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PERFORMANCE AUDIT REPORT ON
Support to Small and Medium-sized Enterprises from MIET/KIESA

Performance Audit

Prishtina, May 2023

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This audit has been carried out in line with the International Standards on Supreme Audit Institutions (SNISA 3000¹) and good European Practices.

Performance audit report produced by the National Audit Office are independent, objective and reliable reviews which assess whether the Government's actions, systems, operations, programs and activities or Organisations comply with the principles of economy², efficiency³ and effectiveness⁴ and whether there is room for improvement.

The Auditor General has decided on the content of the performance audit report on **"Support to Small and Medium-sized Enterprises from MIET/KIESA"** in consultation with Assistant Auditor General, Myrvete Gashi Morina, who supervised the audit.

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¹ Standards and guidelines on performance audit based on INTOSAI's Audit Standards and practical experience

² Economy - The principle of economy implies minimising the cost of inputs. Inputs should be available at the right time, quantity and quality and at the lowest price possible.

³ Efficiency - The principle of efficiency implies achieving the maximum from the available inputs. It concerns to the relationship between input and output in terms of quantity, quality and time.

⁴ Effectiveness - The principle of effectiveness implies the achievement of set objectives and the achievement of expected outputs.

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List of abbreviations

CEFTA	Central European Free Trade Agreement
EFTA	European Free Trade Association
EU	European Union
EZ	Economic Zone
KIESA	Kosovo Investment and Enterprise Support Agency
MIET	Ministry of Industry, Entrepreneurship and Trade
OECD	Organisation for Economic Co-operation and Development
SMME	Small, Micro and Medium Enterprises
TAK	Tax Administration of Kosovo

Executive Summary

The National Audit Office has conducted the performance audit of "*Support to small, micro and medium-sized enterprises by MIET/KIESA*". The Kosovo Investment and Enterprise Support Agency's (KIESA) mandate is to promote and support the investments, export, tourism, SMMEs and the special economic zones in the Republic of Kosovo. The objective of this audit was to examine the MIET/KIESA's activities to achieve the appropriate results in supporting and increasing the capacities of SMMEs and Economic Zones (ZE).

The Ministry of Industry, Entrepreneurship and Trade (MIET) and the Kosovo Investment and Enterprise Support Agency (KIESA) have been subject to this audit related to the support to the small, micro and medium-sized enterprises (SMMEs). This audit covered the 2019-2022 period.

Our audit results show that MIET/KIESA has not achieved the appropriate results when it comes to supporting and building the capacities of SMMEs and Economic Zones. The public calls are not based on SMMEs' needs analyses and the system for the calls, evaluation and monitoring is accompanied by significant deficiencies that need to be improved. Moreover, the established economic zones fail to meet the needs of enterprises, leaving investors waiting for years to expand the business spaces and increase the production and employment.

SMMEs have been supported without conducting any market analysis or any development policy on the support to these enterprises by the competent actors. The private sector development strategy, drafted in 2017 was not approved by the Ministry of Industry, Entrepreneurship and Trade and nor was it underpinned by any analysis on the SMMEs' needs for development. The Ministry of Industry, Entrepreneurship and Trade had tried to develop the strategy during 2018, but such process failed. Due to failure to develop policies for supporting the manufacturing enterprises, our country has in the recent years suffered a decline in manufacturing investments and an increase in construction investments.

The Government has not managed to put the Free Economic Zones and the American Economic Zone to function regardless of having taken the decision to established them. These free economic zones have been established without undergoing the procedures based on which other economic zones are established. These zones have been established by the Government without conducting any analysis or feasibility study that would have grounded their establishment, Whilst the National Council for Economic Zones, an interministerial body the task of which was *inter alia* to propose policies and draft the national plan on the development of economic zones, has never been operational. In addition, the delayed construction of economic zones has led to limited spaces for investors to conduct their business, thus resulting in their reluctance to invest just because of the lack of spaces.

The Calls for Support to SMMEs are not based on the needs analyses and the applications evaluation process is not flawless. Every year, KIESA prepares a public call for support to SMMEs for purchasing the machinery they need. When preparing the call, KIESA does not adapt the calls in providing the support according to the specific needs of enterprises, but support is provided only for the purchase of machinery. In addition, one of the applications evaluation samples that we analysed is a large enterprise, with over 1,000 employees, which has received a grant from KIESA. This was as a result of unfair evaluation of applications. Moreover, the delays in the call for support to SMMEs has led

to failure to spend the budget planned for 2022. In addition, a comparison on the benefiting enterprises data that we have obtained from the Tax Administration of Kosovo, shows that the enterprises have not honoured their commitment for hiring people, which was one of the main eligibility criteria.

Projects are not continuously monitored and the established criteria have not been met by the beneficiaries as a result of MIET and KIESA's failure to coordinate. The monitoring commission has found irregularities concerning the beneficiaries for the 2018-2021 period and informed the Ministry thereon. Yet, no measures have been taken towards those beneficiaries having not met the established criteria. Moreover, MIET/KIESA is not monitoring the beneficiaries on a constant basis and there is no information as to what is the current situation of the beneficiaries against the criteria set in the agreements. Although MIET has one department responsible for policy development, coordination and monitoring, there is no evidence of a cooperation between MIET and KIESA, which is responsible for implementing these policies.

Audit findings indicate that the issues related to the needs analyses, evaluation of applications, monitoring of SMMEs beneficiaries, and development of Economic Zones require improvement. For the purpose of improving the support to SMMEs and development of EZ system, we have given one recommendation to the Government and seven recommendations to MIET/KIESA. The list of recommendations is presented in Chapter 5 of this report.

Response of the auditees

MIET and KIESA have agreed with the audit findings and conclusions and committed to address the recommendations given.

1 Introduction

Small, micro and medium-sized enterprises (SMMEs) play a very important role in the economy and are most often regarded as engines of a country's economic growth and development. In 2019, these enterprises constituted the overwhelming majority (99.8%) of the European Union (EU) businesses, employing around 64.4% of the employees in the EU's economy.⁵

SMMEs may exist in any industry and, having a small number of employees, they require small capital and more innovations.

SMMEs in European countries are referred to as the backbone of the economy providing jobs and economic growth opportunities. The economic development slowdown as a result of COVID-19 containment measures hit these enterprises hard⁶.

The dynamic development of the private sector in SMMEs, particularly in the manufacturing industry and the privatisation initiatives are the first steps towards the development of the market economy and integrations to regional and international institutions. In Kosovo, SMMEs constitute the backbone of the economy⁷. The following chart shows the Kosovo's enterprises by size.

Chart 1 Share of enterprises in Kosovo by size, 2022⁸.

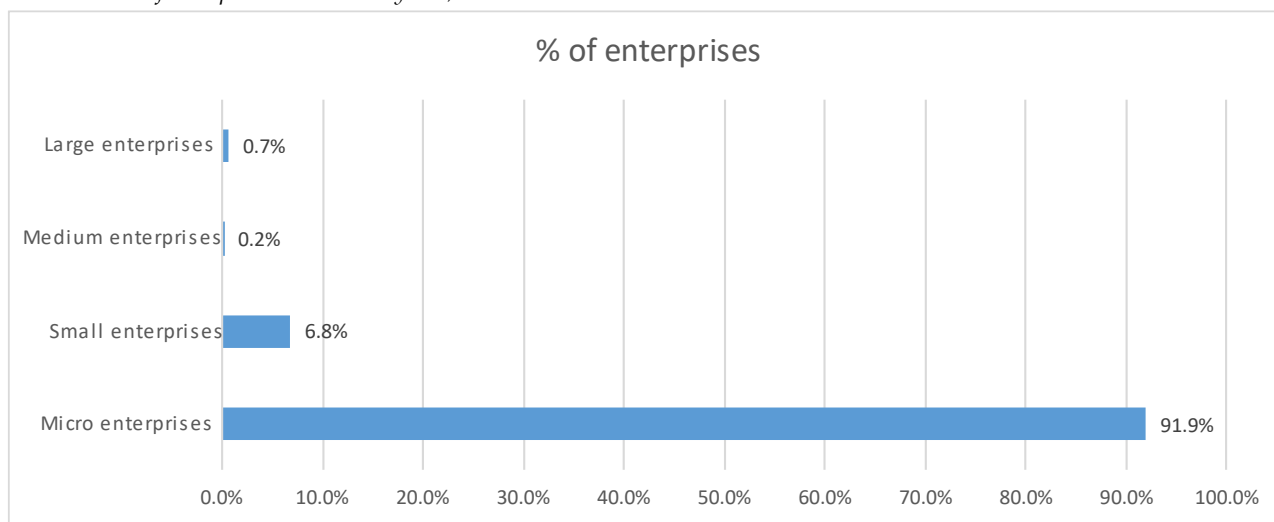


Chart 1 shows the composition of the Kosovo's market by these enterprises. Micro-sized enterprises constitute the largest share by 91.9%, followed by the small-sized enterprises at 6.8% and the medium-sized enterprises at 0.2% whilst the large-sized enterprises constitute just 0.7%.

⁵ EU small and medium-sized enterprises: an overview (<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/edn-20220627-1>).

⁶ Small and medium-sized enterprises: an overview (<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200514-1#:~:text=In%202017%2C%20there%20were%2022.2,for%2067%25%20of%20all%20employed>)

⁷ Report on "Sector C - Manufacturing Industry" (pg. 8).

⁸ SME Policy Index: Western Balkans and Turkey 2022 (pg. 37).

Table 1 shows the categorisation of EU SMEs. Enterprises in our country are categorised almost the same way⁹, except that there is no criterion to categorise the enterprises by revenues, as it is the case in the EU countries, but rather by the number of employees.¹⁰

Table 1 Categorisation of SMEs according to the EU¹¹

Categorisation of enterprises	No. of employees	Annual turnover (million euros)	Balance sheet (million euros)
Medium-sized enterprises	<250	<=50	<=43
Small-sized enterprises	<50	<=10	<=10
Micro-sized enterprises	<10	<=2	<=2

There is an increasing trend in the number of businesses in the Western Balkans. Moreover, the Organisation for Economic Co-operation and Development's (OECD) report¹² highlights that the region's SMMEs productivity is having an increasing trend since 2017. Although SMMEs constitute 72% of the employment, there are indications that the number of employees has decreased by 1.3% since 2017¹³.

Chart 2 Number of SMEs for 1,000 residents in the Western Balkans and Turkey (2017 and 2020)¹⁴.

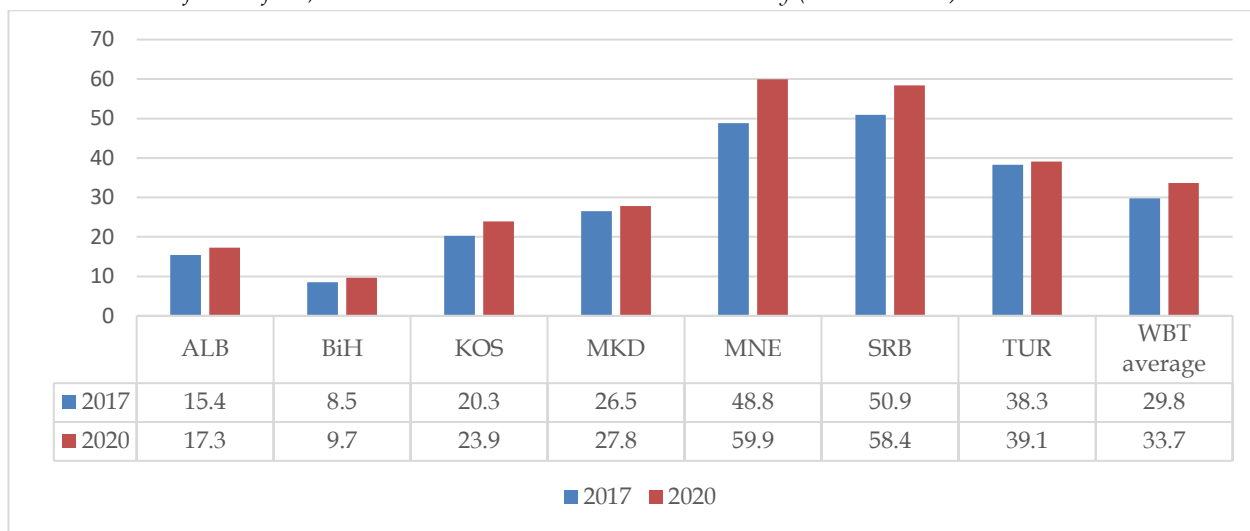


Chart 2 shows the increasing trend in the number of businesses in the Western Balkans by 13% and in Kosovo by 18% throughout the 2017-2020 period.

