6 State-owned enterprises

State-owned enterprises are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

Key findings

Kosovo scores above the Western Balkans' regional average on the state-owned enterprise (SOE) policy dimension (Table 6.1), reflecting, among others, the stronger centralisation of SOE ownership and monitoring under a dedicated SOE unit and a clear SOE board nomination framework. Remaining issues include the fact that some SOEs[1] remain outside the scope of the state's good-practice ownership arrangements and that the state ownership policy has not been updated since 2008.

Table 6.1. Kosovo's scores for state-owned enterprises

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
State-owned enterprises	5.1: Efficiency and performance through improved governance			2.9	2.3
	5.2: Transparency and accountability			3.0	2.7
	5.3: Ensuring a level playing field			3.0	2.8
Kosovo's overall score		**3.3**	**3.1**	**3.0**	**2.5**

The **key findings** are:

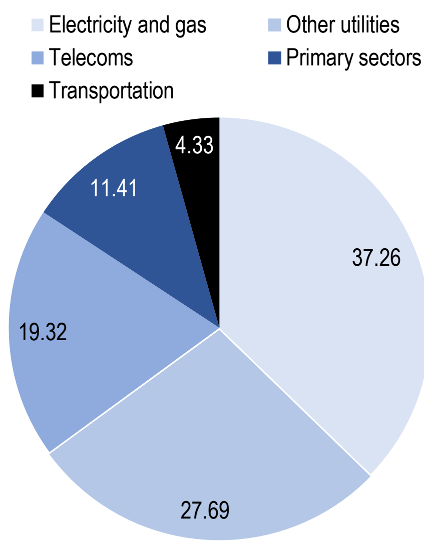
- Kosovo's main ownership portfolio of 17 SOEs is centralised under the Ministry of Economy whose ownership decisions are informed by the work of a dedicated SOE monitoring unit and underpinned by a 2008 state ownership policy. However, at least one exception to these good-practice ownership arrangements exists, notably the electricity transmission system operator KOSTT, which is owned directly by the parliament.
- Kosovo has established a unified board nomination framework for its central portfolio of 17 SOEs, including strong requirements on the independence and professional qualifications of SOE board members and the public announcement of board vacancies. Still, media reports point to a perception that SOE board appointments can be made on the basis of political connections rather than professional qualifications.
- Several elements of SOEs' ownership and governance arrangements constitute strong foundations for mitigating corruption risk, including Kosovo's SOE performance monitoring, the prohibition of politicians on boards, and a dedicated Code of Ethics and Corporate Governance in Public Enterprises. SOEs are still often perceived to be mismanaged, in the worst of cases involving nepotism and corruption, pointing to the need for stronger implementation and oversight of the state's anti-corruption expectations.
- SOEs are generally subject to high standards of financial reporting and the SOE monitoring unit produces annual aggregate reports on its 17-SOE portfolio, promoting transparency. Non-financial reporting requirements for SOEs are less ambitious, mostly limited to publishing annual reports on the implementation of agreed business plans.
- Concerning the level playing field with private companies, all of Kosovo's SOEs are incorporated as joint-stock or limited liability companies, in line with good practice. About half of Kosovo's SOEs were loss-making in 2022. Although in some cases these losses may reflect the cost of public-service obligations, they may also be due to structural inefficiencies that might result in distortions of the level playing field and an inefficient allocation of resources.

State of play and key developments

Kosovo's main SOE portfolio consists of 17 enterprises held and monitored by the Ministry of Economy. The state is also the owner of the electricity transmission system operator KOSTT, in which ownership rights are exercised directly by parliament.[2] Together, these 18 SOEs are highly concentrated in the electricity and gas sector,[3] representing 37% of all SOEs by employment. This is followed by the other utilities sector, including postal services, water supply and irrigation (28% of all SOEs by employment), telecoms (19%), the primary sectors (11%) and transportation (4%) (Figure 6.1). The diversity of sectors in which SOEs operate in Kosovo is much reduced compared to its neighbouring Western Balkan economies, where SOEs are also often present, for example, in real estate, finance, healthcare and social services and manufacturing.

