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# Improving the Business Climate – Boosting Investment.

## Monitoring of Reform Implementation - May 2024

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**POLICY STUDY**  
**KOSOVO**

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## Executive summary

In Dec-22, the German Economic Team, together with the German Kosovar Business Association (KDWW) and REX Consulting, published a study in which we proposed several reforms to improve the business climate in Kosovo. This study presents the results of our monitoring of the implementation of these reform-proposals in the last one and a half years since Dec-22.

To attract investment, especially foreign direct investment, it is important to continuously improve the business climate through adequate reforms. By promoting investment which can create new jobs, these reforms contribute effectively to public welfare. Both the initial study and this update seek to support this reform process.

For the initial study from Dec-22, we visited companies from a range of sectors and asked them what barriers to growth they see and what suggestions they have for improvement. From the wealth of suggestions, we have selected four short-term and three long-term measures that were named most often by the companies.

### Proposals for short-term policy measures

- » Increasing the efficiency of VAT-refund
- » Facilitating and fostering the installation of solar panels
- » Accelerating the implementation of data protection reforms
- » Facilitating the transport of goods through insurance policies

### Proposals for long-term policy measures

- » Reforming the system of education and vocational training
- » Providing reliable infrastructure
- » Building a positive track record of successful investment lighthouse projects

Since Dec-22, we have monitored the reform process closely, keeping an eye especially on progress made to tackle the problems reported in the initial study. It became clear that the administration is well-aware of reform needs and is working towards the implementation of reforms in nearly all areas identified in the initial study.

For our monitoring, we broke the seven reform-proposals down into 22 detailed recommendations, each addressing a specific problem of firms. As of May-24, for almost all of the detailed recommendations, initial steps have been taken towards implementation. Some reforms are even partially implemented already, which marks significant progress, considering the relatively short period of one and a half years.

In several dimensions, important reforms have been initiated. For example, the Tax Administration of Kosovo (TAK) has introduced a risk-based approach to tax inspections following a VAT refund claim. This significantly reduces the burden of tax inspections for reliable taxpayers. Additionally, it introduced reforms aiming to increase the speed with which VAT refund claims are processed.

Another example is the provision of a reliable feed-in limit for rooftop solar panels into the low-voltage grid by the Energy Regulatory Office, which allows companies to plan ahead and to make investments into rooftop solar panels. Notable is also the successful attraction of investments from several well-respected German companies. This helps to foster an image of Kosovo as advantageous location for European companies that seek to near-shore parts of their supply chain.

Although the reform-pace needs to be further accelerated in order for Kosovo to fully reap the benefits of current trends such as near-shoring and the communication of reforms needs to be enhanced, we can draw a positive conclusion. Reform-priorities of Kosovar officials in general align well with business needs. An important aid in this regard are the new fora for public-private dialogue, which the Prime Minister's Office established with the support of the Swiss Government and the EBRD.

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## 1. Introduction

In Dec-22, the German Economic Team, in collaboration with the German-Kosovar Business Association (KDWV) and REX Consulting, released a joint study that assessed the business climate in Kosovo. In this study, we outlined several reform-proposals, the implementation of which we have closely monitored since then. Now, after following the reform-process for one and a half years, we present another study that reviews the progress made since Dec-22.

Both the original study and this update to it aim to enhance the business climate, which is crucial for the promotion of investment and consequently for fostering economic growth in Kosovo. In particular, the studies aim at accelerating the reform-process in order for the Kosovar business climate to be advantageous enough for European investors that seek to near-shore parts of their supply chain. Many European firms view near-shoring as an essential strategy to mitigate the increasing risk posed to global supply chains. They specifically search for locations close to or in Europe, in order to avoid high energy and transportation costs. Hence, near-shoring represents a major opportunity for Kosovo, which should not be hindered by unfavourable administrative processes that dampen the advantageousness of the business climate.

Our seven reform-proposals in the initial study are based on problems reported by representatives of German or Germany-related companies operating in Kosovo, many of which recently decided to invest in the country. Throughout the year 2022, we approached KDWV member-companies both through a questionnaire and through in-person interviews to learn about regulatory hindrances that constitute problems for them. After an extensive review of the problems reported, GET experts, together with external experts derived proposals for four short-term reforms and three long-term reforms. These proposals are consistent with a general reform direction towards transparent, competitive markets, as well as with pre-existing contractual obligations of Kosovo and contribute to inclusive, sustainable growth.

The present study is an update to our study from Dec-22. It aims at monitoring progress made in the implementation of each of our reform-proposals. To this end, the German Economic Team, together with REX Consulting, reviewed numerous relevant reforms enacted since Dec-22. In cooperation with KDWV, we again interviewed their member companies, this time asking about reforms noticed in each of the policy areas for which they reported reform-needs in 2022. To gain a more comprehensive view of the reform process, we then consulted international and local experts to identify reform progress that remained unnoticed by companies so far. These efforts enabled us to monitor progress in all but two of the policy areas addressed by our initial reform-proposals.<sup>1</sup> To evaluate the progress made in implementing each single recommendation from Dec-22, we used a four-step classification scheme:

◆	◆	◆	Implementation has yet to begin
◆	◆	◆	A first step has been undertaken to implement the recommendation
◆	◆	◆	The recommendations have been partially implemented
◆	◆	◆	The recommendations are fully implemented

<sup>1</sup> We were unfortunately not able to monitor progress with regard to the ratification of the CMR-convention and with regard to the provision of career counselling within high-schools.

The study is organized as follows: in the next chapter, problems, recommendations, and progress towards their implementation relating to the four short-term measures proposed in our initial study are presented. The subsequent third chapter then reintroduces our long-term policy proposals from 2022 and monitors progress towards their implementation. The last chapter concludes by evaluating the overall reform progress made against the backdrop of the necessity for a fast reform pace that allows Kosovo to benefit from current trends such as near shoring.



