacity building within line ministries and other public institutions are needed in order to strengthen their abilities to develop and implement relevant legislation strategies, measures and instruments and their monitoring in accordance with the EU best practice.

Sustainability will be ensured through several aspects that will be developed under project activities. The proposed establishment of the e-commerce unit within Ministry of Economic Development, will ensure future coordination of all institutions and actors involved in the strengthening of e-commerce and e-business, further training and specialisation of the civil servants dealing with e-commerce, as well as the development of the policy and strategic framework.



The stakeholders involved in implementation of the action are Ministry of Economic Development, Ministry of Innovation and Entrepreneurship, Ministry of Trade and Industry, Central Bank of Kosovo, Tax Administration, Kosovo Association of ICT Companies. The final beneficiaries of the action are Medium, Small and Micro Enterprises, start-ups and citizens of Kosovo.

## **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

The interventions proposed are closely related to IPA II Indicative strategy Paper for Kosovo 2014-2020 (adopted on 20/08/2014).

It is also fully aligned with Chapter 4 – Competitiveness and innovation (4.1 Needs and capacities in the sector) of the **Indicative Strategy Paper** (ISP). Furthermore, As stated in the “Annex to the Commission implementing decision of adopting the Indicative Strategy Paper for Kosovo\* for the period 2014-2020”, there is a need to support the ability of both new and traditional businesses to compete and innovate through ICT and broadband improvements, and to support training and digital-skill development.

The proposed intervention is in line with Kosovo’s Stabilisation and Association Agreement Articles 100 and 110.

**In February 2018, the Commission adopted a strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans"** (COM(2018)65) that presents 6 flagship initiatives for development of the Western Balkans. 3 of them are involving developments in digital economy, digital services and digitalisation. Flagship initiative 3 "Supporting socio-economic development" foresees increased funding in among others private sector development, including the digital economy. Flagship initiative 4 "Increasing connectivity" proposes to *connect infrastructure also between the EU and the Western Balkans* in fields of transport, energy and digital services. "Digital Agenda for the Western Balkans" (flagship initiative 5) includes development of digital society, digital skills, digitalisation of industry and capacity-building in trust and security.

Kosovo should follow up on the recommendations from EU’s **‘Small Business Act Assessment’**. Two of the four pillars of the act (“Promoting entrepreneurship” and “Access to markets and internationalisation”) are strongly linked to the fulfilment of the Economic Criteria of the EU. Digitalisation assures the connection between people, things, and business.

**Kosovo’s Economic Reform Programme (ERP)** Reform Measure #13 recognises the need for further extension of the ICT network infrastructure and its link to socio-economic development. Two of the activities for 2019 are "Human resource development and support businesses for their digitalisation" and “Adapting and functionalising the digital technology park for the needs of ICT businesses”. The proposed action enhances the scope of ERP reform measure as it will increase the number and the quality of Kosovo businesses and contribute to the better usage of the digital technology park.

**Kosovo National Development Strategy 2016-2021**, through #measure 30, “Deployment of information and communication technology infrastructure”, this strategy identifies needs which lay out specific points to be addressed in order to support digitalisation of Kosovo businesses.

**Kosovo National IT Strategy** – is the main ICT sector document. The purpose of it is to elaborate a specific strategy for promoting the development of the Kosovo IT industry in order to promote digital transformation and support Kosovo in becoming a knowledge-based economy.

The IT strategy sets the sector’s overall goal, to become the main driver for economic growth, enhancing employment and innovation by 2020 through increasing the international competitiveness of the Kosovo IT industry based on digital excellence.

The main beneficiary and target group of the strategy is the Kosovo IT industry. Related topics such as IT infrastructure and e-government have been covered by other strategies.

**Digital Agenda for Kosovo 2013-2020<sup>4</sup>** - is in compliance with the objectives set out in the Communication from the European Commission of 19 May 2010 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A Digital Agenda for Europe" (COM (2010) 245 final) and aligned with the Communication from the European Commission of 3 March 2010 "A strategy for smart, sustainable and inclusive growth" (COM (2010) 2020 final).

Kosovo's legislation covering the field of ICT is fully harmonised with the relevant acquis of the EU. It is planned that during 2018 the law that will transpose the eIDAS Regulation will be drafted and approved by Kosovo institutions. The development and implementation of the eID system will also be a follow-up action for implementing eIDAS Regulation.