⁹ Law no.04/L-220 on Foreign Investments

¹⁰ SMEs in Europe - Statistics & Facts (https://www.statista.com/topics/8231/smes-in-europe/#topicHeader_wrapper).

¹¹ Internal Market, Industry, Entrepreneurship and SMEs (https://single-market-economy.ec.europa.eu/smes/sme-definition_en).

¹² SME Policy Index: Western Balkans and Turkey (WBT) 2022

¹³ SME Policy Index: Western Balkans and Turkey 2022 (pg. 36).

¹⁴ SME Policy Index: Western Balkans and Turkey 2022 (pg. 36).

During 2020, SMMEs in Kosovo were 42,881 and constituted 99.84% of all the enterprises in the economy, marking an increase of 4,850 units since 2017. SMMEs have also increased the employment by around 27,000 persons in the same period, constituting a share of 75.5% of the total employment in the Kosovo's economy. The Number of micro-sized enterprises has declined around 1% from 2017 to 2020, which was partly absorbed by an increase of 0.63% in the small-sized enterprises¹⁵.

Chart 3 Fluctuation of employees in SMMEs.¹⁶

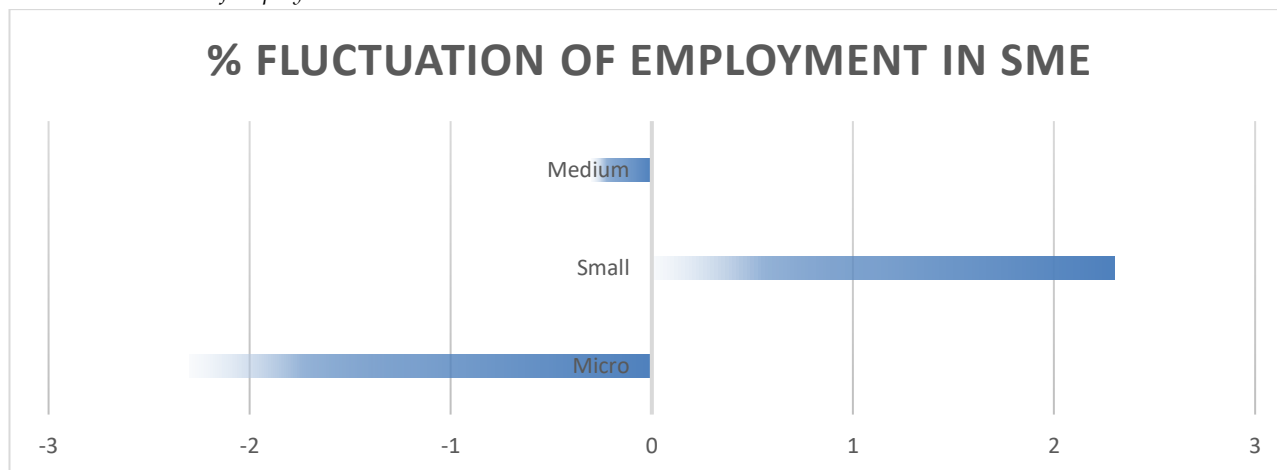


Chart 3 shows the high fluctuation percentage of SMMEs employees over the 2017-2020 period. For example, employment in the micro-sized enterprises decreased by 2.3%, in small-sized enterprises increased by 2.3%, and the medium-sized enterprises decreased by 0.3%.

¹⁵ SME Policy Index: Western Balkans and Turkey 2022 (pg. 1064).

¹⁶ SME Policy Index: Western Balkans and Turkey 2022 (pg. 557).

2 Audit Objective and Questions

The audit objective is to examine the activities of MIET/KIESA for achieving the appropriate results when it comes to supporting and increasing the capacities of SMMEs and Economic Zones. Through this audit, we will give recommendations aimed at improving the SMMEs competitive position in the future and enhancing the quality of services in the economic zones, providing for a quicker deployment of companies in those zones.

Audit questions

In order to be responsive to the audit objective, we posed the following questions:

1. Has MIET managed to plan the activities for support to and development of SMMEs?
2. Have the needs for establishing the EZs been analysed and what businesses have been given priority for being deployed to those zones?
3. Have MIET/KIESA managed to coordinate and provide for a fair beneficiary evaluation process?

This audit covered the 2019-2022 period of support to SMMEs with grants for purchasing machinery, whilst for comparative purposes regarding the establishment of EZs, the audit covered the year 2013 as well. The Ministry of Industry, Entrepreneurship and Trade (MIET) and the Kosovo Investments and Enterprise Support Agency (KIESA) were subject to this audit. The audit focused on the Department of Industry and the Ministry's commissions for grants evaluation in MIET and the Directorate for the Private Sector Development in KIESA.

The detailed audit methodology applied during this audit, the audit criteria and the audit scope are presented in Annex 1.

3 Audit findings

The Ministry of Industry, Entrepreneurship and Trade's mission is to provide for creating a favourable environment for the development of the private sector and businesses, advancing policies to support industry, entrepreneurship, trade and innovation, and creating favourable business conditions for attracting foreign investment and strategic investments¹⁷.

The Ministry of Trade and Industry (hereinafter MIET) had the Private Sector Development Strategy 2013-2017 in place since 2013, which focused on the efforts to increase employment, reduce poverty and to become a globally competitive sector¹⁸.

This Strategy was built on three pillars:

- Development, support to and promotion of investments and businesses;
- Improvement of the free movement of goods or regulation of the internal market; and
- Development of trade policies.

MIET/KIESA support the businesses through various forms, such as: establishment of the economic zones (EZ)¹⁹, providing SMMEs with machineries, organisation of various fairs etc.

Economic Zones

The purpose of establishing the economic zones²⁰ is to attract foreign investments, improve the conditions for doing business, improve the living standard for that region, and create jobs. The following chart shows the economic zones separated in some categories:

¹⁷ Regulation (OPM) no. 03/2022 on Internal Organization and Systematization of Jobs in the Ministry of Industry, Entrepreneurship and Trade

¹⁸ Private Sector Development Strategy 2013-2017

¹⁹ Economic zone is an area separated in line with the overall plan, equipped with the necessary infrastructure such as roads, utilities and public transportation.

²⁰ The applicant must give a reasoning on the establishment of the economic zone by means of a feasibility study which includes the economic, fiscal, environmental, legal and administrative reasoning according to which the economic, fiscal and social benefits from establishing the economic zone exceed the costs of its establishment and administration and the founder has the budget and administrative capacities necessary for the construction and administration of the economic zone

Table 2 Economic zones categories

Free Zone	Industrial Park	Technology Park
<ul style="list-style-type: none"> • <u>Not functioning</u> • Mitrovicë • Gjakovë • Prizren • Special American Zone 	<ul style="list-style-type: none"> • <u>Functioning</u> • Drenas • Suharekë (Shirokë) • Mitrovicë • <u>Not functioning</u> • Mitrovicë (Frashër) • Suharekë (Agro Zona) • Lipjan • Viti • Vushtrri • Rahovec 	<ul style="list-style-type: none"> • <u>Functioning</u> • Shtime

In March 2014, the Government established two free economic zones, Mitrovica and Gjakova, based on the draft National Plan 2014-2018 on the Development of Economic Zones.

The free economic zones are designed to offer exemptions from custom duties and various import clearances. Such exemptions provide for a more attractive environment for investments, advanced technology, export promotion and increased number of employees²¹.

Industrial Park is a separate territory in compliance with a general plan, equipped with necessary infrastructure such as roads, transport and public services, with or without industrial buildings, previously built, designated for industrial development²²

Technological Park is a separate territory under a certain plan, designed to accommodate the enterprises with high technological level, which usually has close relations with the University or can be located near the University complex²³

The purpose of establishing these zones was to attract foreign and domestic investments and to offer the conditions for doing business. Based on the Government decision, the free economic zone in Prizren was established in the same month. In 2018, the Government of Kosovo established the special American zone.

The free zones in Mitrovica, Gjakova, and Prizren and the special American zone are still not functioning although the Government has taken the decision to establish them.

²¹ Draft National Plan on the Development of Economic Zones in Kosovo 2014-2018

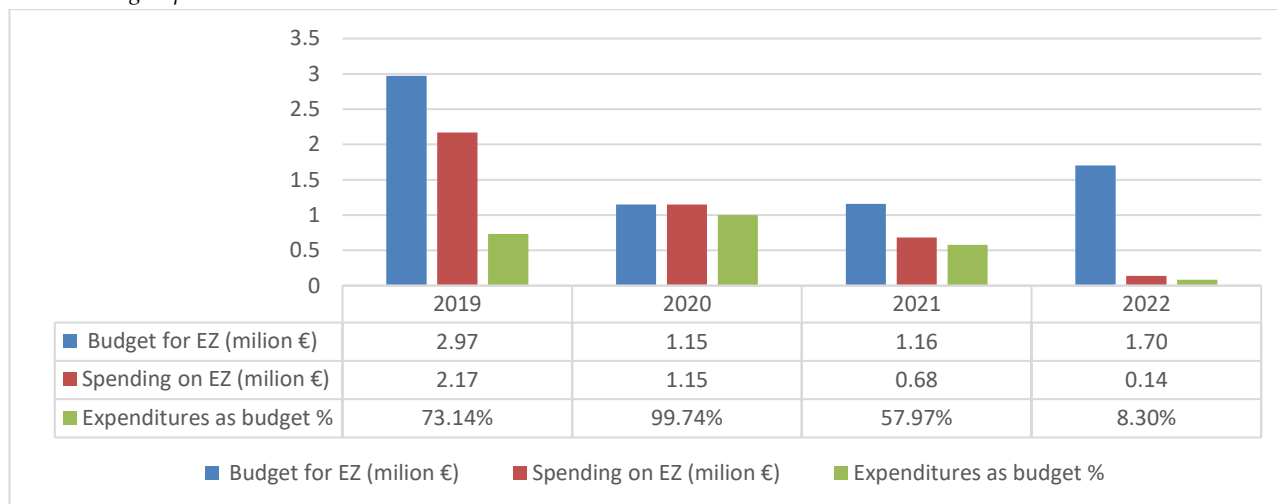
²² Law on Economic Zones

²³ Ibidem

MIET/KIESA establishes the EZs which it is obliged to provide with the conditions for conducting the business activities such as: water, electricity, roads, sewage treatment, etc. MIET/KIESA has licensed ten industrial and technology parks and managed to put only four of them to operation.

The following table shows the budget appropriated by the Government of Kosovo for the construction of economic zones (industrial and technological parks) from 2019-2022.

Chart 4 Budget spent in economic zones



Findings identified during the audit as a result of the examination and analysis of the documentation, testing and interviews with the responsible officers are presented further in the report. These have served us in making the conclusions, presented in Chapter 4 and improving the processes, presented in Chapter 5.