## 2. Proposals for short-term policy measures

In Dec-22, we have proposed 4 reform measures that can potentially be addressed in the short-term by Kosovar officials. These reforms do not require extensive financing or complex concepts to implement.

This chapter is organized as follows: each section deals with a different policy proposal. Within sections, a brief introduction summarizes the respective reform proposal by highlighting why and how businesses would benefit from it. Then, problems identified in Dec-22, that have led us to proposing the reform, are listed. For each problem, our recommendation for its mitigation is given. Finally, a brief overview of reforms made since Dec-22 is provided for each recommendation. Each section concludes with a table summarizing the reform-implementation progress and a brief conclusion.

### 2.1 Increasing the effectiveness of VAT-refunds

An effective system to process value added taxation (VAT) refunds is important for businesses. Ideally, such a VAT-refund system is designed such that the administrative burden for businesses is minimal, and their liquidity is preserved.

If a company is eligible to obtain a VAT refund, the VAT to be refunded is in effect a loan without interest from the company to the government for the duration of the refund procedure. As such, it deprives the company of liquidity without compensation. In times of high inflation, such as in 2022, this problem is exacerbated. This renders it desirable from the perspective of businesses, that VAT refunds are processed as quickly as possible.

Tax inspections, although of course necessary, burden companies with administrative duties, thereby binding resources. An intelligent system that minimises the burden of tax inspections is of great benefit to companies.

The Tax Administration of Kosovo has continuously implemented reforms to enhance its processing of VAT. Despite this, as of Dec-22, businesses reported four major obstacles of the VAT refund system in Kosovo. In the following, we will summarize the identified problems, our recommendations, and the implementation of reforms since Dec-22.

#### 1. Too many burdensome tax inspections

**Problem identified as of Dec-22:** when businesses claim a VAT refund in their VAT declaration, they are immediately faced with a tax inspection, which is a burden to companies.

**GET recommendation as of Dec-22:** efficient implementation of a risk-based approach for VAT inspections. Additionally, in cases where a simple declaration error is likely, the tax inspection should not suspend the VAT refund.

**Implementation monitoring:** in 2023, the Tax Administration of Kosovo has intensively worked to modify and update its risk-based approach for VAT inspections. This involved the incorporation of additional criteria and parameters, aiming to bolster the approach's effectiveness. The new risk-based approach automatically classifies VAT refund claims into three categories. Only refund claims that are considered to entail a high risk of being fraudulent are classified into the lowest category "C" and trigger a full-scale tax inspection. Of the 1689 refund claims submitted in 2023, almost half (839) were rejected

by the system. In addition to fraudulent claims, these include claims that have not been completed. Approximately 90% of necessary controls are identified by the risk-system. The remaining 10% of controls are initiated on the basis of information from third-party sources.

## 2. Delayed payment of approved VAT refunds

**Problem identified as of Dec-22:** VAT refunds take up to two months to be processed. Assessing a VAT refund claim takes an average of 15 days for taxpayers in category "A" (considered low risk for tax fraud) and an average of 38 days for taxpayers in category "C". The time for bank transfer is added to this.

**GET recommendation as of Dec-22:** the transfer of VAT credit to a company's bank account should be made within a few days. This would also require a more streamlined payment process with the Treasury.

**Implementation monitoring:** in Jan-24, a new law decreased the maximum duration for processing refund claims from 60 days to 30 days. Since 2023 already, TAK has significantly reduced the time needed to process refund claims. The new risk-based approach automatically assigns VAT refund claims into the three categories mentioned above. Refund claims that are classified into category A are approved directly. Businesses receive their claimed refund within 7 days. Claims that are classified into category B require additional clarifications. In this case, refunds are paid out within 15 days. Cases that are classified into category C, thus triggering a tax inspection, are paid out within 25 days. 88% of approved claims were classified in category A or B. Businesses reported mixed experience.

## 3. VAT charged based on issued invoices

**Problem identified as of Dec-22:** VAT is due whenever an invoice is issued, regardless of actual payment. Thus, companies have to pay VAT from their cash reserves, depriving them of liquidity. If an invoice remains unpaid, VAT still has to be paid. Particularly for companies with low liquidity, this is a substantial problem.

**GET recommendation as of Dec-22:** small enterprises, provided they are obliged to pay VAT, should be allowed to opt for calculating their VAT liability on the basis of settled invoices. This means that a micro or small enterprise issuing an invoice subject to VAT will not declare the VAT at the time of issue but when receiving payment for the invoice.

**Implementation monitoring:** no changes in this regard. The legislator has started to review the issue internally.

## 4. No consolidation of tax debits and credits

**Problem identified as of Dec-22:** in cases where taxpayers have tax credits (overpaid taxes approved by TAK) and have tax debits (unpaid obligations from taxes or contributions) at the same time, tax credits and debits are not consolidated. As a result, companies that have debits and credits at the same time are burdened with interest payments on their tax debt, even if the sum of debits and credits results in a surplus.

**GET recommendation as of Dec-22:** the tax administration should offer to carry out credit-debit transfers at the request of businesses. This way, the administrative burden,

and the burden from interest payment on unpaid tax obligations could be reduced for taxpayers.

**Implementation monitoring:** TAK is currently developing a system that allows them to carry out credit-debit transfers through the Electronic Data Interchange System at the taxpayer's request. The system is currently in the testing phase and TAK expects it to become fully operational by the end of this year.