Figure 6.1. Sectoral distribution of centrally-owned SOEs employment in Kosovo, by economic sector (2022)

In percentage of SOE employment



Note*:* The following sectors are not represented in the figure, owing to the absence of any SOEs operating in them: real estate, finance, healthcare and social services and manufacturing.
Source*:* OECD calculations based on information obtained as follows: from the authorities of Kosovo for all enterprises in the Ministry of Economy's main portfolio of 17 SOEs and from the company website for the electricity producer KOSTT.

These 18 SOEs employ 11 432 people, accounting for almost 3% of national employment at end-2022. Kosovo's largest SOE by employment is the national electricity producer KEK, employing 3 600 people. This is followed by the telecoms operator Telekomi I Kosoves (2 200 employees) and by Trepča Mines (1 300 employees), which operates approximately 40 mines in Northern Kosovo and is 20%-owned by employees. Table 6.2 provides an overview of the main activities, number of employees and 2022 financial returns of each SOE in the Ministry of Economy's portfolio, plus employment information for KOSTT, which is not subject to monitoring by the Ministry of Economy. The government of Kosovo is responsible for exercising ownership rights in 17 of these SOEs, supported by a Publicly-owned Enterprise (POE) Monitoring Unit within the Ministry of Economy, while the ownership rights in the electricity transmission operator KOSTT are exercised directly by the Parliament of Kosovo.

Table 6.2. Overview of Kosovo's main portfolio of SOEs (2022)

Name of SOE	Main activity	Number of employees	Return on equity (%)	Return on assets (%)
KEK	Electricity production	3 616	19	10
Trepça mines	Mining	1 304	0	0
Telekomi I Kosoves	Telecoms	2 209	-65	-17
Posta e Kosoves	Postal services	938	-3	-3
Trainkos	Transportation	227	-8	-5
Infrakos	Transportation	268	-1	0
KMDK	Waste	92	5	4
RWC Bifurkacioni	Water supply and sewage	201	1	1
RWC Prishtina	Water supply and sewage	556	-1	-1
RWC Hidromorava	Water supply and sewage	155	1	1
RWC Hidroregjioni jugor	Water supply and sewage	332	1	0
RWC Mitrovica	Water supply and sewage	260	-3	-2
RWC Hidrodrini	Water supply and sewage	230	2	1
RWC Gjakova	Water supply and sewage	293	0	0
RIC Drini I Bardhe	Irrigation	42	-8	-4
RIC dukagjini	Irrigation	66	0	0
NH Ibër Lepenci	Multifunction (hydroelectricity production and irrigation)	303	-3	-3
KOSTT	Electricity transmission system operator	340	N/A	N/A
Totals	**18 SOEs**	**11 432**	**-4**	**-1**

Note*:* The total returns on assets and on equity are simple averages of the individual enterprises' figures.
Source*:* All figures are as reported by the authorities of Kosovo in the context of this assessment, which the exception of the employment figure for KOSTT, based on the company website.

Concerning their performance, SOEs in Kosovo are regularly loss-making, with the overall SOE portfolio achieving negative average returns on both equity and assets in 2022 (Table 6.2). The highest performing SOE in 2022 was the electricity producer KEK, posting a 19% return on equity. The lowest performer was the national telecoms operator Telekomi I Kosoves, with a -65% return on equity. In many cases, SOE losses may indicate public service obligations that are insufficiently compensated by the state budget. This could apply, for example, to the state-owned railway or postal service companies. However, at least one external assessment has suggested that overstaffing is a particularly important issue in Kosovar SOEs, and that SOE management is often pressured to employ individuals with personal links to politicians (Gap Institute for Advanced Studies, 2015[1]). The lack of conclusive information regarding the sources of SOEs' underperformance highlights the need for an in-depth examination of SOEs' revenue and cost structure.