The **European Digital Single Market** strategy demonstrates the importance of the digital economy for Europe, making it one of the ten top political priorities of the European Commission. Also, the European Digital Single Market strategy includes a pillar on better access for consumers and businesses to online goods and services across Europe, to address key differences between the online and offline worlds and to break down barriers to cross-border online activity.

The EU's [Digitising European Industry \(DEI\) initiative](#) is particularly relevant for this action. The European Commission launched the initiative in April 2016. As part of the Digital Single Market strategy, the DEI initiative aims to reinforce the EU's competitiveness in digital technologies and ensure that every business in Europe - whichever the sector, wherever the location, whatever the size - can draw the full benefits from digital innovation.

All the 5 pillars under the initiative can bring benefits to this action, but in particular pillar 2 on **Digital Innovation Hubs (DIHs)** is relevant. Digital Innovation Hubs are one-stop-shops where companies – especially SMEs, startups and mid-caps– can get help to improve their business, production processes, products and services by means of digital technology. One of the key DEI priorities is to support a strong network of DIHs to ensure that every company in Europe can take advantage of digital opportunities.

**Western Balkans Digital Summit** in Skopje (2018) and Belgrade (2019) as well as **Sofia Summit** held in 17th May 2018 highlight the importance of "a market- and investment-friendly environment" in the Western Balkans to move faster towards a digital economy. The summits welcome the **European Commission's Communication** "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" and the Digital Agenda Flagship initiative as one of the six flagship initiatives of this strategy.

As agreed in the "Sofia Priority Agenda" to the European Commission launched the **Digital Agenda for the Western Balkans** during the **Digital Assembly 2018**, which included amongst others a substantial technical assistance package for the identification of potential digital infrastructure investments (broadband) through the Western Balkans Investment Framework."

**Conclusions from Sofia Summit and Western Balkans Digital Summit in Skopje** - The Commission together with Ministers from the Western Balkan partners – Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia – committed to:

- **Investing in broadband connectivity**
- **Increasing cybersecurity, trust and digitalisation of industry**
- **Strengthening the digital economy and society**
- **Boosting research and innovation**

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<sup>4</sup> [Digital Agenda for Kosovo 2020](#)

Kosovo should start developing measures to raise awareness among business stakeholders and ensure their active participation in the programme.

The Regional Cooperation Council (RCC) is undertaking a work programme in the region. The RCC work programme 2020-2022 include the following activities:

#### *A.3.3 Improve E-services delivery and strengthen capacities on EU acquis alignment and enforcement*

A.3.3.1. Improve e-services delivery and interoperability in WB through: supporting the establishment of platform of recognition of certificates with e-signature and linking digital registries for trusted services; supporting the improvement of interoperability in WB and facilitate participation in EU work under European Interoperability Framework (EIF);

A.3.3.2. Increase capacities for EU acquis alignment and enforcement through: regional coordination to increase capacities for alignment with the electronic communications relevant acquis as well as for alignment with the acquis in area of data protection and e-privacy, especially its cross border dimension; regional coordination and dialogue to enable peer to peer learning and expose WB with EU MS best practice.

The RCC activities mentioned above and the actions described under result 1 could be mutually reinforcing.

#### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

The main instrument of the European Commission for supporting the ICT sector in Kosovo is TAIEX Instrument. TAIEX assistance was used for the revision of policy and legislation of the ICT sector. We consider that IPA instrument will boost our efforts in developing businesses in Kosovo. Furthermore, related to this proposed project, TAIEX assistance is being used in the form of expert mission (during September 2018) to support the preparation of draft law on electronic identification and trusted services in electronic transactions.

**Kosovo Digital Economy** – In September 2018, the Kosovo government has adopted the draft law on ratification of the Financial Agreement between Kosovo and the World Bank for the project on Digital economy of Kosovo during 2019-2023. The project aims to provide high-speed broadband infrastructure and support access to labour markets, new sources of knowledge, and public services to households and institutions in selected underserved rural areas. Moreover, the project will train and connect youth to online employment opportunities; and improve access to knowledge sources, including better reach and collaboration opportunities to high educational institutions. The Project Development Objective for the Kosovo Digital Economy Project is to improve access to better quality and high-speed broadband services in project areas and to online knowledge sources, services and labour markets among citizens, and public and academic institutions.

Through IPA 2017, the European Commission will support the implementation of the project **Enhancement of the competitiveness of Kosovo's digital economy**, which as a general objective to support growth of Kosovo's ICT sector through the enhancement of competitiveness of Kosovo's digital and traditional businesses, leads to growth and new job creation.

