



## Policy Brief

# The Innovation Support Ecosystem and the Draft Law on Innovation and Entrepreneurship

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## 1 INTRODUCTION

Investment in innovation is crucial for a nation like Kosovo to restructure its economy and enhance competitiveness, while simultaneously addressing structural imbalances such as the significant trade deficit. This investment is essential for establishing the conditions required to implement the Industrial and Business Development Strategy, ratified in 2023. The amalgamation of these initiatives with legislative enhancements and the allocation of financing for innovation cultivates a more conducive climate for research and development in Kosovo. Such advancements not only contribute to increased economic competitiveness but also support the development of a more sustainable and advanced economy. The institutional framework for research and innovation in Kosovo is still in its early stages of development, characterised by an ad hoc approach to research planning and a non-systematic management of research policies.<sup>1</sup>

In response to this situation, as part of its regular advocacy activities, the Riinvest Institute, through its Green Action Space platform, organised a panel discussion in late June of the previous year. This discussion explored in depth the challenges and opportunities within Kosovo's innovation support ecosystem. This document succinctly summarises key issues addressed during that discussion.

## 2 INNOVATION AND ENTREPRENEURSHIP IN KOSOVO

The current state of innovation and entrepreneurship in Kosovo faces significant challenges, including a legal framework that is neither fully developed nor operational. The new draft law on innovation and entrepreneurship, presented in December 2023, incorporates notable qualitative improvements, yet substantial scope for further refinement remains to ensure its effectiveness. The existing legal framework comprises the Law on Scientific Research and Innovation and the Law on Scientific Innovation. Additionally, the National Programme for Scientific Research (NPSR) 2023–2028 has been pending parliamentary approval for over a year and has yet to be implemented. One fundamental issue is the absence of agencies to operationalise policies and support procedures.

Two departments currently address these matters: the Department for Scientific Research and Innovation within the Ministry of Education, Science, Technology, and Innovation (MESTI) and the Ministry of Industry, Entrepreneurship, and Trade (MIET). However, these departments lack comprehensive policy, procedural, and institutional support structures to implement measures independently of their respective ministries.

Moreover, public investments in Research and Innovation (R&I) from the state budget and other public sources remain low. Current legislation mandates that 0.7% of the government's overall budget should be given to R&I, although actual budgetary allocations are far below this threshold. Indeed, projections in the NPSR, as outlined in the table below, indicate that this target will not be achieved, nor will the situation improve as required. For 2023, the allocation reached only 0.32% of the budget, with a gradual increase to 0.56% projected for 2025—still far from the intended goal.

General budget allocations for activities planned under the NPSR for the 2023–2028 period are expected to amount to approximately €87 million, averaging around €14.5 million annually. This is inconsistent with the Medium-Term Expenditure Framework and does not align with the strategic orientation of the NPSR. As a percentage of GDP, funding for R&I is also low, standing at 0.11% in 2023 and 0.16% in 2025—insufficient to support participation in the European Research Area or

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<sup>1</sup> Regional Cooperation Council (2022). Research Infrastructure Roadmap for Kosovo.

address Kosovo's socio-economic need. Overcoming this situation necessitates institutional and societal consensus on gradually increasing investments in R&I, aiming to reach the regional average within three to five years. This would establish conditions for the development of a sustainable innovation ecosystem.

Table 1: Budgetary Requirements for the NPSR as a Proportion of the State Budget and GDP

	2023	2024	2025
(A) Budgetary requirements for NPSR activities (€)	10,272,500	15,326,750	17,918,925
(B) Budget	3,212,000,000	3,113,000,000	3,203,000,000
(C) GDP	9,621,300,000	10,407,800,000	11,156,400,000
(A)/(B) Proportion of the budget	0.32%	0.49%	0.56%
(A)/(C) Proportion of GDP	0.11%	0.15%	0.16%

To stimulate innovation and entrepreneurship, the Law on Innovation has been submitted to the Ministry of Finance and is in the final stages of approval. This law aims to establish a supportive framework for innovation and entrepreneurship by providing funding and institutional support for new projects and ideas. However, institutionalisation and the establishment of agencies to strategically and visionarily build an ecosystem and implement policies and strategies remain lacking. Moreover, support for start-ups in Kosovo is currently fragmented and dispersed across various ministry departments, resulting in confusion and a lack of coordination among domestic institutions. Thus, the process primarily relies on innovative ideas and policies developed by external experts. An example illustrating this situation is the Innovation Fund, which has not clearly defined the role of the private sector and the Academy of Sciences in this process. Although the fund provides substantial support for science and innovation, the collaboration among key stakeholders remains unclear. Higher education institutions, including universities and vocational schools, play a critical role in strengthening this ecosystem.