Sub-dimension 5.1: Efficiency and performance through improved governance

Concerning the **clarification of ownership policy and rationales**, Kosovo adopted a state ownership policy in 2008, in accordance with provisions of a dedicated Law on Public Enterprises that was also adopted in 2008. In line with good practice, the ownership policy clearly outlines the rationales for state ownership as well as the state's overarching objectives as a shareholder. It establishes that an overarching objective for state ownership is to maximise value for shareholders through sustained positive income and sufficient involvement of the private sector in SOE capital. The ownership policy additionally sets forth that state ownership should only be maintained in SOEs to protect the public interest and not as a result of historical factors. Although the ownership policy's content is sound, it has not been updated since its adoption in 2008 and the authorities have not made any apparent efforts to review its implementation or its effectiveness in improving SOE performance. At the time of writing, the authorities of Kosovo were planning legislative reforms that could eventually lead to a review and update of the state ownership policy. An amended Law on Public Enterprises is planned for 2024.

Efforts to **professionalise state ownership** practices are advanced in Kosovo compared to other Western Balkan economies. Kosovo has predominantly centralised ownership arrangements for its main portfolio of 17 SOEs, wherein all state ownership decisions are made by a simple majority vote of a permanent interministerial commission and are informed by the work of a Publicly-owned Enterprise (POE) Monitoring Unit housed within the Ministry of Economy. The fact that ownership decisions are not taken solely by line ministries has introduced a greater separation between the state's ownership and regulatory functions, in line with good practice. However, as mentioned above, the electricity transmission system operator KOSTT, which is owned by the parliament, falls outside the scope of these predominantly centralised ownership arrangements. Despite sound basic ownership arrangements for the large majority of SOEs, there remains scope to professionalise state shareholding practices further, for example through the development of clear performance targets for SOEs, given SOEs' previously mentioned performance issues.

Some elements are in place to contribute to a more **robust board nomination framework** for SOEs in Kosovo, but there is scope to make the process more transparent and to strengthen the selection criteria for SOE board members. The Law on Public Enterprises notably sets forth that the government of Kosovo makes the final decision on all SOE board appointments based on the recommendations of a seven-person recommendation committee established for each SOE. The Permanent Secretary of the Prime Minister's Office chooses the members of each recommendation committee, which must include senior civil servants or highly qualified external experts with sufficient industrial, financial or corporate-governance expertise, and cannot include more than one civil servant from the same institution. SOE board vacancies are publicly announced on the website of the Prime Minister's Office. Yet, applicable legislation does not clearly establish what steps should be taken by the recommendation committee to ensure that all SOE board members fulfil tailored qualifications criteria. This is an area where improvements would be warranted, to ensure that SOE boards comprise individuals with the right mix of competencies and experience to effectively fulfil their duties.

The authorities of Kosovo have introduced several measures to promote more **independent and professional boards** in SOEs. The Law on Public Enterprises notably requires that all SOE board members, with the exception of the CEO, be independent. The definition of independence set forth in the law is wide-ranging, barring any individuals from serving on SOE boards if they or a third-degree or closer relative have, during the previous three years, had any material business or financial relationship with the SOE in question or with a competing enterprise, or during the previous five years have been an employee of the SOE. An SOE board member cannot have been an elected public official, political appointee or holder of a decision-making position in a political party in the previous 36 months.[4] The Law also establishes that SOE board members must have at least five years of related professional experience and that SOE boards must include at least two members who are proficient in accounting. Despite these strong legal safeguards, media reports point to a perception that SOE board appointments are sometimes made on the basis of political connections. For example, in 2020, local media reported that several newly appointed SOE board members had links to political parties (Prishtina Insight, 2020[2]).

Concerning **privatisation practices**, the Law on Public Enterprises regulates the privatisation process for Kosovo's main portfolio of 17 centrally-owned SOEs. It notably requires the establishment of a Government Commission for Privatisation to proceed with selling SOE shares, once the government has adopted a written decision to privatise an SOE and that decision has been approved by a simple majority vote of the parliament. The foreseen Government Privatisation Commission must include the Minister of Economy (who chairs the committee), the Minister of Finance, the minister of the relevant sectoral ministry and two other ministers appointed by the government. Legislation establishes that privatisations must be undertaken according to "an open, transparent and competitive procedure". A Government Decision related to the establishment of such a Commission for the 2010 planned privatisation of the state-owned Post and Telecom of Kosovo references the need to take into consideration the public interest, to maximise the sale price and to ensure open and competitive procedures.