GET recommendations as of Dec-22	Implementation status
<p><b>1. Too many burdensome tax inspections:</b> efficient implementation of the risk-based approach for VAT inspections, no suspension of VAT refund when simple tax errors are likely.</p>	<p>◆ ◆ ◆</p>
<p><b>2. Delayed payment of approved VAT refunds:</b> transfer VAT credit to companies' bank accounts within a few days.</p>	<p>◆ ◆ ◆</p>
<p><b>3. VAT charged based on issued invoices:</b> allow SMEs to opt for calculating their VAT liability on the basis of settled invoices.</p>	<p>◆ ◆ ◆</p>
<p><b>4. No consolidation of tax debits and credits:</b> the tax administration should offer credit-debit transfers, that use approved tax credit to offset unpaid tax obligations.</p>	<p>◆ ◆ ◆</p>

Sources: own research; responses from KDWW member companies

Legend for implementation status

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

## Conclusion

The new risk-based approach for VAT inspections is an up-to-date mechanism that substantially modernizes the system for VAT inspections. The announced faster processing deadlines for VAT refund claims also represent an important step in modernizing the VAT refund system. Regrettably, however, the issue of VAT taxation for small businesses based on payments received, which stands as one of the most crucial recommendations, remains unaddressed. Here, a reform could make a big difference to micro and small enterprises and would require only a relatively low administrative effort. While effectively modernizing the VAT refund system, reforms up until now have not been able to provide incentives for increased investment.

## 2.2 Facilitating and fostering the installation of solar panels

Businesses and house owners in Kosovo are willing to invest in solar panels. Installing a solar panel system, for example on the roof of a building, is a long-term investment. In order to make such a long-term investment, the conditions must be transparent and unnecessary hindrances to obtaining permits by the authorities should be avoided. In addition, regulations must allow for the installation of up-to-date systems, that provide a positive return on investment.

The renewable energy sector and in particular the solar energy sector is very young in Kosovo. The legal framework in 2022 and incentives provided until then have only enabled the sector to develop with a modest pace. Until 2022, around 20 MW capacity has been installed. Despite past reform efforts, companies have argued that the regulations for the installation of solar panels in Kosovo were neither predictable nor stable. As of Dec-22, businesses reported two main issues that prevented them from installing solar panels, which are listed in the following. For each identified problem, our recommendations and reforms implemented since Dec-22 are summarized below.

### 1. Feed-in limits restrictive and unclear in long-run

**Problem identified as of Dec-22:** the feeding-in of electricity into the low-voltage grid and the corresponding feed-in tariff is specified in the Prosumer Support Scheme Ordinance, issued by the Energy Regulatory Office. In 2022, the ordinance limited the feed-in of electricity into the grid to 100 kW per rooftop panel. This restriction is far below the capacities of modern solar modules. Neighbouring countries have already updated their regulations (Northern Macedonia: 1,000 kW, Albania: 500 kW). In 2022, it was unclear if and how feed-in limits will change in the future, resulting in low planning security for companies.

**GET recommendation as of Dec-22:** regulation should provide long-term stable conditions for solar module installations. The feed-in limitation for the low-voltage grid should be abolished or updated to a capacity that is appropriate for the technical development in the upcoming decades. The feed-in tariff should be regulated in such a way that long-term planning is feasible, for example with inflation-indexed tariffs.

**Implementation monitoring:** a new regulation for solar panels was passed and entered into force in 2023. The new regulation provides for an increase in the feed-in limit for companies from previously 100 kW up to currently 200 kW.<sup>2</sup> Although 200kW is still a relatively restrictive feed-in limit in regional comparison, the new regulation provides planning security to businesses for the coming years.

### 2. Time consuming and unclear procedures for obtaining permits

**Problem identified as of Dec-22:** the bureaucratic effort for issuing permits for any kind of renewable energy system is time-consuming and non-transparent from the point of view of the companies. Specifically, the unclear requirements and lack of standardized procedures for obtaining a municipal permit for rooftop solar panels is a constraint.

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<sup>2</sup> <https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Legjislacioni/Rregullat/Rule%20on%20Prosumers.pdf>

**GET recommendation as of Dec-22:** the procedures for issuing permits should be simplified and accelerated and made as transparent as feasible and should be standardized across all municipalities.

**Implementation monitoring:** permit procedures have been simplified and technical requirements have been clarified. The approval process for solar installations with a capacity of up to 7 kW for households has been streamlined. Households no longer need to obtain planning permission for rooftop solar systems with an output of up to 7 kW.

GET recommendations as of Dec-22	Implementation status
<p><b>1. Feed-in limits restrictive and unclear in long-run:</b> a regulation that provides long-term stable conditions for solar module installations should be enacted. The feed-in limitation for the low-voltage grid should be abolished or updated to a capacity that is appropriate for the technical development in the upcoming decades.</p>	◆ ◆ ◆
<p><b>2. Time consuming and unclear procedures for obtaining permits:</b> the procedures for issuing permits should be simplified, standardized and made more transparent.</p>	◆ ◆ ◆

Sources: own research; responses from KDWW member companies

Legend for implementation progress

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

Additional information on reform effort:

- » In May 2023, the Kosovo government announced the first auction for the solar energy park with a capacity of 100 MW. On 29 March 2024, the Ministry of Economy closed the electronic auction (e-Auction) for the first 100 MW photovoltaic solar park. The consortium led by the Swiss construction group Orllati won the government's first solar power auction with a price of EUR 48.88 (USD 52.43) per MWh.
- » In April 2024 the Kosovo Assembly approved the first Law on the promotion of the use of renewable energy sources.
- » Throughout 2023, the Ministry of Economy has launched several public tenders in cooperation with various donors to support households and companies in investing in energy-efficient household appliances and solar systems.

## Conclusion

When we spoke to business leaders in Dec-22, their outlook for the future of rooftop solar power in Kosovo was dim. Thanks to the reforms made since then, especially thanks to the new regulation on solar panels, companies' outlook on the future now is much more positive. The new regulation importantly provides planning security, thereby making long-term investments possible. Progress was also made in simplifying the permit procedure.