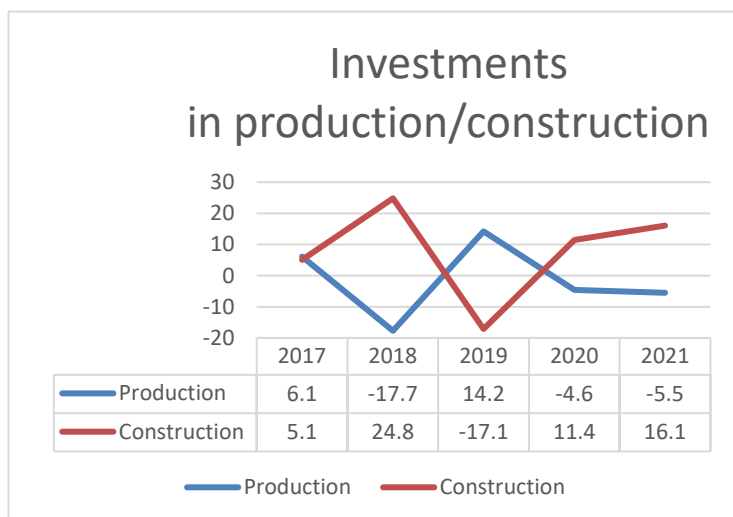
3.1 Lack of SMMEs Development Strategy

In order to achieve a development, MIET should have a national strategy for the business environment and industrial development²⁴. The purpose of the strategy is to support the development of private sector in Kosovo and to become regionally and globally competitive²⁵. In addition, MIET should develop sectoral analyses on SMMEs which would help planning the support to and development of activities for the establishment of SMEs.

In 2017, MIET did not have a strategy or any program that would orientate the country's industry and development in place. One year after the end of this strategy, in 2018, MIET had started to draft the 2018-2022 Strategy for the Private Sector Development. This strategy aimed to support the entrepreneurship environment and industrial development and to improve the support and advisory schemes for SMMEs.

²⁴ SME Policy Index: Western Balkans and Turkey 2022.

²⁵ National Development Strategy 2016-2021.



MIET prepares a regular annual report “Manufacturing Industry Sector C-2021”. We analysed the data presented therein to make a comparison of the foreign direct investments in the production industry and construction industry, by economic sectors, over the 2017-2021 period. The results show that investments in the construction industry have steadily increased since 2017, except for 2019, whilst investments in the production industry have declined.

Chart 5 Foreign Direct Investments in production/construction (million euro).²⁶

The lack of development policies on support to manufacturing enterprises has led to a declining trend of investments in our country, as shown in Chart 4. This chart shows the foreign direct investments in millions of euros and, except for 2019 which had a positive trend, in 2020 and 2021 production investments have declined whilst construction investments have increased.

In lack of a current strategy and development policies for SMMEs, MIET (namely the Industry Department) has conducted various activities and studies. This department has started working on developing a clusters guideline (a network of businesses that cooperate in order to be more competitive in the market and increase exports) and prepared studies²⁷ on industry sectors such as the annual report on Sector C- Manufacturing Industry (wood, textile, etc.).²⁸

MIET has not developed any particular strategy for SMMEs either on their orientation towards transformation and increased quality or export of their products to the EU markets.

MIET’s efforts to develop the private sector development strategy have failed and the strategy²⁹ was not approved. The lack of an adequate strategy on such a key area, as the development of the private sector and the SMMEs is, undermines the support to businesses and promotion of investments and leads to poor planning of the Ministry’s activities and poor management of public resources. In lack of the strategy, KIESA have conducted their activities based on their annual plans.

When it comes to the support, MIET is still operating with no strategy in place. As a result, further support to SMMEs might not go to the right direction in the future because of the lack of analyses on the real situation and of a vision on the areas of strategic priority for the development of SMMEs.

²⁶ Sector C- Manufacturing Industry. 2021 (pg. 10)

²⁷ Sector C- Manufacturing Industry.

²⁸ Meeting with the Director of Industry Department, 23.11.2022.

²⁹ Meeting with the Director of Industry Department

3.2 Economic Zones

3.2.1 National Council for Economic Zones dysfunctional

The Government of Kosovo appoints the National Council for Economic Zones upon proposal of the Minister of Trade and Industry.

The tasks of this council are to propose policies and draft the national plan on the development of economic zones in MIET, to advise investors on making investment decisions and their placement in economic zones³⁰.

In April 2013, the Government of Kosovo appointed the National Council for Economic Zones³¹. In October 2013, the Council prepared the “Draft national plan on the development of economic zones in Kosovo for the 2014-2018 period”, but it was never adopted. This draft plan envisaged the development of two free zones, Gjakova and Mitrovica. The draft national plan included a short narrative for the establishment of these two EZs and was lacking a detailed analysis that would justify the establishment of these two free economic zones.

In order to bring this draft plan to life, a detailed strategic plan was foreseen to be developed by March 2014. We enquired about this plan, but we learned that this document had not been developed and the council had neither held meetings nor conducted any activities as provided for in the job description of this council.

Moreover, following the first council established in 2013, we have not found another one having been established, nor have we found any document developed by this council except for the Draft National Plan 2014-2018 for the Development of Economic Zones in Kosovo.

Lack of the activities foreseen to be performed by this Council has led to the failure to develop the national plan and detailed plan on the development of EZ, thus leaving the mentioned EZs established on paper only. In addition, the lack of this Council has led to the establishment of ten EZs just based on the feasibility study rather than the national plan on the development of EZs, as provided for in the law. This Council’s failure to operate has also led to other duties not being discharged such as: advising the investors on making investment decisions, placing them in the EZs, promotion, support and development of EZs etc.

3.2.2 Free Economic Zones established upon Government decision, with no feasibility study

The Government establishes free zones, by decision, based on the Ministry’s proposal and in consultation with Kosovo Customs and the Municipality in whose territory the free zone is expected to be established. Free zones that include or are located within the territory of a city or settlement may not be fenced off if the Government, after consultation with Kosovo Customs, assesses that such a thing does not hinder the administration of the free zone and prevent the Customs Code and Excise of the Republic of Kosovo from being applied.

³⁰ For the tasks of the council for economic zones.

³¹ Chaired by MIET and consisting of members from the Ministry of Finance, Ministry of Economic Development, Ministry of Agriculture, Forestry and Rural Development, Ministry of Local Government Administration, Association of Kosovo Municipalities, American Chamber of Commerce, Kosovo Business Alliance, and Kosovo Chamber of Commerce.

In March 2014, the Government established two free economic zones, Mitrovica and Gjakova, based on the draft national plan 2014-2018 on the development of economic zones.

The purpose of establishing these areas was to attract foreign and domestic investments and providing the conditions for doing business. The free economic zone of Prizren was established on the same month by Government decision.

In 2018, the American Economic Zone (in Gjakova) was established by Government decision and in accordance with the proposal of the working group, on a surface area of 486.6 hectare.

According to the decisions, the two free zones established according to the draft national plan (in Gjakova and Mitrovica) and the free economic zone of Prizren were planned to include the whole cadastral area of these municipalities.

The free economic zones are designed to offer exemptions from custom duties and various import clearances. Such exemptions provide for a more attractive environment for investments, advanced technology, export promotion and increased number of employees.³²

The Government has not managed to put the free zones of Mitrovica, Gjakova, Prizren and the special American zone to function regardless of having taken the decision to establish them. This was as a due to the Government's failure to precede such a process with a needs analysis and feasibility study conducted to give an assessment and a reasoning as to whether the establishment of such zones is worthy or not. No activity has yet been undertaken to put these zones to operation. During the audit, we learned from the EZs Development Sector, which evaluates the applications for the establishment of ZEs, that for the establishment of the free zones of Mitrovica, Gjakova, Prizren, and the American one no analyses on the reasoning to establish them have been conducted and the procedures set forth in the applicable law and the UA have not been adhered to³³.

We learned from the EZs Development Sector's that declaring the entire territory of a municipality as a free economic zone has been a wrong practice over the years, as establishing such as zone would mean the exemption of the municipality from custom duties and various import inspections. In addition, we ascertained that putting free zones to operation is impossible due to the lack of a plan on the reasoning to establish them. Moreover, the national council, which was tasked to plan their operationalisation, was not active and had not managed to develop any plan for putting these free economic zones to function.

The free economic zones have not been put to function and only remained on paper as a result of the lack of analyses and proper implementation. This has led to lack of the opportunity for supporting the small and medium-sized enterprises in these areas.

3.2.3 Lack of investments in the economic zones

Economic zones are established for the purpose of encouraging private investments in production activities; helping in overall economic development in Kosovo, private sector in particular; opening new job opportunities and creating incomes. The Ministry shall give its consent for the establishment of the economic zone if the proposal for the establishment of economic zone is in accordance with the national plan for economic zones and if the feasibility study has been developed.³⁴

With the Law on the Economic Zones, dated 2009, and with the other one amended in 2013, the Assembly of Kosovo has foreseen the establishment of EZs for the purpose of promoting and encouraging investments in Kosovo by providing the investors with suitable infrastructure for doing business.

As of 2005 until the time we conducted our audit, December 2022, there have been established 10 EZs of which only four are operating.

Table 3 Established economic zones

No.	Name	Date of announcement as economic zone	Construction started in	Planned date of completion	Construction status
1.	Business Park Drenas	16.08.2010	2005	2007	2013
2.	Business Park Mitrovica	17.10.2012	-	-	-
3.	Technological Park Shtima	03.12.2013	2014	2017	2017
4.	Industrial Park Mitrovica	15.05.2014	2014	-	Unfinished
5.	Agro-Industrial Zone Suhareka	04.09.2015	2015	2020	Unfinished
6.	Industrial Park Suhareka	03.03.2017	2017	-	2021
7.	Industrial Park Lipjan	18.05.2016	2016	2019	Ongoing
8.	Industrial Park Viti	21.02.2017	2017	-	Ongoing
9.	Industrial Park Vushtrri	25.04.2018	2018	2020	2021
10.	Industrial Park Rahovec	27.01.2020	2022	-	Ongoing

Table 3 shows that the planned completion date of the construction of economic zones have been deviated, it is not what happened in reality. Moreover, although the industrial park in Vushtrri was finished, businesses in this zone were not installed there due to slowed-down procedures.

To establish these zones, the Law on EZs and the criteria set forth in the AI³⁵ of MIET³⁶, such as the reasoning plan, application of the respective municipality, consents from the respective institutions, etc. MIET gives its consent for the establishment of the EZ if the proposal for establishing it is in

³⁴ Law on Economic Zones (Article 4).

³⁵ AI nr. 01/2014

³⁶ Law no. 04/L-159 on Economic Zones

compliance with the national plan on economic zones and if the feasibility study justifies the establishment of the economic zone.

These ten economic zones were established based on the developed feasibility plans only, whilst in the absence of a national plan by the national council, these ZEs were established based on the draft plan only which was not approved. Moreover, this draft plan does neither mention the places where these zones are expected to be built nor contain any study on their establishment.

To date, the infrastructure has been completed in five economic zones: Drenas, Mitrovica city, Shtima, Shiroka (Suhareka), and Lumadh (Vushtrri). Three other economic zones are at the investment stage: in Viti, Lipjan and Rahovec. The agro-zone in Suhareka and the EZ in Frashër (Mitrovica) are left for the future.

We have selected a sample of five EZs, two of which are operating, as the following:

- Technologic Park- Shtime;
- Business Park - Drenas.