At the time of writing, the authorities reported that there were no privatisations of SOEs under way or planned in Kosovo. However, the Privatisation Agency of Kosovo (PAK) maintains a portfolio of 623 formerly socially-owned enterprises, the majority of which are scheduled for liquidation, and the remaining 41 comprising 25 forestry enterprises scheduled for transfer to the Forestry Agency and 16 for which the authorities' plans are unclear.

Sub-dimension 5.2: Transparency and accountability

Concerning **financial and non financial reporting**, SOEs are required to submit annual audited financial statements to the POE Monitoring Unit and to respect other applicable accounting and disclosure requirements established for all companies in Kosovo. Non financial reporting requirements are less ambitious for SOEs and are mostly limited to the requirement to publish on their websites an annual report on the implementation of their business plans. There is scope for the authorities to develop more ambitious non financial reporting requirements, including regarding SOEs' impact on the environment and measures taken to contribute to sustainability. This would be particularly relevant for the state-owned electricity producer as well as, albeit to a lesser extent, the mining company. Reporting practices by the state shareholder are strong in Kosovo, with the POE monitoring unit producing yearly aggregate reports on the performance of the SOE sector and publishing them on line. The aggregate reports, the latest of which was published for the 2021 financial year, contain detailed information on individual SOEs' profits or losses, taxes paid and dividends distributed.

Concerning **auditing practices**, as mentioned above, SOEs must have their annual financial statements audited by an external auditor. This requirement is set forth in the Law on Public Enterprises, which also establishes requirements concerning the independence of the audit firm selected to do the audit. Although the law allows for the National Audit Office and the parliament to undertake *additional* SOE audits as necessary, in practice state audits are sometimes undertaken *in place of* external (commercial) audits. Although this is not consistent with good practice, the fact that Kosovo's state audit office is conducting audits of SOEs indicates the priority the authorities have accorded to monitoring these companies. In 2022, the state audit office audited the financial statements of Kosovo Telecom and Kosovo Post, concluding that their financial statements presented an accurate and fair view of their financial situation (National Audit Office of Kosovo, 2023[3]; National Audit Office of Kosovo, 2023[4]).This is an improvement over earlier audits of these companies, which concluded with adverse opinions (for the 2020 financial statements of Kosovo Post and the 2019 financial statements of Kosovo Telecom). The state audit office also undertakes performance audits that encompass both centrally- and municipality-owned enterprises. Its 2021 annual report pointed to persistent issues in these enterprises related to the "management of revenues, expenses, assets, human resources and in the fulfilment of objectives in strengthening and modernisation of the enterprises" (National Audit Office of Kosovo, 2021[5]).

Several elements of Kosovo's SOE ownership and corporate governance arrangements appear to create a sound framework for implementing **anti-corruption and integrity measures** in SOEs. However, despite the multitude of sound legal provisions in place, SOEs are still often perceived to be mismanaged, in the worst of cases involving alleged nepotism and corruption (see, for example, Balkan Insight [2020[6]]). There is scope for the state as shareholder to implement and monitor more targeted measures to address risks of corruption in SOEs. The positive elements that are already in place in this respect include the fact that Kosovo's most economically significant SOEs (with exceptions for the electricity transmission operator and the 25 forestry enterprises) are subject to a single state ownership policy and are monitored by a central body, contributing to strengthened oversight and accountability mechanisms. SOE boards of directors cannot include politicians and are granted the legal authority to appoint the CEOs of SOEs, two elements that can reduce the risk for political interference in SOE management decisions. All SOEs operate according to the company law, which clearly establishes the duty of loyalty and care (fiduciary duty) of board members and CEOs to the company and its shareholders. This duty entails several (non-exhaustive) examples, including a clear prohibition of the use of enterprises' assets for personal gain. The law also establishes board members' liability to compensate the enterprise in case of any damages owing to the non-respect of their fiduciary duties. Moreover, the Law on Public Enterprises stipulates additional, complementary provisions for SOEs, requiring that SOEs seek legal redress against any directors who have breached their fiduciary duties, if available evidence suggests that the recuperated damages would likely exceed the anticipated costs of such legal action. The authorities of Kosovo have additionally developed a Code of Ethics and Corporate Governance in Public Enterprises, according to which all SOE board members should ensure that sufficient procedures are in place to protect the assets, reputation and long-term interests of the enterprise. All SOEs are required by the Law on Public Enterprises to have internal auditors and board audit committees. The mismatch between apparently good-practice legislation and persistent perceptions of SOE mismanagement point to the need to improve implementation of anti-corruption and integrity measures in the SOE sector.