## 2.3 Accelerating the implementation of data protection reforms

Both sectors, IT outsourcing and business process outsourcing (BPO), are growing and find fertile conditions in Kosovo. The business climate could be improved and thus growth further facilitated if manageable efforts were made regarding the regulatory environment.

Kosovar outsourcing firms work mainly with clients from the EU. When providing services to clients in the EU, Kosovar companies must comply with the European General Data Protection Regulation (GDPR). The legal framework in place in Kosovo is in line with the European GDPR. For instance, Protection of Personal Data Act, Law No. 03/L-172, stipulates that personal data must be processed according to standards similar to those of specified in the GDPR.

However, practical implementation of data protection standards is not advanced in Kosovo. As a consequence, Kosovar outsourcing companies need to invest time and resources to build confidence and trust among their European customers. This not only increases transaction costs but is also a barrier to acquiring European clients, especially small and medium-sized European companies.

Therefore, in Dec-22 Kosovar companies have reported five issues that are detrimental to the business climate. These issues are listed in the following alongside our recommendations from Dec-22 and a summary of reform progress made since then.

### 1. The IPA has insufficient capacity

**Problem identified as of Dec-22:** although the legal framework in place in Kosovo is in line with European General Data Protection Regulation, the practical implementation of data protection standards is not advanced. The Information and Privacy Agency (IPA), which is responsible for implementing and enforcing the Data Protection Regulation, has been inoperative for almost three years and has only recently begun its work.

**GET recommendation as of Dec-22:** the institutional capacity of the Information and Privacy Agency (IPA) in providing advice on the implementation of the personal data protection law to the private sector should be improved.

**Implementation monitoring:** efforts to strengthen the institutional capacity of the IPA are underway. The published 'Integrity Plan 2024-2026' represents a milestone in strengthening the institution internally. It was approved in Dec-23 and contains an assessment of the Agency's integrity risks focused on specific areas related to the activity and legal mandate of the institution. The plan represents a good first step towards institutional strengthening, although full implementation of it has yet to be carried out. Another notable first step is the employment of new staff, a crucial advancement to tackle the lack of staff still persistent in several departments of the agency. Starting from a low capacity, the IPA is on the right track to become fully operational. These positive developments must continue, to reduce the current heavy reliance on external consultancies and technical assistance providers.

### 2. Businesses lack information regarding data-processing

**Problem identified as of Dec-22:** citizens and businesses do not possess enough information regarding their rights and obligations when processing data to be able to effectively protect it.

**GET recommendation as of Dec-22:** accurate information for citizens and businesses regarding data protection including rights and obligations with regard to data processing should be provided.

**Implementation monitoring:** the IPA organised a series of workshops to raise awareness of the Personal Data Protection Act with representatives of various institutions from the public and private sectors. Some of these workshops were organised in collaboration with chambers of commerce. Despite these efforts, results of a recent survey among companies conducted in cooperation with the IPA shows that many companies are still unaware of the data protection act. Although the IPA has taken several measures to improve this situation the efforts have yet to bear fruits.

### 3. No punitive measures following offenses

**Problem identified as of Dec-22:** players in the private sector that violated the Personal Data Protection Act were not held accountable by the IPA as the responsible institution for issuing fines following offenses.

**GET recommendation as of Dec-22:** the accountability of the private sector as data processors and controllers should be improved.

**Implementation monitoring:** in the first years after the data protection act was implemented, the IPA spared violators to give institutions and businesses time to adapt to the new legislation. Since Dec-22, it has imposed fines on public and private organisations that violated the legislation on personal data. This represents a positive trend towards a more rigid implementation of the existing law.

### 4. No guidelines for processing personal data

**Problem identified as of Dec-22:** the private sector has no guidelines to orient on when processing personal data.

**GET recommendation as of Dec-22:** proper guidelines for data processing for the private sector should be provided, including guidelines on preparing internal data protection policies by the private sector.

**Implementation monitoring:** the IPA published the 'Guidelines on Records of Personal Data Processing Activities' and the 'Manual of the Protection of Personal Data'. As of now, it is too early to assess if these two documents are fully sufficient yet, but one can conclude that significant progress in the provision of guidelines has been made.

### 5. Lack of document-templates or similar aids

**Problem identified as of Dec-22:** businesses do not have template documents or similar aids to implement the Personal Data Protection Act.

**GET recommendation as of Dec-22:** data processing agreements and similar template documents should be provided, that will improve the implementation of the data protection legal framework by the private sector.

**Implementation monitoring:** as of May-24, no document templates or similar aids have been provided to businesses. However, some templates for the public sector, more specifically to municipalities, have been provided by IPA.

GET recommendations as of Dec-22	Implementation status
1. <b>The IPA has insufficient capacity:</b> the institutional capacity of the Information and Privacy Agency (IPA) should be improved.	◆ ◆ ◆
2. <b>Businesses lack information regarding data-processing:</b> accurate information regarding rights and obligations for data-processing should be provided.	◆ ◆ ◆
3. <b>No punitive measures following offenses:</b> the accountability of the private sector as data processors and controllers should be improved.	◆ ◆ ◆
4. <b>No guidelines for processing personal data:</b> guidelines for data processing should be provided to the private sector.	◆ ◆ ◆
5. <b>Lack of document-templates or similar aids:</b> template documents such as data processing agreements should be provided to the private sector.	◆ ◆ ◆

Sources: own research; responses from KDWW member companies

Legend for implementation progress

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

## Conclusion

The IPA has undertaken crucial first steps to increase its institutional capacity. Although capacity-problems remain, this constitutes a very positive development. Additionally, it made important efforts to tackle the lack of awareness about the data protection act. By organizing a series of workshops, conducting a survey, providing guidelines for processing personal data and providing document templates to municipalities, it was able to raise awareness-levels. Despite these efforts, many companies are still not sufficiently acquainted with the new legislation. This underlines the need for continued efforts of awareness-raising, but also the need for consequently punishing companies or institutions violating the data protection act.