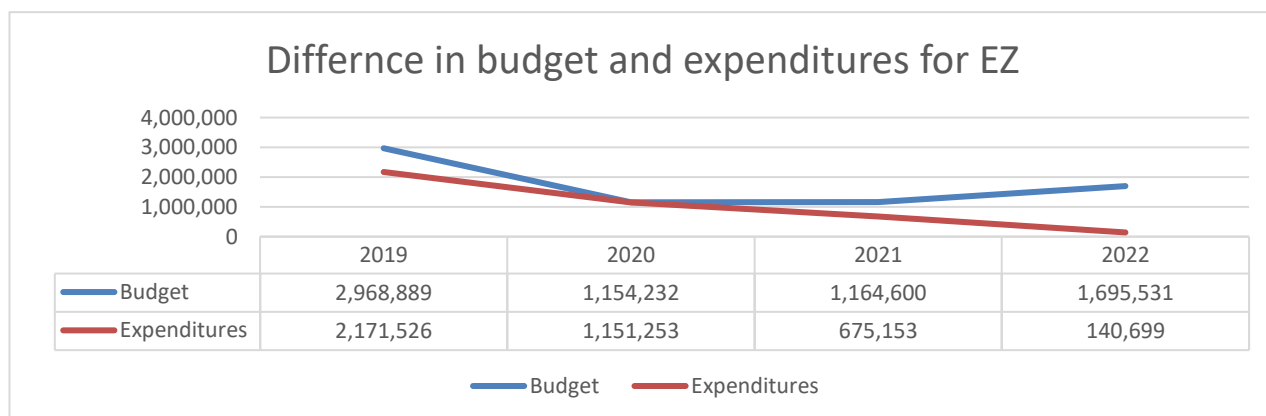
Whilst in three others, businesses could not be installed there,

- Industrial Park- Lipjan;
- Industrial Park- Vushtrri
- Agro-Industrial Zone - Suharekë

In analysing these samples, we found that construction in all the zones has taken significantly longer time than originally planned.

We analysed the budget spending on capital investments for all the ten EZs for the years 2019-2022 and compared it to the planned budget. We may conclude that the situation with the investments in ZEs in 2022 was not good enough, only €140,699 or 8.3% of the planned budget has been spent.

Chart 6 Budget spending in economic zones (€).



Based on Chart 6, in 2021 and 2022 there was a low rate of investments in EZs although the businesses' needs for economic zones was high.

In 2021, investments were planned in the business parks in Viti, Lumadh (Vushtrri), Qylag (Lipjan), and in Shiroka (Suhareka). With regard to the contracts with the municipalities, they were signed in December 2020 and the construction of the ZEs was intended to start at the beginning of the year.

Table 4 Problems with the construction of business parks

Business parks	Signed on	Reason for not continuing the works in EZs
Business park in Viti	29.12.2020	Ownership issues, atmospheric conditions etc.
Business park in Vushtrri	24.12.2020	Works finished on 14.12.2021, but technical acceptance could not be made due to the absence of the commission from MIET/KIESA.

Although the agreements for the execution of works were signed at the end of 2020, implementation of works had stagnated due to administrative issues in MIET, as presented in Table 5.

When it comes to investments in the **Business Park in Viti**, the contract was signed at the end of 2020 and could not be terminated in time due to ownership issues. In June 2022, the annex contract was signed with the municipality for the execution of works to continue, but the company had not started with the execution of works due to the increase in the prices of construction materials. Despite KIESA's efforts to complete the works in the business park on time, the economic operator responsible for carrying out the works has not managed to complete the works according to the agreement, although KIESA had issued a warning to the economic operator.

With regard to the **Business Park in Vushtrri**, MIET had received the request for technical acceptance after the completion of construction. However, MIET could not establish the technical acceptance commission in 2021, thus causing a delay of more than a year in the project. It is worth mentioning that the establishment and construction was completed as far as KIESA was concerned and it was up to the Municipality to put make them available to the businesses. Failure to put the constructed economic zones to operation hampers the businesses in need of such zones from making investments as a result of limited premises.

In view of investments for 2022, investments were planned to be made in the Business Park in Viti, the Business Park in Lumadh of Vushtrri and new proposals were made for the construction of EZs.

In early 2022, the EZs Sector sent requests to the Acting Director of KIESA asking him to terminate those projects that were not finished in 2021.

Investments in the EZ of Viti have not continued and the company has informed MIET/KIESA that they could not continue the works due to the increased prices in the global market.

Table 5-Initiative from the EZs Sector in KIESA and agreements signed with municipalities

Business Parks	KIESA's EZ Sector initiative	Signed between MIET/KIESA and municipalities
Business Park Viti	01.02.2022	29.06.2022
Business Park Vushtrri	01.02.2022	10.06.2022
Business Parks Lipjan	01.02.2022	06.09.2022
EZ Rahovec	01.02.2022	07.09.2022
Industrial Park Mitrovicë	01.02.2022	No agreement

The table above shows the planned investments in the above-mentioned economic zones. These initiatives were taken by EZs Sector (within KIESA) at the beginning of 2022, whilst the signing of contracts with municipalities was delayed. We were not given any explanation by MIET/KIESA in this regard. This has affected both the initiation of the construction activities and the budget spending for 2022, which was at a low level.

The construction process, from the initiation of works until the completion, has been protracted by Ministry. The protraction of the process was justified with budget constraints. However, we have analysed the budget spending for three years and found that, in 2021, the budget was spent at 57.97%, whilst in 2022 the budget was spent at just 8.30%.

Table 6 Budget spending in the economic zones

Year	Budget (million €)	Spending (million €)	% of budget spending
2019	2.97	2.17	73.14%
2020	1.15	1.15	99.7%
2021	1.16	0.68	57.97%
2022	1.7	0.14	8.30%

Table 6 shows that during 2021 and 2022 there is a low budget spending, namely 42% of the budget appropriated in 2021 and 92% of the budget appropriated in 2022 was not spent. The reasons for such a low spending are: MIET/KIESA's failure to hold the economic operation to accounts for the delays in the execution of works in Viti, increased prices in the global market, and delays in the process of establishing the technical acceptance commission for the implemented project in Vushtrri.

We were not provided with any reasoning on the delays within MIET/KIESA from the initiation of activities by EZs Sector until the signing of contracts by the leaders.

Failure to invest on and delayed completion of projects for the development of Economic Zones has a direct impact on businesses, which face limited growth opportunities and space for doing business. This is confirmed by the meetings that our team has held in economic areas in the country and the survey that we have conducted in these areas, highlighting that the lack of spaces for building a business activity is one of the main problems.

3.2.3 Lack of infrastructure in the Economic Zones

We analysed the businesses activities in the functioning EZs and have presented them and the number of employees in the following table.

Table 7 Business activities and the number of employees in the EZs

Economic Zone	Manufacturing businesses	Commercial businesses	Number of employees
Business Park - Drenas	38	3	600
Business Park - Mitrovica	14	6	290
Industrial Park Shirokë – Suhareka	41	7	1,200
Technological Park - Shtim	11	0	135

Table 7 shows that most of the activities in these areas are related to manufacturing, a small part of them conduct services and commercial activities, whilst the Industrial Park in Shiroka has the highest number of employees in these EZs.

Ever since businesses have become to be installed in the business park in Drenas until now, 88 contracts have been signed with different businesses for using the spaces. Meanwhile, 47 contracts have been terminated due to the benefiting businesses failure to honour the contract and other businesses have been selected to be installed there. The other EZs are under the management of the municipalities, which are tasked to monitor the businesses as to whether they carry out their activities according to the contract.

When establishing and building these EZs, MIET is obliged to provide for the basic conditions in those zones, such as: electricity, water, sewage treatment, etc. During the site visits to the Business Park in Drenas, the Industrial Park in Suhareka, and the Technology Park in Shtime, we met with representatives of some businesses that operate there. After these meetings, we have sent a questionnaire³⁷ to the representatives of all businesses in the following EZs with questions about the conditions in the ZE:

- Industrial Park- Drenas
- Industrial Park- Mitrovica
- Technological Park- Shtime
- Industrial Park- Shirokë, Suhareka

Table 8 Responses from the representatives of the businesses in the EZ

Economic Zone	Number of responses	Percentage of responses
Industrial Park - Drenas	16	80%
Industrial Park - Mitrovica	4	33%
Technological Park - Shtime	3	38%
Industrial Park- Shirokë, Suhareka	14	29%

Out of 108 questionnaires sent, 37 or 34% of business representatives responded. The questionnaire consisted of questions on meeting the needs of businesses for water

supply, electricity, sewerage, road infrastructure, rent instalments, and the impact of the economic

³⁷ The questionnaire is presented in Annex 1

crisis on their business. Questions about water, electricity, sewerage, and road were presented on a scale of 1-10 with the score 1 meaning great dissatisfaction and with 10 meaning totally satisfied.

The following chart shows the responses of 37 businesses to these four questions. Responses have been categorised as the following:

- 1-3: unsatisfied
- 4-6: neutral
- 7-10: satisfied

Chart 7. Results from the questionnaire regarding the services provided

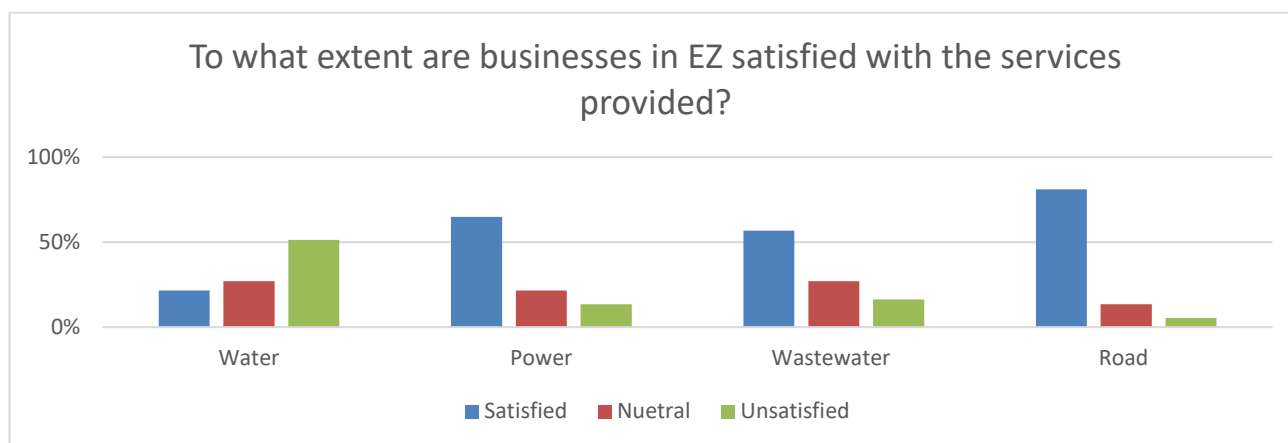
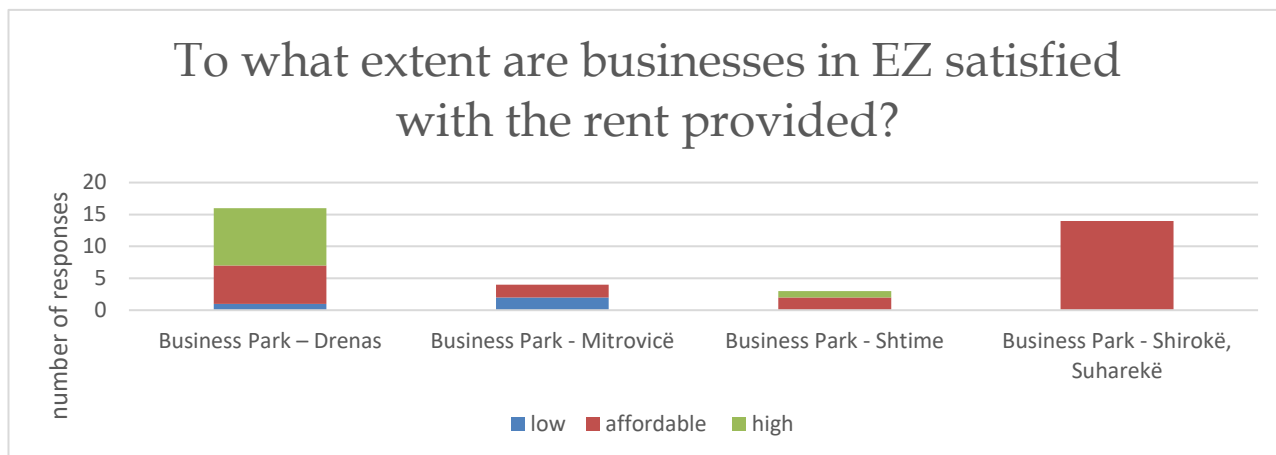


Chart 7 shows that businesses in EZs are not satisfied with the water supply. About half of the businesses responded to be dissatisfied with this service. Of the 29 responses expressing dissatisfaction with the water supply, 10 of them (over one third) are from businesses in the Business Park in Drenas. During our visit to this EZ, we found that many businesses lacked basic conditions such as water supply, as a result of which the businesses had opened wells with which to conduct their activities.