Nearly all of Kosovo's 18 centrally-owned SOEs (including KOSTT) are 100%-owned by the state, making the **protection of minority shareholders** a low-priority issue when it comes to state ownership reform.[5] That being said, ensuring that minority shareholders have adequate legal rights and access to redress in case those rights are violated will be important if the authorities seek to broaden the ownership of any SOEs to include private investors, which was one objective set forth in the state's 2008 ownership policy. According to earlier editions of the World Bank's *Doing Business* index, Kosovo has undertaken several measures to strengthen minority shareholders' legal protections since 2013, for example requiring shareholder approval of related-party transactions and allowing shareholders to sue directors for any related-party transactions concluded to the detriment of the company or its shareholders[6] (World Bank, 2023[6]). The law grants shareholders holding at least 10% of shares some specific additional rights, such as the right to call a general meeting, nominate a board member and place up to two items on the shareholder meeting agenda (EBRD, 2017[7]). Yet, as is the case across the region, weaknesses in Kosovo's judicial system may make it difficult for minority shareholders to exercise these legally established rights.

Sub-dimension 5.3: Ensuring a level playing field

Concerning SOEs' **legal and regulatory treatment**, all SOEs in Kosovo are incorporated as joint-stock companies and are thus required to operate according to the general companies law, in line with good practice. SOEs do not, owing to their legal form, benefit from any explicit exemptions from taxation, competition, or environmental and/or zoning regulations. Despite the absence of formal exemptions from competition regulations, a 2016 case between the state-owned Kosovo Telekom and the private operator Z-mobile highlights competition issues that can occur when a state-owned operator controls network access for its private competitors. Following international arbitration, Kosovo Telekom was ordered to pay over EUR 30 million in damages to Z-mobile, for having refused to allow the company to provide 3G or 4G services on the network that was controlled by Kosovo Telekom. More recently, the London-based International Chamber of Commerce ordered Kosovo Telekom to pay an additional EUR 13 million in damages to the Z-mobile parent company, Dardafon, for having terminated its contract in 2019 (Balkan Insight, 2022[8]). The sums involved in this case are evidence of the significant financial risks – which sometimes also translate into fiscal risks – that SOEs can incur when competition and network-access regulations are not respected.

SOE financing conditions are problematic in Kosovo. As highlighted in Table 6.2, SOEs are very frequently unable to achieve positive commercial returns on the financing made available to them by commercial banks and the state shareholder. More than half of Kosovo's main portfolio of SOEs reported negative returns on equity in 2022. Although some losses may reflect public-service obligations that are subsidised by SOEs' commercial revenues, they may also point to corporate inefficiencies that effectively result in a negative cost of capital for the concerned SOEs, distorting the level playing field with private companies and signalling an inefficient use of resources. While overstaffing in SOEs is frequently cited in external assessments as a main contributor to their low financial returns, there have also been stronger allegations of mismanagement and corruption in certain SOEs (Balkan Insight, 2020[9]). The state as shareholder does not establish target rates of return on SOEs' equity or assets.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Since the previous assessment cycle, the authorities of Kosovo have not undertaken any notable steps to implement OECD Recommendations related to state ownership (Table 6.3). The authorities have announced plans to amend the Law on Public Enterprises over the course of 2024, but at the time of writing the foreseen scope and timeline of these planned reforms had not taken shape.