**Creating Employment through Export Promotion** - project aims to enable Medium, Small and Micro Enterprises in employment-relevant sectors to tap into international markets. The project will focus on three sectors: ICT, manufacturing and agriculture/agro-processing. Specific activities include those seen as crucial to increase companies' capacity to export such as provision of business-related information relevant for European markets as well as the provision of specific business development services at selected points in the value chain;

**Women in Online Work** is another successful project that was led by the Ministry of Economic Development, and due to its success in the first two phases, Ministry of Economic Development has

managed to gather the support by World Bank, Swiss Embassy, USAID and Swiss Cooperation by extending the project in another two phases in different municipalities in Kosovo. The aim of the project is to carry out a training programme for IT related jobs, investing in and scoping technical assistance to mobilise and skill a significant number of women to work online using internet labour marketplaces. The project targeted generation of income for the beneficiaries through online work, while testing how the global economy could assist in creating inclusive and better employment opportunities for unemployed and underemployed women.

A program for digitalisation of cultural and historic heritage was developed in cooperation between Ministry of Culture and British Embassy. The Embassy has created an electronic database regarding cultural heritage of Kosovo, and a programme of digitalisation of cultural artefacts is underway. The database will include information on all cultural monuments and the value of various cultural properties in Kosovo. The database has been designed and digitalisation of an inventory of about 2,700 items is in the implementation phase.

## 2. Intervention logic - LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To increase efficiency and productivity of the private sector through increased use of ICT, create proper e-business/e-commerce ecosystem, and improve electronic service delivery for citizens and businesses. To contribute to Kosovo government efforts to digitalise and increase competitiveness and profitability of Kosovo businesses.	Distance to frontier, Doing business score	World Bank – Doing business	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To improve performance of businesses by increased ICT usage.	- Number of SMEs that used digitalisation to growth their sales.	<ul style="list-style-type: none"> <li>• Periodic reports of Ministry of Innovation and Entrepreneurship, Ministry of Economic Development, Ministry of Trade and Industry</li> <li>• Periodic reports of Kosovo Investment and Enterprise Support Agency, Kosovo Business Registration Agency</li> <li>• Kosovo Statistics Agency</li> <li>• European Commission Kosovo Report</li> </ul>	<p>Political commitment for developing private sector through ICT remains high</p> <p>Efficient institutional capacities for the development and implementation of the objective</p> <p>Effective measures for improvement of business environment in Kosovo.</p>
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Result 1:</b> Environment for e-commerce/e-business is improved	-- Common specifications for the eID framework within public administration tested and implemented	• Periodic reports of Ministry of Innovation and Entrepreneurship, Ministry of Economic	<p>Necessary institutional resources exist.</p> <p>Readiness of Kosovo</p>

	<p>eID system - in line with eIDAS regulation - operational for private sector and citizens</p>	<p>Development, Ministry of Trade and Industry</p> <ul style="list-style-type: none"> <li>• European Commission Kosovo Report</li> </ul>	<p>institutions to collaborate in order to strengthen e-business, e-commerce and e-IDAS based on EU standards.</p> <p>Availability of data related to business environment Adequate and sufficient beneficiary resources to the project implementation</p>
<p><b>Result 2:</b> Support to digitalisation MSMEs is increased</p>	<ul style="list-style-type: none"> <li>- number of MSMEs supported with ICT advisory services</li> <li>- number of MSMEs implementing e-business strategies</li> <li>- number of ICT trainings delivered</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Innovation and Entrepreneurship, Ministry of Economic Development, Ministry of Trade and Industry</li> <li>• Periodic reports of Kosovo Investment and Enterprise Support Agency, Kosovo Business Registration Agency</li> <li>• Kosovo Statistics Agency</li> <li>• European Commission Kosovo Report</li> </ul>	<p>Interest of businesses remains high</p> <p>Necessary institutional resources exist</p>

## DESCRIPTION OF ACTIVITIES

**Result 1** – "Environment for e-commerce/e-business is improved " through development of legal framework as well as introduction of Electronic Authentication and Identification System for physical and legal persons in Kosovo.

Through the appropriate set up of the legal, technical and institutional framework by both businesses and consumers will be strengthened.