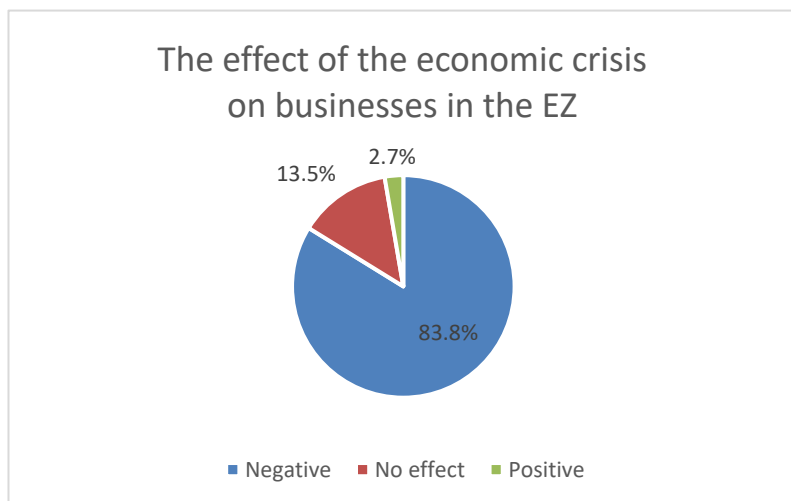
Two other questions covered the rent instalment paid by businesses in the EZ; one for the annual amount paid, and the other on the perception of business representatives as to whether that instalment was high, affordable, or low.

Chart 8 Perception on the rent instalment



Graph 8 shows that the businesses in the Business Park in Drenas think that the rent is too high. The rent for the plot in Drenas is over €15,000 per year compared to the Technological Park in Shirokë (Suhareka) where the rent is less than €600 per year and is perceived by businesses as affordable.

Chart 9 Impact of the economic crisis



Given that the scope covered the years of the pandemic and global crisis, we posed questions on the impact the economic crisis has had on the businesses in the EZs. Of the surveyed businesses, 3% responded that the crisis had a positive impact on their business; 14% responded there was no impact; and 84% responded that the crisis had a negative impact on their business operations.

Based on the responses received by the responding businesses located in these zones, the maintenance of and greenery in these zones is not at the appropriate level.

The need for more space has been confirmed by the businesses themselves, but we also verified from physical observations that some businesses needed to expand their activities because the space they are currently operating in is insufficient. Some of the businesses with the potential to increase their production capacity and exports thereof did not have the opportunity to expand their business premises due to poor management of the plots.

Moreover, during the site visit in the EZs, we saw free spaces covered with garbage which could be used by other businesses in need of more space. Some businesses with a strong potential of growing and are in need of more premises cannot expand their operations due to poor management of premises and because of the ministry/municipalities failure to free the premises from those businesses that do not adhere to the contracts, do not use the premises for the intended purposes,

and do not generate any generate economic activity. The bodies responsible for the management of these economic zones are not giving the possibility of expansion by not releasing the unused premises previously contracted by businesses.

3.3 Lack of analyses on the SMMEs needs

MIET should conduct sectoral analyses on SMMEs which would help in planning the support to SMMEs and conducting activities to develop them.

MIET/KIESA started supporting the SMMEs with equipment/machinery ever since 2018, in order to change the export/import balance. In analysing the public calls made by MIET/KIESA, we found that KIESA supports the three categories (micro, small, and medium-sized) with machinery regardless of their size or their specific needs.

From the analysis we also found that all categories of SMMEs are supported in the same way, such as investments in machinery. There is no categorisation of the enterprises' needs, e.g., medium-sized enterprises have different needs and issues than the micro and small-sized ones.

MIET/KIESA has not made any analysis on the SMMEs needs for support, and this is proven by the public calls made for supporting them as there are no special calls made for various needs of the enterprises. Instead, they are all supported in the same way. The lack of an analysis based on the enterprises' needs and requirements results in public calls for support to SMMEs using the same criteria for all the types of enterprises.

This has led to the majority of enterprises being supported with machinery to increase their production capacity. This is also confirmed by the acting head of KIESA, who emphasizes that KIESA only refers to the administrative instructions when publishing the calls. During the audit, we met with representatives of various enterprises and found that it is not only machines that they need, but also certifications with different standards, accreditations, training, etc.

The support to SMMEs without any previous analysis or strategy in place regarding their needs leads to the support provided to the enterprises in the same way and with the same equipment regardless of their size. In the long run, this might not be the right thing when it comes to increasing the country's production.

3.3.2 Delayed public calls

In order to achieve the objectives for the support to SMMEs, KIESA should organise the calls in such a way that enables the whole process to be finished at the yearend.

KIESA's sector for SMMEs-related projects planned for the calls to start in the first quarter and for the whole process to end in the last quarter, each year. In analysing the calls for the years 2019-2022, we found that even though these calls were initiated on time by the Directorate for the Private Sector Development, the process for starting this activity was delayed.

Table 9. Dates of announcements for support to SMMEs

Year	Public Call	Beneficiaries announced on	Monitoring on site
2019	27.05.2019	06.08.2019	26.03.2021
2020	24.06.2020	01.09.2020	13.05.2022
2020 ³⁸	12.09.2020	24.11.2020	13.05.2022
2021	26.08.2021	02.12.2021	21.10.2022 ³⁹
2022	08.09.2022	Not announced	-

We analysed the dates of the public calls and found that there is a trend of delays in making the calls for support to SMMEs. As seen in table 9, all the announcements on the beneficiaries were made in the second half of the year.

We asked for a response from KIESA on what was the reason behind such delays in making the calls. After analysing the internal correspondence, we concluded that the requests for publication were made by the Department for Public Sector Development on time, but the delays were caused by the attempts to amend the administrative instruction and the criteria for the calls.

In 2020, two calls were made. The first one was made according to the operational plan, whilst the second call on "Allocation of funds from the category of subsidies and transfers according to the public call for subsidising the SMEs owned by women entrepreneurs" was published in the end of 2020. The reason behind this was that this call had not planned by KIESA and it had been a request by the Assembly of Kosovo.

According to KIESA officers, delays in 2021 occurred because the first call had been cancelled. Then, it took time to change the criteria and the application method also changed from hard copy to electronic, through the eKosova platform⁴⁰. However, this reasoning was not very tenable because the calls were not any different in terms of the criteria from previous years with the same regulation.

In 2022, the Directorate for Private Sector Development, namely the SMMEs Sector, made the request on the preparation and publication of the call. The delay was caused by the initiative to amend the AI. Although MIET/KIESA made efforts to amend the AI, the Ministry of Finance did not approve the KIESA's request for it. As a result, KIESA has carried on working with the old AI. According to the operational plan, the calls were planned to commence in the first quarter, whilst MIET/KIESA delayed the public call, as presented in the table 10.

Delays in making the public calls for support to SMMEs causes delays to the whole process, to the implementation, monitoring etc. It has become a practice that contracts with beneficiaries are signed during winter, which hampers their implementation until spring. All these leads to delayed implementation of projects and delayed monitoring, as it was the case with the beneficiaries of year

³⁸ Call for women entrepreneurs

³⁹ Monitoring of calls for 2021 was made for the machineries only rather than for the other criteria foreseen by MIET such as employment etc.

⁴⁰ <https://ekosova.rks-gov.net>

2019 who were monitored after two years. This also affects the next year's budget, which in fact should be used for the public calls of the same year rather than for paying the previous year's beneficiaries. Taking into consideration the economic development of the country and the changing needs of businesses, such delays in the public calls for support and delayed publication of results make the businesses loose in the competition with the businesses of the region and beyond.

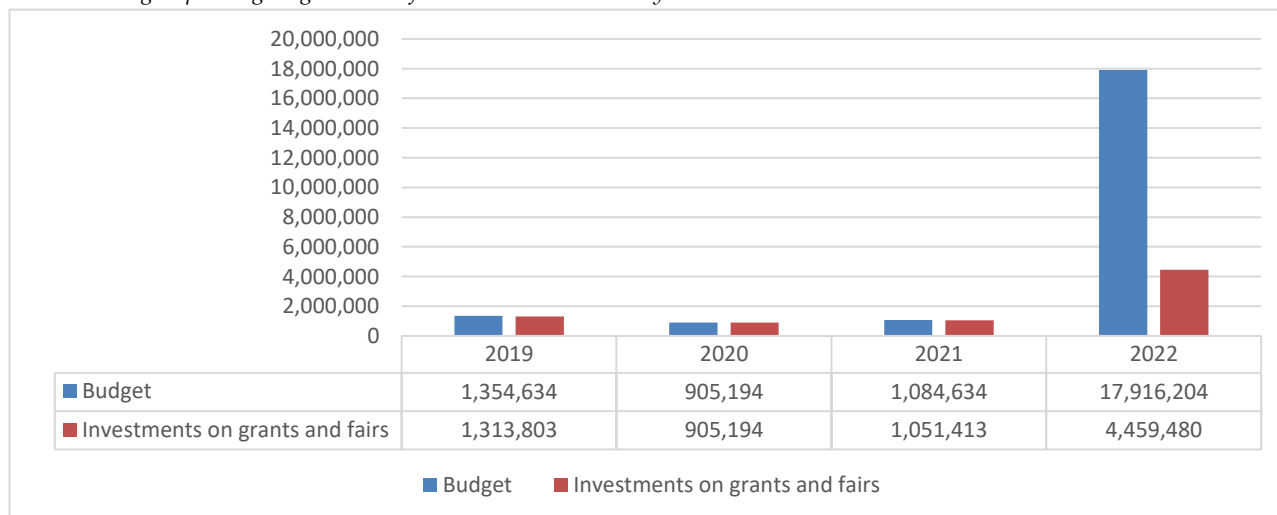
3.3.3 Budget not spent due to the delays in the calls

Every year, KIESA plans the activities to be developed for the support and development of SMMEs. In addition to the activities, KIESA plans the budget to be spent on these activities, which is approved by MIET.

In analysing the budget allocations for calls and fairs for SMMEs, we found that budget spending from 2019 to 2021 on the support to SMMEs was at a satisfactory level. Whilst, the budget spending for year 2022 was at a very low level, around 24%, and such spending was made on the beneficiaries of year 2021. When it comes to the calls of 2022, not even one euro was spent as a result of the failure to announce the beneficiaries in time.

Due to delayed announcements for 2022, the results on the beneficiaries had not been published despite the expectations that the monitoring process should have had been completed in the same year.

Chart 10 Budget spending on grants and fairs over the 2019-2022 years



The chart above shows the budget allocations for investments in grants and fairs and the budget spent for these activities. With regard to the years from 2019 to 2021, the budget spending for SMMEs has been almost as much as planned, except for the year 2022 when the budget spending was the lowest due to delayed calls and publication of results by MIET/KIESA.

The reason for the low budget spending in 2022 are the delayed public calls, such as the attempt to amend the AI⁴¹ and change the criteria for application which took time until the final approval of the announcements.

The low level of expenses in 2022 for the development of SMMEs and the delays in announcing public calls for the support of MSMEs prevent KIESA from discharging its role in the support to the enterprises. Therefore, it also reduces the local enterprises' possibility to be more competitive both within the country and in the region. Moreover, it limits the increase in export so that it could reduce the negative balance that export has against import.

3.3.4 Shortcomings in the process of the evaluation of applications for grants

When applying, the entity should meet some criteria to become eligible to benefit the subsidy from KIESA. Eligibility documents are: business certificate, fiscal number certificate, property tax certificate, etc⁴². Whilst the criteria for selecting the beneficiaries will be: increasing investments in the Republic of Kosovo, increasing the domestic production, increasing the export, promoting the tourism, developing the SMMEs, increasing the competitiveness capacities of SMMEs, and opening of new job positions⁴³.