Table 6.3. Kosovo's progress on past recommendations for state-owned enterprises

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Update the state ownership policy	Kosovo has not updated its state ownership policy since the policy's adoption in 2008. However, amendments to the Law on Public Enterprises are foreseen in 2024, which could form the basis for a future update of the ownership policy.	Limited
Ensure that SOE board member recruitment is transparent and merit-based	No changes have been undertaken to the SOE board member nomination process.	None
Strengthen monitoring and reporting on SOE performance	Kosovo has not expanded the functions of the Publicly-owned Enterprise (POE) Monitoring Unit to include more in-depth reviews of individual SOEs' performance	None

The way forward for ownership and governance of state-owned enterprises

Given the slow pace of state ownership reform in Kosovo, the policy Recommendations set forth in *CO 2021* remain largely relevant today. The authorities are encouraged to consider the following measures to improve state ownership practices in Kosovo:

- **Update the state ownership policy, drawing on results from an implementation assessment.** The authorities should build on the planned 2024 amendments to the Law on Public Enterprises by also updating the state ownership policy, which was drafted in 2008 and has not been revised since. The policy contains several sound principles to underpin professional state ownership practices, but it is unclear how well public authorities and SOEs have implemented its principles. The state should assess implementation of the ownership policy and use the results of this assessment to inform an update of the policy, in consultation with all relevant government bodies. In line with the OECD SOE Guidelines (2015[10]), the ownership policy should clearly articulate the rationales for state ownership of commercial enterprises, outline the state's role in the governance of SOEs and define the respective responsibilities of all state bodies involved in its implementation. As an example of a state ownership policy elaborated in an OECD member country, Box 6.1 provides some details on the content of Sweden's state ownership policy revised in 2020. Taking into account the growing international consensus on the important potential role of SOEs in supporting the low-carbon transition, the authorities should ensure that any sustainability commitments applicable to the broader economy are adequately integrated into SOE-related policies as relevant.[7] This is particularly pertinent for the state-owned electricity producer, as well as any other SOEs with a high carbon footprint.

Box 6.1. Sweden's state ownership policy

Sweden's current state ownership policy was adopted by the government on 27 February 2020, replacing the previous policy adopted approximately four years earlier. The main body of the ownership policy comprises the following elements:

- *Introduction* – This section outlines the overarching objectives of the policy, referencing the need for SOEs to ensure long-term value creation, and contextualises the policy with reference to evolutions in the market landscape in which SOEs operate. It also states the policy's intended alignment with related internationally agreed standards, including the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises.
- *The state as company owner* – This section outlines the government's ownership mandate, references applicable legislation and codes and clearly identifies the different parts of government that play a role in exercising the state shareholding function.
- *Board recruitment for state-owned enterprises* – This section describes the board nomination process, outlines targets for SOE board composition, including gender-balance targets, and the state's approach to board member fees, including the principle of maintaining fees in line with comparable private sector companies.
- *Targets and assignments for state-owned enterprises* – This section describes how the state determines the objectives for each SOE and how they are communicated (usually in articles of association); in such situations the state owner can give "instructions" to enterprises (e.g. in the context of public policy assignments), establish the process for setting SOEs' financial targets and provide information on how public policy assignments are to be given to SOEs and how they are to be financed.

The main body is followed by several additional sections that form integral parts of the ownership policy, setting forth 1) principles for corporate governance of state-owned enterprises; 2) principles for remuneration and other terms of employment for senior officers of state-owned enterprises; and 3) principles for external reporting in state-owned enterprises.

Source: Government Offices of Sweden (2020[11]).