Through this component, it is foreseen to design an e-ID system for the global digital economy in Kosovo. Systems designed for today's digital economy should reflect its global nature. Currently many MS and Western Balkan beneficiaries are participating in the EU STORK (Secure Identity Across Borders Linked) project for interoperability in Europe. The eID System that will be set up will be in compliance with the eIDAS Regulation.

A well-functioning e-ID system will greatly increase competitiveness and profitability of Kosovo businesses since it enables them to have more opportunities on how to improve the way in which they operate securely within Kosovo and with external stakeholders. It will also provide assurance to future customers and business partners on increase of IT security in Kosovo and allow quicker development of e-B2B and e-commerce.

Activities under this result will include (but not limited to):

- Review of existing legislation and development of standards for certification to improve E-business/e-commerce legal framework
- Development of eID system interoperable with existing eID-s systems based on eIDAS Regulation
- Development of Electronic infrastructure, security schemes and models for website authentication

Development of institutional and capacity building for institutions involved in e-ID system and processes

**Result 2** - "Support to digitalisation of MSMEs is increased" foresees assessment of ICT needs of MSME's and will offer support to MSMEs addressing the needs through specialised consultancy services

Activities under this result will offer solutions to support MSMEs businesses to develop and implement digitalisation strategies. The activities will assess the needs of the private sector, and will support them through specialised consultancy services. Innovation will be treated from the managerial and technological perspective. It is becoming more and more necessary for businesses to adopt sustainable practices in order to take on the challenges of the new digital economy. The Action will advise small businesses on how to implement sustainable solutions. Moving toward sustainable development will pay off and make small businesses more competitive.

The activities will provide systematic support to the private sector in using ICT opportunities (e.g. ERP solutions, website creation, hosting, web programming, online sales site creation, digital marketing, etc.) for their services and products. By introducing new ICT technologies, businesses will have the chance to introduce more innovative solutions as well as to expand their portfolios with various products and services.

Through this component, businesses will also be supported in developing their e-business strategies. Proposed activities through this component will be done by taking into account EU and e-business support initiatives and recommendations.

The activities will also take into consideration the benefits of the EU's Digitising European Industry (DEI) initiative and in particular the Digital Innovation Hubs (DIHs). Digital Innovation Hubs are one-stop-shops where companies –especially SMEs, start-ups and mid-caps– can get help to improve their business,

production processes, products and services by means of digital technology. Creating innovation hubs in Kosovo and linking them with EU hubs could lead to better take-up of digital technologies, more innovation, and stronger cross-border cooperation. Currently one hub is listed in Kosovo. Digital Innovation Hubs are furthermore part of the European Commission's Digital Agenda for the Western Balkans under Digitisation of Industry.

Activities under this result will include (but not limited to):

- Workshops and information campaign to increase level of awareness for the use of e-business/e-commerce;
- Screening and selection of MSME's for ICT trainings, provision of advisory services and development and implementation of e-business/e-commerce strategy;
- Development of programmes and specifications for hardware, software and applications for re-structuring of internal organisation and business processes in order to apply ICT in their business activities;
- Advisory services for digitalisation and increased usage of ICT;
- Delivery of ICT trainings for businesses;
- Implementation of workshops/training sessions in order to introduce best practices and internal business process re-engineering for ICT application in their business activities;
- Raising awareness about consultancy services and increasing demand from small businesses through implementation of workshops, conferences, round tables and/or other activities
- Development and strengthening of Kosovo's Digital Innovation Hubs (as part of the EU's Digitising European Industry initiative).

## RISKS

<b>Risk</b>	<b>Mitigation Measure</b>
<b>Lack of stakeholder cooperation</b>	<p>Communication strategy and awareness raising campaign on the importance of the activities to be implemented.</p> <p>Strong leadership from the Steering Committee</p> <p>Creation of focused and agile taskforces for key activities which will be officially appointed.</p> <p>Use modern tools for process and project management.</p> <p>Provide relevant coordination capacities from the action to ensure increased flow of information in order to increase the awareness on the importance of efficient stakeholder cooperation.</p>
<b>Limited absorption capacity among selected businesses</b>	<p>At an early stage of the implementation process, a detailed screening of potential businesses for admission to the action is to take place.</p> <p>Selection of the most appropriate potential businesses using most efficient ICT tools for testing and evaluation of potential candidates.</p>

## CONDITIONS FOR IMPLEMENTATION

**The main conditions for the implementation of the Action are:**



The proposed action continues on already established cooperation between different government institutions, private sector representatives and representatives of the donor community in the form of the Steering committee. The action is based on the Kosovo IT strategy, which is the main document for development of the IT sector and will contribute to reaching the objectives set.