### Box 1: Enhancing public-private dialogue

#### Enhancing public-private dialogue

While the companies interviewed in 2022 recognized reform achievements and incentives offered by the government in previous years, the interviews also highlighted a lack of regular communication with the government regarding both the design and implementation of policy reforms. Oftentimes, businesses urged for reforms that had already been initiated by the authorities.

Therefore, we suggested to continue with an open dialogue between the private sector and the government to enhance communication. Such a dialogue could be facilitated by the provision of a suitable platform or forum.



In this regard, progress has been achieved. With assistance from EBRD and the Swiss government, a secretariat was established to support the National Business and Investment Council, which is a platform for public-private dialogue. Within this framework, a sequence of discussion forums involving private companies took place in November 2023 and March 2024.<sup>3</sup>

## 2.4 Facilitating the transport of goods through insurance policies

Transportation companies in Kosovo face significant problems with the transportation of goods to and from some of the Western Balkan (WB) countries as well as to and from the EU member states. In general, these problems are linked to a lack of bilateral agreements regulating the transport of goods as well as a lack of membership in international agencies and conventions<sup>4</sup>.

As a result of the lack of membership in international agencies and conventions, many Kosovar companies need to hire foreign freight forwarding companies primarily from Serbia and Montenegro in order to import or export goods to and from EU countries<sup>5</sup>. This increases costs especially for small businesses that export smaller quantities of goods to or import from EU countries. The lack of membership in international agreements thus represents in effect a non-tariff trade barrier for micro and small enterprises.

In Dec-22, businesses reported that missing membership in the Green Card system impairs the Kosovar business climate the most. Below, the problems resulting from the missing membership in the Green Card system are described in more detail, before our recommendation from Dec-22 is presented and the progress towards its implementation is evaluated.

### 1. Lack of Green Card Membership

**Problem identified as of Dec-22:** Kosovo is not a part of the "Green Card" system, a system used by 50 countries in Europe, North Africa, and the middle east.<sup>6</sup> The Green Card system is an insurance system regulating cases of cross-border road traffic accidents caused by foreign vehicles. It provides a guarantee for victims, that the insurer of the responsible, foreign vehicle – normally situated in the origin country of the vehicle - will reimburse the damage in accordance with the rules applicable in the visited country.<sup>7</sup> Since Kosovo is not a member of the Green Card system, shipping products by Kosovar carriers is more expensive, as Kosovar companies are required to pay additional insurance, which in turn lowers their ability to compete equally with other companies in

<sup>3</sup> The team was able to experience two of these fora first-hand as participants and can confirm they are well-received by both the public and private sector.

<sup>4</sup> These conventions include the AETR, APC, TIR, e-CMR, CVR, ECMT, 1968 Vienna Convention on Road Traffic.

<sup>5</sup> German-Kosovar Business Association & Iron Consulting, International Road Freight in Kosovo, March, 2022.

<sup>6</sup> Three member-countries are currently suspended: Belarus, Russia, Iran.

<sup>7</sup> COB, The Green Card, accessible at: <https://www.cobx.org/article/39/green-card>

the region and beyond.<sup>8</sup> As an obstacle for the development of value chains in the region, non-membership in the Green Card System also affects other Kosovar companies. In 2011, the Kosovo Insurance Bureau (KIB) applied for Green Card membership, however, unsuccessfully. The main requirement for a Green Card membership is membership in the United Nations. Additionally, ratification of several international transport agreements is required.

**GET recommendation as of Dec-22:** as a first step towards Green Card membership, Kosovo should ratify the Vienna Convention on Road Traffic and the Vienna Convention on Road Signs and Signals.

**Implementation monitoring:** ratifications of international transport agreements are still pending. In 2022, Kosovo initiated negotiations to acquire the Green Card through another country that is a member of the system. Despite identifying a cooperative country, the negotiations at COB level failed. Officials in Kosovo are very active in their efforts to obtain the Green Card and the topic is high on the agenda of policymakers. Another indication for this is the request of a GET-study on the topic. In it, we assessed the economic costs of the lacking Green Card membership and proposed several avenues for future efforts to obtain it.

GET recommendations as of Dec-22	Implementation status
1. <b>Lack of Green Card Membership:</b> Kosovo should increase its efforts to become a member of the Green Card System.	◆ ◆ ◆

Sources: own research; responses from KDWW member companies

Legend for implementation progress

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

## Conclusion

Authorities in Pristina are well-aware of the importance of a membership in the Green Card system and several attempts to gain membership were made in the last years. Although no breakthrough was reached yet, these efforts are important first steps towards a membership. Obtaining membership is no easy endeavour in a difficult international situation, but Kosovar officials keep looking into new possibilities.

<sup>8</sup> German-Kosovar Business Association & Iron Consulting, International Road Freight in Kosovo, March, 2022.

### 3. Proposals for long-term policy measures

In addition to short-term policy measures, we have proposed three policy measures in Dec-22 that need to be tackled in the long-run. The underlying problems identified substantially affect the business climate and there exist no quick and easy solutions for them.

This chapter is organized analogous to the previous chapter dealing with short-run reform-proposals.

#### 3.1 Reforming the system of education and vocational training

Skills shortage and finding qualified labour is increasingly becoming a burden for Kosovar companies. Albeit coming from different industries, many of the companies interviewed for this study have reported skills shortages, which deeply impact their productivity and performance. Problems specified by companies in 2022 and our recommendations from Dec-22 are reintroduced below. For each problem, a summary of the implementation progress throughout the last one and a half years is given.