To address these challenges, MIET has developed the Law on Innovation and Entrepreneurship to promote and encourage innovative activities impacting businesses. This draft has undergone preliminary consultation and is expected to be approved soon by the government and submitted to parliamentary procedures. Beneficiaries of public support under this law include 'entities and individuals engaged in innovative activities aimed at modernising the economy, developing and applying innovations in products, services, production, or processes.' The activities supported by this law include: research and development activities for technological innovation; preparation of technological equipment and production for innovative activities within enterprises; analysis and testing in accordance with relevant standards, certification, and patenting of innovative products; creation of new or improved products, services, and technologies during the initial phase of an innovative project; knowledge transfer for innovative products; development of infrastructure and mechanisms for innovation; protection, transfer, and acquisition of rights from innovations; promotion of results from innovative activities; and commercialisation of innovative solutions.

The Law on Innovation and Entrepreneurship encompasses two primary mechanisms: the Innovation Fund and the National Council for Innovation and Entrepreneurship. The Council, acting

as an advisory body appointed by the Government and chaired by the Minister, will coordinate policies and measures to advance innovation and enhance competitiveness. It will include representatives from line ministries, business associations, academia, and other sectors related to innovation. Its primary role will involve setting strategic priorities, allocating funds in alignment with government policies, and reviewing reports on grants and funding for the responsible ministry. Additionally, the Council will provide opinions and recommendations on the Fund's programmes before their approval by the Government and will assist in coordinating various policies and activities to promote innovation. However, some functions of the Council, particularly those related to the operational management of the Innovation Fund, may be better suited to specialised structures. Therefore, to ensure transparency and professionalism, the establishment of an independent board comprised of field experts is necessary. Such an approach not only strengthens the innovation ecosystem but also contributes to the broader development of the country's economy.

On the other hand, the Innovation Fund, envisioned to be established within MIET, will serve as a key mechanism for budget implementation and other forms of support, promoting and stimulating innovation among enterprises and individuals with new ideas. The Fund's financing will be sourced from diverse channels, including the Kosovo budget, international financial institutions, international innovation programmes, private investors, and soft loans. The Fund will support innovative projects through grant schemes and state-backed loans. The utilisation of financing sources, as stipulated in paragraph 3 of this Article, will be defined by specific guidelines and programmes. The organisational structure, responsibilities, and operational procedures of the Innovation Fund will be determined by a separate act. Publicly funded grants will support research and development of ideas, products, and innovative services; their promotion; assistance to institutions contributing to innovative activities, products, and services; protection of patents and intellectual property rights; certifications; and related activities. On the other hand, state-backed loans will facilitate the development of products, services, or innovative processes at advanced stages, prior to market entry, through piloting, demonstration, testing, and validation of the product, service, or innovative process, as well as commercialisation of the final product, service, or process.

The draft law identifies priority sectors, including: Information and Communication Technologies (ICT); environmental protection and renewable energy; medicine and pharmacy; tourism promotion and development; creative industries and culture; activities related to the manufacturing and processing of products and services across all industries; and other fields aiming to apply innovations within enterprises. These priorities appear to be sufficiently flexible to accommodate other sectors. Following successful practices from neighbouring countries, this law aims to encourage the participation of SMEs and other businesses in projects seeking funding from the Fund, integrating their financial resources as a driver for new investments. Such an approach not only strengthens private sector engagement in innovation development but also contributes to building a sustainable and integrated ecosystem for research and development in Kosovo. Through a coordinated and visionary approach, this law has the potential to become a powerful catalyst for economic growth and improved competitiveness at both the national and international levels.

### 3. RECOMMENDATIONS FOR STRENGTHENING THE INNOVATION AND ENTREPRENEURSHIP ECOSYSTEM IN KOSOVO

Based on the findings outlined above, the Riinvest Institute recommends the following:

- Greater coordination is required to promote innovation and entrepreneurship, addressing challenges such as the fragmentation of support for start-ups and the absence of dedicated implementation agencies. The role of the Academy of Sciences and the involvement of international expertise are crucial for ensuring high-quality mentorship and the successful development of innovative projects.
- Approval and Improvement of the Law on Innovation and Entrepreneurship: The law must proceed promptly through parliamentary procedures, following several key steps. Public hearings involving experts and business associations are essential. Establishing a governing board for the Innovation Fund, comprising 5–7 primarily independent experts, is a necessary step, along with creating a committee of experts with relevant international experience to evaluate applications. Furthermore, business organisations should be included in the funding of projects supported by the Innovation Fund, while excluding start-ups from this specific requirement.
- To ensure the swift commencement of the Innovation Fund's operations, it is recommended that MIET simultaneously develops the necessary regulations and legal acts alongside governmental and parliamentary procedures. This includes defining the Fund's concept, organising its managerial and structural framework, aligning its programme orientation, and drafting policies and procedures for project financing and evaluation. These measures will ensure the effective operationalisation of the Fund and provide sustainable support for innovation and entrepreneurship.