During the audit, we analysed 11 samples for year 2019, 21 samples of two calls made in 2020, and 12 samples for year 2021. Samples have been selected randomly. When it comes to year 2022, we did not take samples because MIET/KIESA had not managed to publish the beneficiaries by the time we executed our audit.

To evaluate the public calls for the support to SMMEs, MIET establishes the commission consisting of five officers, three of which are regular members on a one-year mandate which the other two are appointed occasionally, depending from the area and type of the request.

In 2019, 28 enterprises have been funded as the following:⁴⁴

- 18 micro-sized enterprises
- 8 small-sized enterprises
- 2 medium-sized enterprises

While analysing the samples we found only one shortcoming in the evaluation process. From the tested samples, we found that one of the two beneficiaries from the medium-sized enterprises does not categorise as a medium-sized one, based on the number of employees. The said enterprise had declared a number of 1,009 employees⁴⁵ in its application. This number exceeds the limit of 249 of employees to be classified as a medium-sized enterprise by 300%. This enterprise has benefited €50,000 for purchasing the machinery for one of its units had declared to cover the other part of €100,000 with its resources.

⁴¹ Administrative Instruction No.01/2018 on allocation of funds from the economic category of subsidies and transfers

⁴² Administrative Instruction No. 01/2018 on allocation of funds from the economic category of subsidies and transfers (Article 5).

⁴³ Administrative Instruction No. 01/2018 on allocation of funds from the economic category of subsidies and transfers (Article 6).

⁴⁴ The final list of beneficiaries for subsidies "Allocation of funds from the economic category of Subsidies and Transfers according to the public call for subsidies with financial resources for SMEs" (2019).

⁴⁵ Application for participating in the subsidies with financial funds to SMMEs.

In this regard, the evaluation commission highlighted that the evaluation has been made in accordance with the AI⁴⁶ where the categorisation of the enterprise was not a disqualifying criterion. The evaluation commission decided to use the AI as a basis for their assessment based on the Secretary General's decision for the establishment of this commission, stating that the evaluation commission shall be responsible for reviewing the documentation and shall prepare the final report in line with the AI⁴⁷.

Using the UA as a basis for selecting the beneficiaries does not justify the failure to be based on the public announcement since the AI states that in addition to the criteria provided in the AI, the MIET can also present additional criteria in the announcement which must be met⁴⁸. In 2019 the public announcement was for SMMEs specifically, although it did not mention the number of over 249 employees as a disqualifying criterion⁴⁹.

Allocation of grants to big enterprises instead of SMMEs which the budget was appropriated for leads to the failure to achieve the planned results and undermines the possibility of those having met the criteria and have small financial capacities to benefit such grants.

3.4 Businesses situation after benefiting the grants

3.4.1 Inadequate Monitoring of beneficiaries by MIET/KIESA

Following the project implementation, the beneficiary of subsidies and transfers is obliged to submit a narrative financial report to the Ministry together with the invoices on the expenditures incurred during the project implementation. After having received the documents from the beneficiary, the project monitoring officer or commission checks the documentation to verify whether the project has been implemented according to the agreement⁵⁰. In order to assess the effectiveness of the support by MIET/KIESA, there needs to be an ongoing monitoring which would provide information for future planning.

In 2018, MIET appointed the monitoring commission, which consisted of three officers. These officers had various technological, legal and business/economic backgrounds. The commission was composed this way so that each of the officers could evaluate the project implementation in legal, technological and business terms.

Following the announcement of beneficiaries, MIET/KIESA entered into an agreement with the benefiting enterprises which set forth the obligations each benefiting enterprise should fulfil during the program implementation for a two-year period following the signing of the agreement. Based

⁴⁶ Administrative Instruction No. 01/2018 on allocation of funds from the economic category of Subsidies and Transfers

⁴⁷ Decision on the establishment of the evaluation commission on allocation of fund from the category of Subsidies and Transfers for implementing the projects (24.06.2019).

⁴⁸ Administrative Instruction (MTI) Nr. 01/2018 on allocation of funds from the economic category of subsidies and transfers (Article 4.4).

⁴⁹ Email from the evaluation commission on why the grant was given to the big enterprise

⁵⁰ Administrative Instruction (MTI) No. 01/2018 on allocation of funds from the category of subsidies and transfers (article 15-16).

on the agreements signed by MIET/KIESA with the benefiting enterprises, the beneficiaries are obliged to honour, *inter alia*, the obligation for keeping the number of employees foreseen in the business plan and the contract. Obligations of the benefiting enterprises are the following⁵¹:

Section 1. Must hire the number of employees as declared in the application as of the set date;

Section 1.4 To prove by TAK report of having hired the number of employees as declared in the application as of the date set in the contract;

Section 1.6 Employment as declared and evaluation from the commission should be made as of the set date at the latest and a TAK report should be sent to MIET⁵².

While monitoring the beneficiaries from the public call for 2019, the monitoring commission ascertained the situation, which we have presented in table 10 below:

Table 10: Contract implementation by the beneficiaries

Year	Total of beneficiaries	Implemented the contract	Did not implement the contract
2019	28	8	20
2020	24	13	11

Only 8 out of 28 beneficiaries in 2019 had fulfilled all the obligations set forth in the contract, whilst the other 20 had not met the employment criterion according to the agreement. Whereas, in 2020, out of a total of 24 beneficiaries, 13 have fulfilled all obligations while another 11 have not met the employment criteria according to the agreement signed with KIESA.

When announced as beneficiaries, the benefiting enterprises sign the agreement with MINT/KIESA that they will implement the project as planned in application, and the funds for purchasing the machinery are then transferred.

Although the evaluation commission had stated that certain operators did not meet the criteria, MINT/KIESA did not take any measure to oblige the implement this criterion, due to the lack of a process for punishment.

The enterprises' failure to meet this criterion constitutes a problem because for each person that the enterprise had declared in the application to employ, it was scored 3 points each during the application (the maximum was 30 scores for 10 employees). This has led to announcing them as beneficiaries compared to other applicants, who had presented less employment compared to these companies which have benefited and have not met this criterion.

Having signed the agreement with the beneficiaries from 2018 to 2020, MIET/KIESA transferred the funds to the beneficiaries' accounts in order to enable them to purchase the machinery. This was changed in the 2021 call, because MIET/KIESA have decided that, after signing with the benefiting

⁵¹ Contract with the beneficiaries between MINT/KIESA and the beneficiary, article 5

⁵² Contract with the beneficiaries

enterprises, only half of the benefited amount will be transferred, whilst the other half will be transferred once the enterprises testify to MIET/KIESA that they have purchased the machinery and put it to operation.

Beneficiaries of 2021 have been monitored in 2022 and only concerning the purchase of the machinery by the enterprises in order to transfer the funds to the beneficiaries given that the only criteria for the transfer of funds was the purchasing of the machinery according to the contract between MIET/KIESA and the beneficiaries⁵³. As for the evaluation of the employment criterion, the commission has planned another monitoring during 2023.

For the 2022 call, the announcement of beneficiaries and the entire call process, including field monitoring, were expected to be completed. Yet, until the end of 2022, the announcement of the beneficiaries has not yet been made.

In order to assess the situation as realistically as possible, and to present the most accurate results of the support provided by MIET/KIESA, we have requested from the Tax Administration of Kosovo (ATK) the number of employees and the incomes before and after having received the support for selected samples. In fact, KIESA should have these data, but during the audit it was highlighted that MIET/KIESA did not conduct any activity to collect such data. Had MIET/KIESA held regular meetings with the benefiting companies, it would have helped them to upgrade the calls in the coming years and make them based on the needs of SMEs.

The following show the data we asked from TAK⁵⁴ and analysed the employment process in these enterprises.

Table 11 Number of employees of the benefiting SMMES before and after having received the support (2019).

Enterprise	2018	Declared in the application	Planned employees	Total for year 2020	Total for year 2021	Total for year 2022
Micro	0	2	10	11	11	11
Micro	21	5	10	14	11	12
Micro	1	1	10	10	11	1
Small	17	17	10	0	0	0
Medium	117	103	5	188	230	229
Medium	1,481	1,009	10	1,306	576	564

Table 12 Number of employees of the benefiting SMMES before and after having received the support (2020).

Enterprise	2019	Declared in the application	Planned employees	Total for year 2021	Total for year 2022
Micro	5	6	9	13	14
Micro	1	3	5	5	5
Micro	6	6	9	9	11
Micro	6	3	5	-	-
Micro	0	1	4	5	6
Micro	0	1	4	6	7

⁵³ In summarised reports 09.12.2022 15.09.2022 , 01.07.2022 and 20.10.2022

⁵⁴ As of October 2022

Micro	3	7	15	12	11
Small	25	22	6	32	34
Small	6	11	6	-	-
Small	28	18	9	23	16
Medium	203	206	15	151	54
Medium	59	52	15	78	79

Table 13 Number of employees of the benefiting SMMES before and after having received the support (2021).

Enterprise	2020	Declared in the application 2021	Planned employees	Total for year 2022
Micro	3	2	4	4
Micro	4	4	3	6
Micro	4	2	4	4
Small	12	10	4	15
Small	15	14	5	-
Small	15	11	6	24
Medium	172	82	21	96
Medium	130	124	10	126

Source: Tax Administration of Kosovo, December 2022

From the samples selected for the benefiting companies of 2019-2021, we found that only 6 micro, 2 small and 2 medium-sized enterprises have honoured their employment agreements, whilst 6 micro, 3 small and 4 medium-sized ones have not honoured this criterion.

MIET/KIESA does not possess the data presented above regarding the condition of the benefiting enterprises and the failure to meet the criteria by which they were announced beneficiaries.

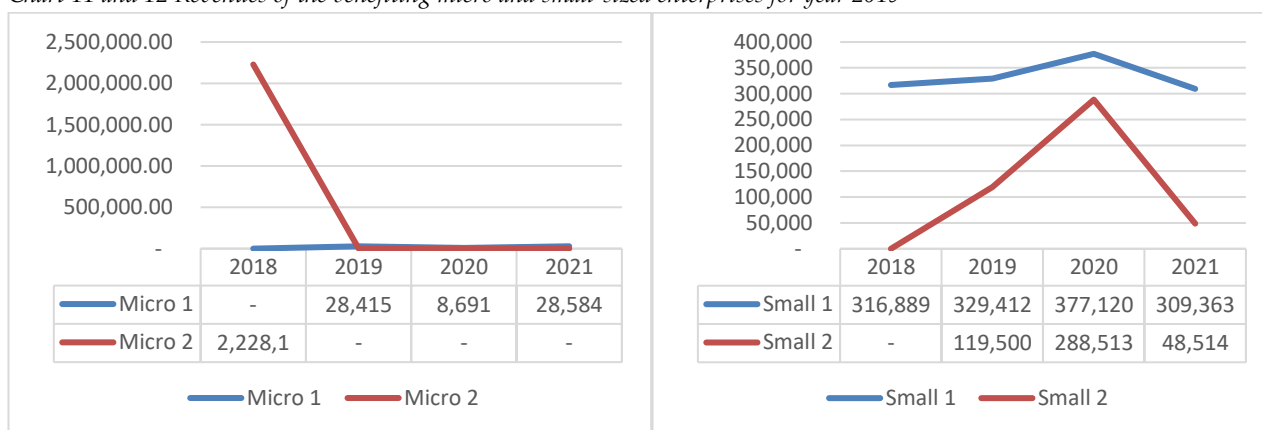
This data and the complete data for all the benefiting enterprises is essential for MIET/KIESA because it will allow the organization to assess how the beneficiaries are applying the criteria and the extent to which they are following the pre-defined criteria during the application process.

3.4.2 Support has not led to increase in revenues

MIET/KIESA supports enterprises which, in their draft proposal made in the application, prove that the allocated subsidy will lead to: increased investments in the Republic of Kosovo, increased domestic production, increased export, promotion of tourism, development of SMMEs, increased competitive capacities of SMMEs, and the opening of jobs.