##### 1. Problems to find potential employees

**Problem identified as of Dec-22:** study curricula are not harmonized with labour market needs. As a result, it is hard for companies to find employees possessing the required skills for the jobs on offer.

**GET recommendation as of Dec-22:** studies to forecast the demand for labour should be conducted to foster a clearer understanding of the potential needs of the market in the upcoming years. Based on these studies, Kosovo should better harmonize study curricula with the labour market demands.

**Implementation monitoring:** in 2023, the dual education system started in 4 vocational schools with 4 profiles in 3 different municipalities. In 2024, dual learning will be expanded by 8 new profiles. By including companies directly in the development of curricula and the education process, dual learning programs ensure that the education provided to students is in line with market needs.

##### 2. Skills mismatch between demand and supply

**Problem identified as of Dec-22:** businesses have reported that the skills mismatch is closely linked to the education system which does not equip students with the skills necessary to enter the labour market. In addition, the vocational education and training (VET) programs are inadequate, and the curricula do not properly reflect the needs of industries according to the interviewed companies.

**GET recommendation as of Dec-22:** the cooperation and communication between the private sector, the VET schools and the Ministry of Education, Science and Technology (MEST) should be increased.

**Implementation monitoring:** two national bodies have been established: an “executive commission for the development of the education and training system with regard to the needs of the labour market” and a “task force for the introduction and implementation of dual education in Kosovo”. In addition, the University of Pristina has launched the

“UPskilling Programme”, an initiative that aims to create a solid link between the university and the business sector in order to meet the demand for skilled labour in Kosovo.

### 3. High training costs for hired graduates

**Problem identified as of Dec-22:** relatively few private providers of on-the-job training operate in Kosovo. As a result of low competition, prices for on-the-job training are relatively high.

**GET recommendation as of Dec-22:** outside academic institutions, the development of a sophisticated market for private providers of on-the-job training and lifelong learning should be facilitated.

**Implementation monitoring:** several private institutions have opened their training academies offering programmes accredited by the Kosovo Accreditation Agency. Examples include the "SHEHU Academy", which is the first training centre to offer AKK-accredited training, educating young workers in the wood processing industry. In the ICT sector "Cactus Education" is an example, in the health sector "Heimerer College" has newly opened since Dec-22.

GET recommendations as of Dec-22	Implementation status
<b>1. Problems to find potential employees:</b> studies to forecast the demand for labour should be conducted. Based on these studies, Kosovo should better harmonize study programs with the labour market demands.	◆ ◆ ◆
<b>2. Skills mismatch between demand and supply:</b> the cooperation and communication between the private sector, the VET schools and the Ministry of Education, Science and Technology (MEST) should be increased.	◆ ◆ ◆
<b>3. High training costs for hired graduates:</b> outside academic institutions, the development of a sophisticated market for private providers of on-the-job training and lifelong learning should be facilitated.	◆ ◆ ◆

Sources: own research; responses from KDWW member companies

Legend for implementation progress

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

## Conclusion

Important first steps have been taken to enhance the previously insufficient communication between the private sector, the Ministry of Education, Science and Technology (MEST) and VET schools. The problems resulting from this lack of communication, i.e. skills mismatch, unavailability of suited employees, high training costs for hired employees and fierce competition for qualified employees could thus be mitigated to some extent. The question remains if the reform pace is enough to effectively align the education system and the labour market in order to halt the sizeable brain drain.

## 3.2 Providing reliable public infrastructure

There is a lack of suitable business sites for the establishment of production and/or manufacturing facilities in Kosovo. Some of the companies interviewed for this study stated that they are willing to expand their production facilities but lack suitable locations with the necessary infrastructure, such as connection to the electricity grid, water supply and roads.

Kosovo has started to establish so-called industrial and technological parks<sup>9</sup>, commercial land with basic and some advanced infrastructure for businesses. As of Dec-22, of the ten parks created in Kosovo, three were fully and two partially operational.

In 2022, these parks hosted less than 150 companies, employing about 2,300 people in total, which was far below Kosovo's potential. Development of the parks was proceeding far too slowly, and most parks still needed major infrastructure development measures. An administrative instruction stipulating that industrial and technological parks should have more advanced infrastructure and a portfolio of one-stop-shop services, was not fully implemented. Therefore, the basic infrastructure provided by industrial and technological parks in Dec-22 was not sufficient to attract international investors who expect higher standards. Below, more detailed descriptions of problems with industrial and technological parks in Dec-22 are given, alongside our recommendations from the initial study. For each recommendation, a summary of the reform progress made until May-23 is provided.

### 1. Lack of knowledge about existing industrial and technological parks

**Problem identified as of Dec-22:** companies oftentimes do not know about existing parks. This is problematic, because many parks are still looking for companies that want to invest in them, while at the same time many companies complain about problems such as disputed landownership that can be mitigated by industrial and technological parks.

**GET recommendation as of Dec-22:** transparency regarding the quantity and quality of available commercial sites should be provided, e.g. through publicly accessible lists and the introduction of a site monitoring system.

**Implementation monitoring:** the Ministry of Industry, Entrepreneurship and Trade (MIET) has issued an administrative instruction “for determining the form and content of the register of industrial and technological parks”, which is currently in consultation.

### 2. Not enough industrial and technological parks are operational

**Problem identified as of Dec-22:** there is still a lack of parks, with only five parks (partially) operational.

**GET recommendation as of Dec-22:** new areas for companies that want to invest in a site with basic infrastructure should be developed, based on a guiding strategy and thorough feasibility studies.