The **pre-condition** for implementation of the action is adoption of legislation/law on transposing eIDAS in Kosovo including the set-up of the e-commerce unit in Ministry of Economic Development.

### **3. IMPLEMENTATION ARRANGEMENTS**

#### **ROLES AND RESPONSIBILITIES**

The project will be managed by the EU office in Kosovo. All activities within the Project will be performed under service contracts for Technical Assistance.

The direct beneficiary will be Kosovo's Ministry of Economic Development and final beneficiaries of the project are Kosovo businesses and citizens. The main institutional stakeholders in this project will be the Ministry of Economic Development, Kosovo Investment and Enterprise Support Agency, Ministry of Finance – Tax Administration of Kosovo, Central Bank of Kosovo, chambers of commerce and different associations.

#### **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

The action will be implemented through 1-2 service contracts and 1 supply contract.

Tentative timetable of the implementation of this action will be from 2020 – 2023.

### **4. PERFORMANCE MEASUREMENT**

#### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

In line with the IPA II Implementing Regulation 447/2014, an IPA II beneficiary who has been entrusted budget implementation tasks of IPA II assistance shall be responsible for conducting evaluations of the programmes it manages.

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

## INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2)	Target 2020 (3)	Final Target (year) (4)	Source of information
Common specifications for the eID framework within public administration tested and implemented	0 (2018)	0 (2021)	1 (2023)	<ul style="list-style-type: none"> <li>• Ministry of Economic development periodic report</li> <li>Steering Committee meetings</li> <li>• European Commission Kosovo Report</li> </ul>
eID system - in line with eIDAS regulation - operational for private sector and citizens	0 (2018)	0 (2021)	1 (2023)	<ul style="list-style-type: none"> <li>• Ministry of Economic development periodic report</li> <li>Steering Committee meetings</li> <li>• European Commission Kosovo Report</li> </ul>
Number of MSMEs supported with ICT advisory services	0 (2018)	80 (2021)	260 (2023)	<ul style="list-style-type: none"> <li>• Ministry of Economic development periodic report</li> <li>Steering Committee meetings</li> <li>• European Commission Kosovo Report</li> </ul>
Number of MSMEs implementing e-business strategies	0 (2018)	20 (2021)	40 (2023)	<ul style="list-style-type: none"> <li>• Ministry of Economic development periodic report</li> <li>Steering Committee meetings</li> <li>• European Commission Kosovo Report</li> </ul>
Number of ICT trainings delivered	0 (2018)	15 (2021)	35 (2023)	<ul style="list-style-type: none"> <li>• Ministry of Economic development periodic report</li> <li>• Steering Committee meetings</li> <li>• European Commission Kosovo Report</li> </ul>

## 5. SECTOR APPROACH ASSESSMENT

Kosovo government has prepared the **IT Strategy**. The overall goal of the sector strategy is that the IT sector becomes the main driver for economic growth, employment and innovation by 2020 through increasing the international competitiveness of the Kosovo IT industry based on digital excellence.

The purpose of the IT strategy as the main sector document is to elaborate a specific strategy for promoting the development of the Kosovo IT industry in order to promote digital transformation and supporting Kosovo in becoming a knowledge-based economy. The main beneficiary and target group of the strategy is the Kosovo IT industry. Related topics such as IT infrastructure and e-government have been covered by other strategies.

Pursuant to Annex 18 of Regulation No. 02/2011 on the Areas of Administrative Responsibility of the Office of Prime Minister and Ministries, the Ministry of Economic Development also has the following competencies in regard to Information technology:

- To support information technology, innovations, and electronic trade;
- To support access to technology for all Kosovo citizens;
- To stimulate the development of information technology training systems;

In this regard, the Ministry of Economic Development was the driving force for the preparation of the IT strategy and has, with support of different donors, successfully started and implemented several projects.

**Digital Agenda for Kosovo 2013-2020<sup>5</sup>** - is in compliance with the objectives set out in the Communication from the European Commission of 19 May 2010 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A Digital Agenda for Europe" (COM (2010) 245 final) and aligned with the Communication from the European Commission of 3 March 2010 "A strategy for smart, sustainable and inclusive growth" (COM (2010) 2020 final).