- **Expand the state's central ownership and monitoring framework to include all SOEs.** The electricity transmission operator KOSTT, in which ownership rights are exercised directly by parliament, remains outside of the scope of the state's centralised monitoring activities undertaken by the SOE monitoring unit in the Ministry of Economy. The authorities should take steps to ensure that the ownership, corporate-governance and disclosure requirements applicable to SOEs also extend to this enterprise.
- **Ensure that SOE board member recruitment is transparent and merit-based.** While the state has established a general framework for SOE board nominations, which involves setting up SOE-specific "recommendation committees" to lead recruitment procedures, the criteria applicable to the recruitment of individual board members are not transparent. Strong qualifications criteria are necessary to ensure that SOE boards are equipped with the right mix of professional competencies to effectively oversee corporate strategy and maximise commercial efficiency. The use of professional staffing agencies could help the authorities to improve the efficiency and professionalism of the process.

- **Strengthen monitoring and reporting on SOE performance.** Kosovo has established a sound mechanism for developing a central overview of the financial performance of SOEs through the POE Monitoring Unit's collection of SOE annual financial statements. The scope of its reporting could be expanded to include SOEs outside its immediate portfolio of 17 companies. Additionally, the functions of the POE Monitoring Unit could be bolstered to include more in-depth performance reviews of individual SOEs, with a view to identifying the structural weaknesses limiting their efficiency. The results of such in-depth assessments could also be made public to strengthen accountability and incentivise improvements. The authorities should continue monitoring SOEs' compliance with applicable disclosure requirements and ensure that SOEs' financial statements undergo independent external audits, with a view to ensuring that SOE financial reports are of sufficient quality and credibility to inform the identification of structural shortcomings that hold back SOE performance. Finally, the authorities should consider strengthening SOEs' non-financial reporting requirements and emphasising sustainability reporting for SOEs whose operations have a significant impact on the environment.

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Notes

[1] The OECD uses the acronym SOE to refer to state-owned enterprises. However, in the context of Kosovo, the abbreviation SOE is commonly used for formerly “socially-owned enterprises”. According to the Law on Public Enterprises, enterprises governed by Kosovo’s government are officially referred to as “publicly-owned enterprises” (POE).

[2] In addition to these 18 SOEs, the Privatisation Agency of Kosovo (PAK) maintains a large portfolio of 623 formerly “socially-owned enterprises”, which were collectively owned under former Yugoslavia. Given that the PAK legally holds these enterprises “in trust” until their eventual privatisation, and that sale proceeds are slated for distribution to employees rather than the state, these enterprises are not considered SOEs for the purpose of this assessment. Additionally, the authorities report that of these 623 enterprises, 582 are in the process of liquidation. However, it should be noted that some enterprises in PAK’s portfolio might be considered SOEs by OECD definitions, but insufficient information on their foreseen activities and their financial relationship to the state was provided to come to a conclusion in this regard. This notably concerns 25 forestry enterprises in PAK’s portfolio for which privatisation is reportedly no longer foreseen and which are scheduled to be transferred to the state Forestry Agency. It is not clear if these enterprises undertake economic activities in the marketplace for which the state benefits financially.

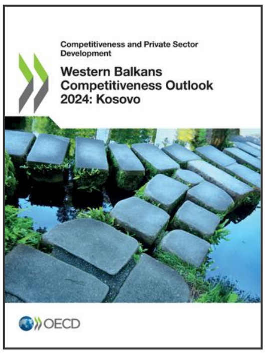
[3] SOEs operating in the electricity and gas sector in Kosovo are only engaged in electricity production and transmission (not gas).

[4] Amendments to the Law on Public Enterprises adopted in 2012 clarify that a political appointee is an individual “appointed or proposed by a political entity as a candidate for an elected post”.

[5] There is one SOE in Kosovo with minority non-state shareholders, and that is Trepča Mines, which is 20% owned by the company’s employees.

[6] The Kosovo law on companies refers to such transactions as “transactions involving a conflict of interest”.

[7] For general information on the role of SOEs in the low-carbon transition and international practices for setting related objectives, see OECD *Tourism Trends and Policies* (2022[12]).



From:

Western Balkans Competitiveness Outlook 2024: Kosovo

Access the complete publication at:

https://doi.org/10.1787/ff74ae0e-en

Please cite this chapter as:

OECD (2024), “State-owned enterprises”, in *Western Balkans Competitiveness Outlook 2024: Kosovo*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/f1e5ba90-en