**Implementation monitoring:** considerable progress has been made both in ensuring the operation of existing parks as well as in investing in new parks. An example of progress in

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<sup>9</sup> Before 2024, industrial and technological parks were called “economic zones”.

existing parks is the inauguration of the Viti Industrial Park in Dec-23. When we conducted the initial study in 2022, the development of the park was still at an early stage. To support the creation of new parks, the government has passed a new law on industrial and technological parks that regulates the establishment, administration, management, promotion, use and monitoring of industrial and technological parks, including business incubators. At the launch event for this new law, Minister Hajdari announced that the Ministry of Industry, Entrepreneurship and Trade (MIET) will invest EUR 33 m in the coming years to increase the number of operational parks. In line with this, MIET has announced an investment of EUR 4 m in a new park in Podujeva in May-24. In addition to the progress already mentioned, an evaluation has been commissioned that forms the basis for the development of a guiding strategy.

### 3. Existing parks are not located ideally

**Problem identified as of Dec-22:** existing industrial and technological parks and parks that are in the planning phase are often built where land is available, paying too little attention to important success factors for industrial and technological parks. Important success factors include a good transport connection, good accessibility for potential employees and the presence of educational institutions in the vicinity.

**GET recommendation as of Dec-22:** the fit between locational demand and supply should be improved.

**Implementation monitoring:** MIET has issued two administrative instructions to ensure that suitable locations are selected when creating new industrial and technological parks. Both the administrative instruction „for determining the procedures for the establishment of industrial and technological parks” and the administrative instruction “on the content of the feasibility study for industrial and technological parks” aim to enhance the fit between locational demand and supply. Both administrative instructions are currently in public consultation.

### 4. Basic infrastructure is not sufficient to attract international investors

**Problem identified as of Dec-22:** many international investors, especially those in high value-added sectors, require much more advanced infrastructure than that provided by industrial and technological parks operational in 2022.

**GET recommendation as of Dec-22:** specialized industrial and technological parks should be developed or existing parks that are internationally competitive should be upgraded in order to attract foreign investors.

**Implementation monitoring:** MIET has made a crucial first step towards the implementation of this recommendation by distinguishing between three distinct types of parks in the new law on industrial and technological parks mentioned above. The law explicitly stipulates that (1) general parks, (2) specialised parks and (3) parks for innovation and technology shall be created in the future. In the launch event for the new law, Minister Hajdari emphasised that the ministry will focus on more advanced parks in the future.

GET recommendations as of Dec-22	Implementation status
<b>1. Lack of knowledge about existing industrial and technological parks:</b> transparency regarding the quantity and quality of available commercial sites should be provided	◆ ◆ ◆
<b>2. Not enough industrial and technological parks are operational:</b> new areas for companies that want to invest in a site with basic infrastructure should be developed	◆ ◆ ◆
<b>3. Existing parks are not located ideally:</b> the fit between locational demand and supply should be improved.	◆ ◆ ◆
<b>4. Basic infrastructure is not sufficient to attract international investors:</b> specialized industrial and technological parks should be developed to attract foreign investors.	◆ ◆ ◆

Sources: own research; responses from KDWW member companies

Legend for implementation progress

- ◆ ◆ ◆ implementation has yet to begin
- ◆ ◆ ◆ first step has been undertaken
- ◆ ◆ ◆ recommendations have been partially implemented
- ◆ ◆ ◆ recommendations are fully implemented

Additional remark: for detailed recommendations on this topic, see also our Policy Paper PP 01/2022 "[Identifying reform options for Economic Zones in Kosovo](#)".

## Conclusion

The issuance of multiple administrative instructions on the subject shows that the need to provide more and qualitatively better parks has been recognized. The topic is rightfully on the agenda of legislators and progress has been made regarding all four issues addressed in Dec-22. The administrative instructions issued, as well as the new law on industrial and technological parks, are crucial first steps towards providing reliable public infrastructure for businesses to thrive. The provision of a budget of EUR 33 m for public investments into new and existing parks goes already beyond a first step. The investments made with it have driven significant progress towards providing more operational parks. The inauguration of the Industrial Park in Viti can be highlighted as a milestone in the reform-process. All in all, one can thus conclude that the MIET is on a good reform path to implement this long-term proposal. The speed with which the administrative instructions issued are implemented will determine to which extent Kosovo can benefit from investment potential in the coming years.

### 3.3 Building a positive track record of successful investment lighthouse projects

Investors who want to strengthen Kosovo's industrial base through long-term, substantial greenfield and brownfield investments and create high-quality, well-paid jobs need the prospect of long-term, stable and reliable frameworks and contractual arrangements.

Therefore, it is crucial for all countries seeking to attract foreign direct investment to appear as reliable and as a stable location to invest in, when searched online by potential investors. One of the best ways to do so is by building a positive track record of successful foreign investment projects that substantiates the assertion that investments into Kosovo are secure.


When we interviewed Kosovar companies in Dec-22, they reported that the image of Kosovo as an investment location suffers enormously from negative reports of foreign investors. This problem is explained in greater detail below. Subsequently, our recommendation from Dec-22 and its implementation so far is provided.

#### 1. Existence of multiple negative reports from foreign investors

**Problem identified as of Dec-22:** potential foreign investors looking for international locations for direct investments, i.e. greenfield or brownfield investments, come across a number of negative reports from foreign investors in Kosovo when researching Kosovo as an investment location. These range from complaints that the Kosovar government has allegedly failed to fulfil contractual agreements with investors to accusations of expropriation. Given the size of Kosovo and the moderate amount of foreign investment in international comparison, the list of arbitration cases filed with the International Centre for Settlement of Investment Disputes (ICSID) is relatively long. Apart from the outcome of the dispute settlement, such an accumulation of arbitration cases discourages potential investors.

**GET recommendation as of Dec-22:** new investment projects, ideally of large, internationally known, and respected companies should be acquired. Such lighthouse investments are best suited as testimonials for country image marketing and have the potential to counterbalance negative reports from the past.