The Digital Agenda has identified the need for new policies to create favourable conditions for developing e-business and providing legal certainty to enhance the reliability of electronic transactions. To this end, a new policy is being drafted for the transposition of the eIDAS Regulation. Since the implementation of it is very crucial, support for it is needed through this proposed action.

## 6. CROSS-CUTTING ISSUES

### GENDER MAINSTREAMING

It is expected that the action will encourage the participation of women in order to address gender gaps that remain in certain areas of Kosovo despite of the fact that women's equal rights in Kosovo are guaranteed with the Law No. 05/L -020. Women as potential entrepreneurs, women being employees of businesses, and businesses owned by women will be prioritised as recipients of training.

Activities in this action will be implemented in accordance with the EU Strategy for Equality between Men and Women 2010-2015, which spells out key actions under five priority areas, equal economic independence, equal pay for equal work and work of equal value, equality in decision-making, dignity, integrity and end to gender-based violence, and gender equality in external actions.

### EQUAL OPPORTUNITIES

During the implementation of activities under this action document, the principles of equal opportunities and non-discrimination shall apply, so that participation in the action will be guaranteed on the basis of equal access regardless of sex, ethnic origin, religion or belief, disability, age, etc. Gender equality incentives are incorporated particularly in activities concerning capacity building. The proposed action

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<sup>5</sup> [Digital Agenda for Kosovo 2020](#)

has equal opportunity employment for all included people with disabilities. An appropriate men/women balance will be sought in different stages of action.

#### **MINORITIES AND VULNERABLE GROUPS**

The impact of the Action on equality of opportunity will be factored into the implementation of the action, and so will tackling discrimination against minorities and other vulnerable and disadvantaged groups. Minorities are to be treated equally, as guaranteed by Amendment No. 59 to the Constitution of Kosovo. Minorities and vulnerable groups as potential entrepreneurs, employees of businesses and businesses owned by minorities and vulnerable groups will be prioritised as recipients of training.

#### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER STAKEHOLDERS)**

The Action will take into account potential Civil Society inputs and civil society/stakeholder involvement in order to support civil society organisations to strengthen their capacities and professionalism, in thematic areas relevant to the action. Kosovo ICT Association - STIKK is an important stakeholder for the proposed action.

#### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

Although it is expected that the implementation of the action will have no impact to the environment, environmental consideration will be taken into account when applicable

### **7. SUSTAINABILITY**

Sustainability of the action is ensured through establishment of the eID system in Kosovo and development of a system for certification of Qualified Certificate Service Providers. Through this it will be possible to ensure the certification of Kosovo businesses that fulfil the standards set in eIDAS.

The project requires a wide base of policy partners and stakeholders (public institutions, business organisation), which means a strong coordination role from the Ministry of Economic Development. Multi partnership cooperation among all partners is very much required to achieve the success of the project.

The proposed establishment of the e-commerce unit within the Ministry of Economic Development, will ensure future coordination of all institutions and actors involved in the strengthening of e-commerce and e-business, further training and specialisation of the civil servants dealing with e-commerce, as well as the development of the policy and strategic framework. Besides the institutional capacity building of the stakeholders will allow Kosovo authorities to implement the legislation, increase use of ICT in delivery of their services and increase safety on online transactions in Kosovo, making Kosovo businesses more competitive.

### **8. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the action. The implementation of the communication activities shall be funded from the amounts allocated to the action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the EU communication and visibility requirements in force. All stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II throughout all phases of the programme cycle.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives, as well as the benefits of the action for the general public. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value

and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

Visibility and communication aspects shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field. The European Commission and the EU Delegations should be fully informed of the planning and implementation of the specific visibility and communication activities.

The EU Office and the European Commission will develop a joint consolidated communication and visibility plan for the Action based on an agreed communication narrative and master messages customised for the different target audiences (stakeholders, civil society, general public, etc.).

Representatives of the EU Office will be present in the opening and other important events of the action.

Indicatively, the following actions and tools should be carried out: definition of visual identity standards; preparation of written materials (factsheets, training compendia, manuals, etc.); production of branded material (panels, folders, promotional material); website; events (trainings, retreats, workshops, round tables, initial and closing events).

Effectiveness of communication activities will be measured inter alia through public surveys in the IPA II beneficiaries on awareness about the Action and its objectives, as well as the fact that it is funded by the EU. As a minimum, one survey should be carried out before the start of the implementation of the communication and visibility plan and one after its completion.