We analysed the revenues of the enterprises before and after having received the support from MIET/KIESA and presented these data in the following two charts.

Chart 11 and 12 Revenues of the benefiting micro and small-sized enterprises for year 2019



The charts above give information on the revenues of two micro enterprises; one of these micro-sized enterprises had declared in 2018 revenues of over €2 million and in 2019 and onward it had not declared the profit to TAK, whilst the other micro-sized enterprise except for the year 2020 in which it had declared the lowest profit, the next year this enterprise had increased the profit.

Meanwhile the two small-sized benefiting enterprises have increased their profit only one year after the having received the support, whilst the following year they had a significant decrease. It is evident that all these companies did not do well after having received the support from MIET.

Chart 13 Revenues of the benefiting medium-sized enterprises for year 2019

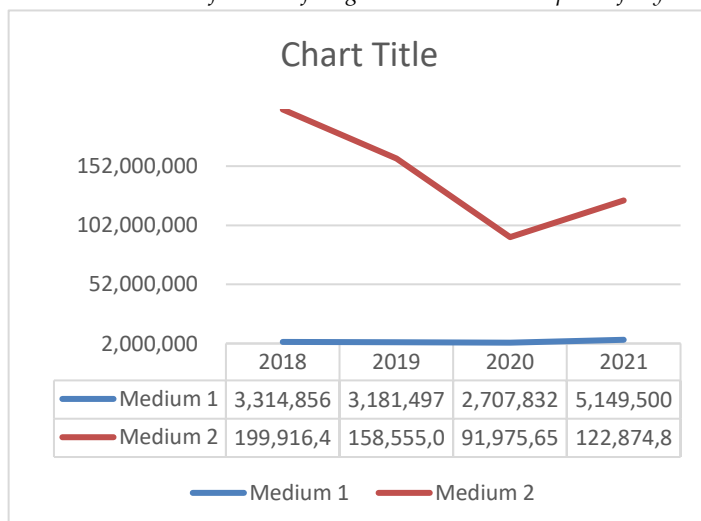


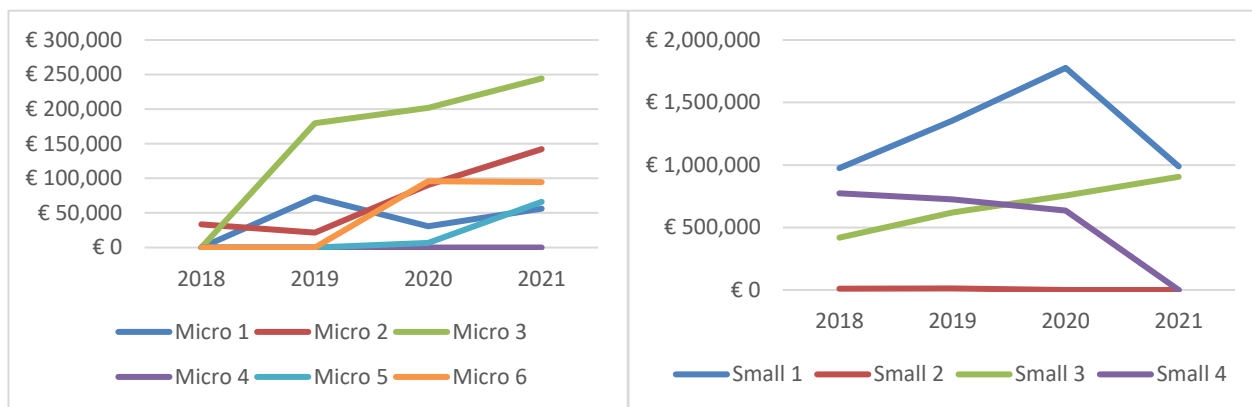
Chart 13 shows the revenues of two enterprises classified as medium-sized that have benefitted in 2019 (although one of them is a large-sized, refer to finding 3.4.1). According to the chart, both the enterprises have suffered a decline in profits during 2018-2020 and had an increase in 2021.

The two following charts show the outturn of the revenues of six micro-sized enterprises from 2018 to 2021. These companies have received support in 2020 from MIET/KIESA. The chart clearly

shows that all the enterprises have had a growth trend.

Two of the small-sized enterprises benefiting on the same year have declared from 2020 that did not make a profit (small enterprises 2 and 4), whilst only one enterprise had an increase in profit (small enterprise 3) and the other (small enterprise 1) suffered a decrease after benefiting.

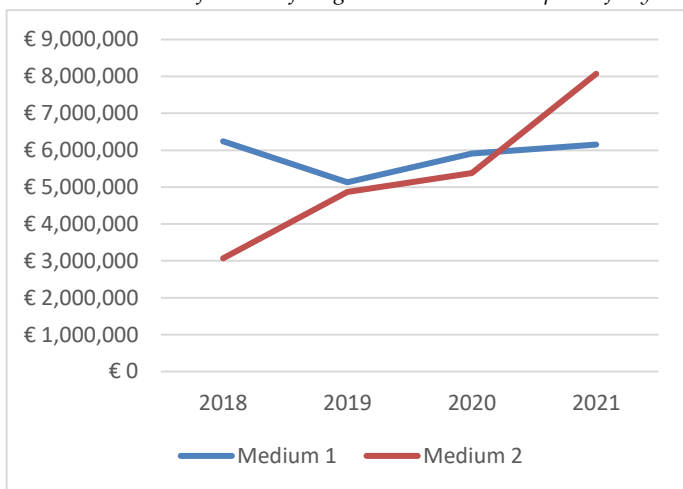
Chart 14 and 15 Revenues of the benefiting micro and small-sized enterprises for year 2020



In charts 14 and 15, we have presented the data on the revenues of six micro-sized companies and four small-sized enterprises in 2020. These data show that micro the micro-sized enterprises have declared higher revenues after having received the support, whilst the small-sized enterprises have not shown success after having received the support from MIET/KIESA.

Chart 16 presents the outturn of the revenues of six medium-sized enterprises from 2018 to 2021 that have received support from MIET/KIESA in 2020. An analysis of the data from MIET/KIESA 2020 beneficiaries, obtained from TAK, reveals that the enterprises had different incomes in different years.

Chart 16 Revenues of the benefiting medium-sized enterprises for year 2020



When it comes to the public calls for support from MIET/KIESA to assist the small and medium-sized enterprises, there is no information available on whether these calls have been effective or whether they should be adapted to the size of businesses. The audit team has visited some of the benefiting enterprises and the situation found is presented as the following.

3.4.3 Lack of continuous monitoring by MIET/KIESA

During the visit paid to five benefiting enterprises we found that all of them had put the machineries to function, except for one which was facing problems with the power supply.

From the visit to the beneficiaries and the meetings with the enterprises, we witnessed a division between small, micro and medium-sized enterprises. Micro and small-sized enterprises are growing and consolidating and the greatest need they had was for machinery, which would enable them to increase production and reduce the production time. Meanwhile, the goals and problems of the medium-sized enterprises, many of which have managed to cover the local market with products, have been about exporting products to EU countries. Some of the problems presented: are the need for accreditation from the Food and Veterinary Agency, which has failed to be accredited for some types of analysis; the problem with the CEFTA agreement, which according to businesses is very unfavourable for our country; and the need for more experts in order to perfect their products to be more competitive in the international market and to train staff.

MIET/KIESA has not developed mechanisms and procedures to continuously monitor the beneficiaries and to ensure that they are adhering to the contracts they have signed. MIET/KIESA had not taken any steps to make companies honour these criteria, such as the number of employees.

MIET/KIESA should analyse these criteria and prepare reports on the situation of SMMEs on filed in order to ensure that the future calls are based on the needs of the enterprises rather than just on the need for machinery.

As a result of the lack of continuous monitoring of SMMEs by MINT/KIESA, the latter does not have the necessary information as to what direction it should provide the support to SMMEs to, nor does it have any information on whether the calls should be split when supporting the micro, small and medium-sized enterprises.

Monitoring of the beneficiaries by MIET/KIESA only at the beginning poses the risk that the beneficiaries will not implement the contract which they committed to do by signing it. Moreover, the lack of continuous monitoring of the beneficiaries by MIET/KIESA has resulted in a lack of feedback information regarding the state of SMMEs and their needs. This means that information is not being forwarded to MIET/KIESA and future programs may not reflect the different needs of enterprises.

3.5 Lack of coordination between MIET/KIESA

The Ministry and KIESA should coordinate the activities for drafting of policies and the supporting programs for SMMEs. The Ministry should analyse and monitor the implementation of industrial development policies in Kosovo and the KIESA programs for support to SMMEs. Whilst KIESA supports the implementation of public policies and programs for the development of micro, small and medium-sized enterprises and develops policies for the establishment and development of economic zones.

The Ministry of Industry, Entrepreneurship and Trade consists of the department of industry which is in charge of managing, coordinating and monitoring the policy-making activities with implementing institutions, KIESA in particular, as well as other policy-making institutions.

From the meetings we held in the industry department at MIET, we were affirmed that the industry department should pay attention to coordination with KIESA. Which means that they do not have regular meetings to discuss about the existing policies, their review, business problems and challenges, as well as addressing them. This department has failed to monitor the implementation of its policies either. Some of the activities of this department are presented as the following:

In 2017, MIET established the "Forum for the Development of Industrial Policies", consisting of the industry-related line Ministries, the Chamber of Commerce of Kosovo, NGOs, sectoral associations of the manufacturing industry, ICT, the Faculty of Economics, KIESA and relevant departments within MIET.

In the seven regions of Kosovo, the department of industry holds focus group meetings once a year, attended by members of the Forum, the municipal economy directorates and the most developed manufacturing businesses in that region.

The purpose of these meetings is to receive inputs and the challenges faced by the private sector and the municipal level. These are then addressed and filtered to the Forum. A future cooperation between MIET and KIESA is foreseen in an economic reforms program (ERP) where joint measures are proposed.

MIET has coordinated and cooperated with KIESA on preparing the draft law on industrial parks and the draft law on strategic investments.

In 2019, MIET conducted an assessment for the beneficiaries of the project "KIESA's program for the development of SMMEs 2017" and conducted interviews by using a questionnaire to measure the effect of this program. After this, they did not conduct any monitoring of beneficiaries of other years.

MIET, namely the industry department, has not held meetings with KIESA to receive information on how the policies and calls organized every year and the other activities are being implemented. MIET has no information about the problems faced in the implementation of these policies or programs of KIESAs.

Due to the lack of coordination and monitoring by MINT of the activities of MSMEs, it is uncertain whether the calls made have delivered the desired result. The actions should be taken in the future to make other years' calls more successful are not clear either.

4. Conclusions

MIET/KIESA has not achieved the appropriate results when it comes to supporting and building the capacities of SMMEs and Economic Zones. The public calls are not based on SMMEs' needs analyses and the system for the calls, evaluation and monitoring is accompanied by significant deficiencies that need to be improved. Moreover, the established economic zones fail to meet the needs of enterprises, leaving investors waiting for years to expand the business spaces and increase the production and employment.

