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POLICY BRIEFING
KOSOVO

Improving the Business Climate – Boosting Investment. Monitoring of Reform Implementation - May 2024

Summary of results

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Structure

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Motivation

Background

- » In 2022: study on barriers impeding upon the business climate in Kosovo based on proposals from businesses themselves
- » Presentation of four short term and three long term measures for improving the business climate, thereby attracting investments and fostering growth
- » Proposals across several economic sectors

Purpose of this monitoring

- » Assessing reform progress regarding the proposals from the original study, one and a half year after its publication
- » Key question: in which areas have reforms already been implemented and where should future reform efforts be concentrated?
- » Also: perception of businesses when it comes to reform efforts

Approach and methodology

Sample

- » German and Germany-related business in Kosovo which are members of the Kosovar-German Business Association (KDWW)

Methods

- » Questionnaire
- » Expert interviews

Time

- » Data collection: January – March 2024
- » Analysis and background-checks: March – May 2024

Overview of the proposals

Proposal	Impact on business climate	Impact on state budget	Implementation status
Increasing the effectiveness of VAT-refunds	Short-term	None	◆ ◆ ◆
Facilitating and fostering the installation of solar panels	Short-term	None	◆ ◆ ◆
Accelerating the implementation of data protection reforms	Short-term	None	◆ ◆ ◆
Facilitating the transport of goods through insurance policies	Short-term	None	◆ ◆ ◆
Reforming the system of education and vocational training	Long-term	High	◆ ◆ ◆
Providing reliable public infrastructure	Long-term	High	◆ ◆ ◆
Building a positive track record of successful investment lighthouse projects	Long-term	Moderate	◆ ◆ ◆

Increasing the effectiveness of VAT refunds

Issues reported

Reform progress made since Dec-22

- 1. Immediate tax inspections**

The modification and update of TAK's risk-based approach for VAT inspection has resulted in faster refunds, especially for companies with a low risk of being fraudulent ◆◆◆
- 2. Delayed payment of approved refunds**

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 thanks to the new risk-based approach. ◆◆◆
- 3. VAT based on issued invoices**

No changes in this regard. The legislator has started to review the issue internally. ◆◆◆
- 4. No consolidation of tax debits and credits**

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

Facilitating and fostering the installation of solar panels

Issues reported

1. Feed-in limits restrictive and unclear in the long-run
2. Time consuming and unclear procedures for obtaining permits

Reform progress made since Dec-22

New regulation on solar panels (passed in 2023) provides for an increase in the feed-in limit for companies from previously 100 kW up to currently 200 kW. While still low in regional comparison, the new regulation provides planning security to businesses for the coming years ♦♦♦

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. ♦♦♦

Accelerating the implementation of data protection reforms

Issues reported

Reform progress made since Dec-22

- 1. IPA has insufficient capacity**

The capacity of the IPA has been strengthened through milestones such as the “Integrity Plan 2024-2026”. Recruitment of new staff to fill vacancies is another advancement. ◆◆◆
- 2. Businesses lack information regarding data processing**

The IPA organized a series of workshops to raise awareness of the Personal Data Protection Act, also in collaboration with businesses. However, recent survey results indicate limited awareness of the key contents of the data protection act. ◆◆◆
- 3. No punitive measures following offences**

The IPA has started to impose fines on businesses violating the legislation on personal data. This represents a positive trend towards a more rigid implementation of the existing law. ◆◆◆
- 4. No guidelines on processing personal data**

The IPA published the ‘Guidelines on Records of Personal Data Processing Activities’ and the ‘Manual of the Protection of Personal Data’ ◆◆◆
- 5. Lack of templates**

As of Apr-24, no document templates or similar aids have been provided to businesses, only to the public sector. ◆◆◆

Facilitating the transport of goods through insurance policies

Issues reported

1. Lack of Green Card membership

Reform progress made since Dec-22

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. ♦ ♦ ♦

Enhancing public-private dialogue

Issues reported by companies in Dec-22

- » Communication of reform needs from the side of businesses as well as on reform progress on the side of the government is key for enhancing the business climate
- » Observation: Businesses are often not aware about reforms enacted to respond to their needs
- » Reflected in surveys conducted in 2022 and 2024

Reform progress made since Dec-22

- » Platform for public private dialogue re-established, Office of the Primate Minister as responsible institution
- » First sessions already took place in November 2023 and March 2024

Reforming the system of education/vocational training

Issues reported

1. Hard to find potential employees
2. Applicants lack desired skills
3. High training costs for hired graduates

Reform progress made since Dec-22

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. ◆◆◆

An executive commission to develop the education system to better fit to labour-market needs has been established. In addition, the Uni of Pristina launched the “UPskilling Programme”, aiming to link the university better to the private sector. ◆◆◆

Several private institutions have opened their training academies offering programmes accredited by the Kosovo Accreditation Agency. Increased competition in the market for private education implies pressure to decrease prices. ◆◆◆

Providing reliable public infrastructure

Issues reported

1. Lack of knowledge about existing I&T parks
2. Not enough I&T parks are operational
3. Existing parks are not located ideally
4. Infrastructure insufficient to attract international investors

Reform progress made since Dec-22

The Ministry of Industry, Entrepreneurship and Trade (MIET) has issued an administrative instruction aiming to prepare the creation of a register of industrial and technological (I&T) parks. ♦ ♦ ♦

New law on I&T parks came into effect, that facilitates the creation of new I&T parks by regulating the establishment, administration, management, promotion, use and monitoring of I&T parks. In addition, EUR 33 m budget to invest in I&T parks. Several investments in new and existing parks made already. ♦ ♦ ♦

Two administrative instructions issued to ensure that suitable locations are selected when creating new industrial and technological parks. Both are currently in public consultations. ♦ ♦ ♦

The new law explicitly stipulates the creation of three type of parks: (1) general parks, (2) specialised parks and (3) parks for innovation and technology. Minister Hajdari emphasised focus on more advanced parks in the future. ♦ ♦ ♦

Building a positive track record of successful investment lighthouse projects

Issues reported

1. Existence of multiple negative reports from foreign investors

Reform progress made since Dec-22

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. Both represent international and respected companies. ♦♦♦

Conclusion and outlook

Conclusion

- » For almost all issues reported, first steps have been made towards addressing them
- » For nine reported issues, reforms have already been partially implemented
- » In general, reform priorities of the public sector align well with business needs
- » Many reform-efforts are not yet perceived by companies
 - Most reforms are only first steps so far: exist on paper but are not implemented to a sufficient degree to be perceivable by companies yet
 - Reforms should be communicated more transparently to the private sector

Outlook

- » Speed of implementation fast enough to unlock Kosovo's economic potential?
 - Reforms need to be perceivable to positively impact the business climate in time for Kosovo to reap potential
 - Swift implementation of initiated reforms crucial to benefit from near-shoring trend

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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