**Implementation monitoring:** significant progress in attracting potential investments that are suited to act as testimonials of Kosovo as a destination for foreign direct investment has been made. Examples include the German textile lighting manufacturer Munda and the manufacturer of heat exchangers and energy storage solutions ZILONIS Energy Solutions GmbH. Munda opened a production facility in Kosovo, which is expected to be fully operational in 2024. The investment volume amounts to EUR 20 m and creates approx. 200 jobs. ZILONIS Energy Solutions GmbH opened a branch in Kosovo in 2023.

GET recommendations as of Dec-22	Implementation status
<p><b>1. Existence of multiple negative reports from foreign investors:</b> new investment projects, ideally of large, internationally known and respected companies, should be acquired. These projects have the potential to counterbalance negative reports from the past.</p>	

Sources: own research; responses from KDWW member companies



*Legend for implementation progress*

- ◆ ◆ ◆ *implementation has yet to begin*
- ◆ ◆ ◆ *first step has been undertaken*
- ◆ ◆ ◆ *recommendations have been partially implemented*
- ◆ ◆ ◆ *recommendations are fully implemented*

## **Conclusion**

Since Dec-22, Kosovo was able to attract several new investment projects. Munda and Zilonis represent international and respected companies. Overall FDI into the industrial sector increased in both 2022 and 2023. Attracting a large international player would be crucial to gain international attention as an advantageous location for investments.

## 4. Conclusion

As of May-24, almost all of the 22 detailed recommendations have seen first steps towards implementation. Implementation of nine recommendations is partially underway already. This marks significant progress within approximately 16 months following the publication of the original recommendations. In general, one can therefore conclude that reform measures correspond quite well to the issues raised by companies, indicating that a common understanding of reform-needs exists.

Significant progress was made to enhance the effectiveness of VAT refunds. By introducing a new risk-based system for tax inspections, the Tax Administration was able to substantially reduce the burden of tax inspections for taxpayers that have proven to be reliable in the past. Simultaneously, the new system made it possible to considerably reduce the time needed to process VAT refund claims. An important first step towards reducing the administrative burden for taxpayers has been made by developing a system that allows for making credit-debit transfers upon the request of taxpayers. The system is expected to be fully operational by the end of 2024 and will be helpful for companies that have both approved tax credits and tax debits. However, one important recommendation remains unaddressed so far. Small businesses that are obliged to pay VAT still have to make payments on the basis of issued, not settled invoices. Therefore, they are still burdened with VAT liabilities before receiving payments, negatively affecting their liquidity.

Also regarding our recommendation to facilitate the installation of solar panels, progress was made. Thanks to a new regulation that specifies among other things how many kW can be fed into the low-voltage grid, planning security for businesses considering to invest in solar panels could be provided. Additional progress in this regard was made by simplifying the permit procedure.

The IPA has undertaken crucial first steps to accelerate the implementation of data protection reforms. It was able to initiate measures to strengthen its institutional capacity and made important efforts to raise awareness about the data protection act. This progress is complemented by progress with regard to increasing the accountability of institutions and businesses that violate the existing data protection laws. In 2023, the IPA started to impose fines on violators to increase the pressure to comply. Yet, some problems remain. As survey results indicate, many companies are still lacking awareness about the need to comply with existing data protection laws.

Acquiring membership in the Green Card system was a top priority for Kosovar officials in the period monitored by us. This was apparent by the commission of a study to investigate economic implications of a lacking Green Card and to propose possible avenues for its acquisition. Several attempts to gain membership were made. These efforts are important first steps towards a membership, despite not being successful yet.

Progress was also made towards the implementation of our long-term reform-proposals. Reforms of the system of education and vocational training have enhanced the previously insufficient communication between the private sector, the Ministry of Education, Science and Technology (MEST) and VET schools. The problems resulting from this lack of communications could thus be mitigated to some extent.

The Ministry of Industry, Entrepreneurship and Trade (MIET) was able to make important contributions to the provision of reliable public infrastructure for businesses seeking to

invest in the coming years. Industrial and technological parks provide the necessary infrastructure, such as connection to the electricity grid, water supply and roads to businesses that seek to expand. Multiple administrative instructions and a new law on industrial and technological parks represent important steps towards providing more operational parks in the coming years. In addition to this legislative progress, MIET allocated EUR 33 m for investments in industrial and technological parks for the coming years. Some of these funds have already been put to use, advancing existing park-projects and financing new ones.

Finally, some progress was made in attracting new investment projects that are suitable to overwrite negative reports from investors from previous years. Munda and Zilonis are good examples for international and respected companies that have expanded their business in Kosovo since Dec-22.

It is worth noting, however, that many of the companies interviewed both in Dec-22 and in May-24 were not aware of the reforms that have been carried out between the two dates. This observed discrepancy between firm perception and reforms enacted underlines that most of the reforms made are only first steps, meaning they are not implemented to a sufficient degree yet for businesses to see any noticeable change in day-to-day operations. The observed discrepancy also suggests that businesses oftentimes lack information about reforms initiated. This hints to insufficient communication of reforms by government agencies. By establishing a secretariat to support the National Business and Investment Council, a platform for public-private dialogue, a good first step towards an enhanced exchange of information between public institutions and the private sector was made.

Near-shoring represents a major opportunity for Kosovo in the coming years. In light of higher energy and transportation costs, many European companies are looking for alternative business locations close to or in Europe. Although FDI inflows in the industrial sector increased in 2022 and 2023, Kosovo has not yet realized its full potential as a near-shoring location. To enhance the business climate in time to attract potential near-shoring investments, the many first steps made in the areas monitored by us need to be followed up by a swift and efficient implementation of reforms in the coming months and years. Such reforms must be perceivable for the companies already operating in Kosovo in order to contribute effectively to building a favourable environment for investors in Kosovo.

This report can conclude with a positive tone. The Kosovar administration seems to be well-aware of reform-needs and working towards an enhanced business climate.