1. MIET/KIESA has not managed to produce a strategy for the development of SMMEs nor has conducted analyses on the situation these enterprises, which are considered as the backbone of the global economy, are in. Although MIET had a strategy for the private sector development covering the 2013-2017 period, it tried to produce a new strategy following this period, but it was not approved due to failure to tackle the key matters related to the economic development. As result, MIET/KIESA operates with no strategy in place and lacks information on the situation of the country's SMMEs are in.
2. The Government has not managed to put the free economic zones to function regardless of having taken the decision to establish them. This was due to lack of analyses and failure to draft the feasibility plan. The National Council for Economic Zones, responsible for drafting the national plan on EZs, had not produced any documents other than the draft national plan on the development of EZs in Kosovo for years 2014-2018. As a result, this concept plan, which was expected to be approved and adhered to, and the detailed plan have never been developed or approved. The council has not held regular meetings, nor was there any evidence of its functioning. Due to lack of this council, the tasks foreseen for this council were not performed such as: planning of economic zones and putting them to operation for investors, advising investors, etc.
3. Every year, MIET/KIESA prepares a public call for support to SMMEs for purchasing the machinery. Although these calls are scheduled to start at the beginning of the year and end at the yearend, the process is lengthy, causing calls to be published late and not completed by the yearend. These delays were due to the lack of internal organisation to change the legislation. As a result, KIESA is unable to spend the budget allocated for the support of SMMEs. MIET/KIESA does not carry out a specific analysis of the SMMEs' needs of when preparing its calls, and all calls are focused only on the support for machinery. The fact that different businesses may have different needs is taken into account.
4. The MIET/KIESA commission does not continuously monitor the beneficiaries who receive grants from MIET/KIESA. The commission has monitored the calls of 2019 and 2020, whilst the calls of 2021 have been monitored only concerning the machinery and monitoring in regard to employees has been planned to take place during 2023. Although the monitoring commission has found that the beneficiaries had not fulfilled the criteria foreseen in the contract, MIET/KIESA had not taken any steps to make the beneficiaries implement the contract and the terms they committed to implement by signing the contract. Likewise, MIET/KIESA does not monitor the beneficiary enterprises throughout the years in order to evaluate the effects of the support it provides each year.

5. MIET and KIESA operate as two separate institutions and there is no coordination between them for the calls. The industry department has conducted several analyses and holds meetings with businesses. These meetings are organised in the municipal directorates with regional producers where the needs of the businesses are discussed. Despite this, MIET and KIESA have not established any coordination with which they would be able to use these analyses, so that the calls they develop in the future are based on the needs of businesses.

Recommendations

In order to create a system that would help in the establishment of Micro, Small and Medium Enterprises and the Development of Economic Zones, the following recommendations should be implemented as a priority.

Recommendation to the Government:

1. The decisions to establishment the free economic zones taken in lack of any analyses and without a feasibility study that would justify their establishment should be abolished;

Recommendation to MIET:

2. MIET should conduct needs analyses for SMMEs and develop strategies on how to develop these enterprises, so that they could be more competitive at national and international level.
3. Calls for support to SMMEs should be conducted on strategies and analyses that show the real needs of SMMEs.
4. The economic zones should be established by following a thorough process, including long-term planning and budgeting. Construction procedures for these areas should start at the beginning of the year to prevent the loss of allocated funds and to meet the businesses' demand for space in such zones.
5. All calls for support to SMMEs should be conducted based on SMMEs' needs analyses and the strategies developed by MIET. MIET/KIESA should ensure that public calls take place at the beginning of the year.
6. MIET/KIESA should undertake actions to implement continuous monitoring of the beneficiary enterprises to assess their progress in meeting the criteria. They should hold the enterprises to account for failing to meet the criteria otherwise find a way to have them return the funds they have been supported with.
7. MIET and KIESA should coordinate their activities to ensure that the future policies comply with the needs of SMMEs. MIET should receive feedback information on the functioning of the implementation of the policies as well.
8. The Department of Industry should monitor its policies and assess whether they are being implemented and the problems faced during implementation.

Annex I Audit criteria, scope and methodology

Audit Motive

SMMES play a vital role when it comes to the economic performance, sustainability and the economic development of a country. SMMEs in the Western Balkans and Turkey account for almost three quarters of employment and generate around 60% of value added in the private sector⁵⁵.

In our economy, SMMEs constitute the overwhelming majority of the enterprises (99.8% in 2020) and employment (80.4% in 2020, significantly above the EU average of 65%⁵⁶). SMMEs in our country, like in any other country in the world, were hit hard by the COVID-19 crisis, which negatively affected their liquidity, and now the recent increases in inflation and energy costs – consequences of the invasion of Ukraine – risk limiting SMMEs' recover⁵⁷.

The SMMEs sector in Kosovo is underdeveloped and uncompetitive at both national and international level. This sector is dominated by retail and as such, it is unable to become the engine of economic growth by substituting imports and by engaging in activities with higher added value. Most of SMMEs in Kosovo, especially those in production sector, fail to meet the quality standards, due to investment costs required to meet them.⁵⁸

With regard to the development of SMMEs in our country, MIET and KIESA are the main actors dealing with their establishment and development. But, from the meetings we held in these entities, there were indications that the analyses regarding the state of SMMEs were lacking. The monitoring of the support with public funds to enterprises and a program that guides the development of SMMEs were also lacking.

Moreover, MIET/KIESA was lacking a database that would categorise SMMEs and enable MIET and KIESA do better planning for the development of SMMEs.

Low public expenditure on research and development (accounting for just 0.1% of GDP) as well as lack of coherent innovation infrastructure is detrimental to the development of SMMEs⁵⁹. When it comes to the support to SMMEs, the institutions in our country support SMMEs in different ways, starting with the Ministry of Agriculture, Forestry and Rural Development, which provides grants and subsidies to farmers and agriculture businesses, whilst MIET, through KIESA, supports the enterprises in various ways such as: investments, export, tourism, and special economic zones.

According to the progress report, the structural reorganisation of KIESA, aiming to support the private sector and attract investment, is considerably behind schedule. The lack of a coherent policy

⁵⁵ SME Policy Index: Western Balkans and Turkey 2022 (pg. 5).

⁵⁶ SME Policy Index: Western Balkans and Turkey 2022 (pg. 571).

⁵⁷ SME Policy Index: Western Balkans and Turkey 2022 (30).

⁵⁸ National Development Strategy 2016-2021 (pg. 33).

⁵⁹ National Development Strategy 2016-2021

for industry development throughout the supply chain undermines the competitiveness of SMMEs⁶⁰.

The total number of new businesses in 2020 was 9805, marking a decrease of 2% compared to 2019. The number of closed businesses in 2020 was 1,326, a decline of 25% compared to the same period of the previous year. The gap was especially large in the second quarter when Kosovo had a lockdown due to COVID-19⁶¹. The total number of new businesses in 2021 was 8.7% higher compared to 2020. The number of closed businesses in 2021 increased by 19% compared to the same period of the previous year.⁶²

From the research made, we found problems in planning, coordination and monitoring of SMMEs activities from MIET and KIESA.

Audit Criteria

Audit criteria derived from the Law no.04/1-159 on the economic zones; Law no.04/1-220 on foreign investments; Administrative Instruction no.01/2018 on allocation of funds from the economic category of subsidies and transfers; agreements with the beneficiaries; KIESA's annual plans; and the Rules of Procedure of the Council for the economic zones.

MIET should have a national strategy for the business environment and industrial development.⁶³ The purpose of the strategy is to support the development of private sector in Kosovo and to become regionally and globally competitive.⁶⁴ In addition, MIET should develop sectoral analyses on SMMEs which would help planning the support to and development of activities for the establishment of SMEs.

The Ministry, in consultation with the municipalities, Customs of Kosovo and stakeholders, prepares the national plan on the development of economic zones in Kosovo, including all the municipal and central economic zones to be constructed⁶⁵.

The National Council for Economic Zones, being a coordinating body, is tasked to draft the national plan on the development of economic zones. MIET⁶⁶ in cooperation with other relevant institutions, through the SMMEs Support Agency, are institutions responsible for the implementation of the National Plan for the Development of Economic Zones in Kosovo and will be supported by relevant ministries, relevant municipalities, business associations and donors.

⁶⁰ Kosovo Progress Report 2020

⁶¹ Progress Report 2021 (pg. 55).

⁶² Progress Report 2022 (pg. 65).

⁶³ SME Policy Index: Western Balkans and Turkey 2022.

⁶⁴ National Development Strategy 2016-2021.

⁶⁵ Law on Economic Zones (Article 8).

⁶⁶ National Development Strategy (fq. 3).

Economic zones are established for the purpose of encouraging private investments in production activities; helping in overall economic development in Kosovo, private sector in particular; opening new job opportunities and creating incomes⁶⁷.

When applying, the entity should meet some criteria to become eligible to benefit the subsidy from KIESA. Eligibility documents are: business certificate, fiscal number certificate, property tax certificate, etc.⁶⁸ Whilst the criteria for selecting the beneficiaries will be: increasing investments in the Republic of Kosovo, increasing the domestic production, increasing the export, promoting the tourism, developing the SMMEs, increasing the competitiveness capacities of SMMEs, and opening of new job positions⁶⁹.

The monitoring officer or commission are obliged to prepare a summary report on the project implementation. The beneficiary of subsidies and transfers is obliged to submit a narrative financial report to the Ministry together with the invoices on the expenditures incurred during the project implementation. After having received the documents from the beneficiary, the project monitoring officer or commission checks the documentation to verify whether the project has been implemented according to the agreement⁷⁰. In order to assess the effectiveness of the support by MIET/KIESA, there needs to be an ongoing monitoring which would provide information for future planning.

The Ministry and KIESA should coordinate the activities for drafting of policies and the supporting programs for SMMEs. The Ministry should analyse and monitor the implementation of industrial development policies in Kosovo and the KIESA programs for support to SMMEs. Whilst KIESA supports the implementation of public policies and programs for the development of micro, small and medium-sized enterprises and develops policies for the establishment and development of economic zones.

Audit Scope

The Ministry of Industry, Entrepreneurship and Trade (MIET), namely the Department of Industry and the evaluation commission for grants from the Ministry, and the Kosovo Investment and Enterprise Support Agency (KIESA), namely the Directorate for Private Sector Development, will be subject to this audit. The scope will focus on the years 2019 to 2022, whilst in order to make a comparison of the construction of economic zones, we have extended the audit from 2013.

⁶⁷ Law on Economic Zones (Article 4).

⁶⁸ Administrative Instruction no.01/2018 on allocation of funds from the economic category of subsidies and transfers (article 5).

⁶⁹ Administrative Instruction no.01/2018 on allocation of funds from the economic category of subsidies and transfers (article 6).

⁷⁰ Administrative Instruction no.01/2018 on allocation of funds from the economic category of subsidies and transfers (article 15-16).

Audit Methodology

In order to respond to the audit questions, the audit team will conduct some activities in the responsible institutions by using a variety of audit techniques:

- Analysing the legal framework and regulations of MIET;
- Analysing the legal framework and regulations of KIESA;
- Interviewing the persons in charge and the management of responsible institutions;
- MIET plans on establishing the economic zones;
- Annual plans of respective departments in KIESA and MIET;
- Public calls for support to SMMEs;
- Sectoral analyses developed by MIET for SMMEs;
- Reports on the situation of SMMEs in Kosovo;
- Lists of applicants for/beneficiaries of support MIET/KIESA;
- Site monitoring reports on benefiting SMMEs;
- Department analyses regarding SMMEs;
- Site visits to the benefiting enterprises to witness whether they still conducting the same activity they have benefited the grants for; and
- Relevant data from the benefiting enterprises, to be obtained from TAK, for verifying the situation of the enterprises in question.

Leter of confirmation



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Industrisë, Ndërmarrësisë dhe Tregtisë
Ministarstvo Industrije, Preduzetništva i Trgovine
Ministry of Industry, Entrepreneurship and Trade

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për raportin e auditimit të performancës "Mbështetja e ndërmarrjeve të vogla dhe të mesme nga MINT/KIESA", dhe për zbatimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Vendi dhe data: Prishtinë
19.04.2023

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit "Mbështetja e ndërmarrjeve të vogla dhe të mesme nga MINT/KIESA" (në tekstin e mëtejme "Raporti"), gjersa ri përsërisim kërkesën që auditimi i performancës të vazhdojë edhe për aktivitetet e drejtoratit për promovimin e sektorit privat, që funksionon brenda Agjencisë KIESA, që mes tjerash përfshijnë investimet strategjike, e po ashtu edhe mbështetjen e NVM-ve në aktivitete ndërkombëtare.
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Ministri



Enxhetë Jeydani

Beneficiaries of the machinery from KIESA

