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Improving the Business Climate – Boosting Investment. Proposals from German Business in Kosovo

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Structure

1. Motivation
2. Approach and methodology
3. Overview of the proposals
4. Proposals for short-term policy measures
5. Proposals for long-term policy measures
6. Final remarks and outlook

Motivation

Background

- » Business climate of Kosovo has improved over the last decade, as reflected in the following, for example
 - Increase in Foreign Direct Investment
 - Economic growth
 - Increase in exports
- » A closer look reveals several barriers impeding upon the quality of the business climate in Kosovo.

Purpose of this Policy Study

Support policy makers by

- » Presenting results of a survey and interviews of German and Germany-related businesses in Kosovo
- » Highlighting challenges faced by business from their perspective
- » Policy recommendations to tackle the identified challenges

Approach and methodology

Sample

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

Methods

- » Questionnaire
- » Site visits of businesses
- » In-depth interviews with business owners and executives
- » Expert interviews

Time

- » Data collection: Mai – October 2022
- » Analysis and background-checks: October – November 2022

Overview of the proposals

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

Increasing the effectiveness of VAT-refund

What is the issue for companies?

- » VAT-refund procedures are partly cumbersome and lengthy
- » VAT must be paid on the issued invoice, regardless whether invoice has been paid or not

Policy recommendations

- » Accelerated implementation of the risk-based approach of tax inspections
- » Faster money transfer of approved VAT-refunds
- » For micro and small enterprises: VAT based on settled invoices, (i.e. VAT must be paid when the customer has paid the invoice)

Expected effects

- » Improved liquidity for businesses
- » Faster cash-flow generation of investments
- » Decreasing vulnerability of micro and small enterprises
- » No effect on state budget

Facilitating, fostering the installation of solar panels

What is the issue for companies?

- » Prosumer Support Scheme restricts feed-in tariff to a capacity of only 100 kW
- » Getting permits is time-consuming, non-transparent and lacks standardized requirements and procedures

Policy recommendations

- » Feed-in limitation for Prosumers should be abolished or updated to a capacity that is appropriate for the technical development in the upcoming decades
- » The procedures for issuing permits should be simplified and accelerated and made as transparent as feasible and should be standardized across all municipalities

Expected effects

- » Increase in solar panel installations
- » Job creation and income generation in the solar installation industry
- » Attracting skilled workers to come / stay in Kosovo
- » Increase in tax revenues, no negative effect on state expenditures

Accelerating the implementation of data protection reforms

What is the issue for companies?

- » Kosovo is not renowned for its high standards of data protection
- » IT / BP-outsourcing businesses need to build trust with potential EU costumers

Policy recommendations

- » Strengthening the institutional capacity of the Information and Privacy Agency
 - in providing advice on the implementation of the personal data protection law to the private sector
 - Enforcing the data protection regulation
- » Moving closer to an image of having a level of data protection adequate to EU

Expected effects

- » Decreased transaction costs for businesses
- » Easier acquisition of EU customers
- » Job increase and increased income in IT-/BP-outsourcing sector etc.
- » No impact in state budget

Facilitating the transport through insurance policies

What is the issue for companies?

- » Many Kosovar companies need to hire foreign freight forwarding companies in order to import or export goods to and from EU countries
- » High costs for transport, own trucks or vans cannot enter EU countries

Policy recommendations

- » Enhanced efforts to obtain “Green Card“-membership for Kosovo
- » Enhanced effort in joining international transport insurance agreements

Expected effects

- » Decreased transactions costs for businesses
- » Easier exchange with EU customers
- » Job increase and increased income in trade-related sectors
- » No impact on state budget

Reforming the system of education/vocational training

What is the issue for companies?

- » Problems to find potential employees
- » Skills mismatch between demand and supply
- » High training costs for hired graduates
- » High fluctuation of the most qualified and trained employees

Policy recommendations

- » Increasing the cooperation and communication between the private sector, the VET schools and the Ministry of Education, Science and Technology (MEST)
- » Establishing career counselling within all high schools (not only VET schools)

Expected effects

- » Decreased search and trainings costs for businesses, improved retention rates
- » Prevent the emigration of talented but imperfectly qualified people
- » High impact on state budget: neg. in the short and pos. in the long run

Providing reliable public infrastructure

What is the issue for companies?

- » Lack of suitable sites for the establishment of production/manufacturing facilities
- » Frequent electric power outages

Policy recommendations

- » Providing transparency on the quantity and quality of available commercial sites
- » Developing new areas for companies that want to purchase land with basic infrastructure, based on a guiding strategy and thorough feasibility studies
- » Improving the fit between local demand and supply for business sites

Expected effects

- » Facilitate the development of an industrial base of the economy
- » Job creation
- » Increasing state investments: infrastructure construction
- » Increasing tax revenues because of increasing incomes in the long run

Building a positive track record of successful investment lighthouse projects

What is the issue for foreign investors?

- » Kosovo's image as a destination for foreign direct investment is shadowed by
 - Negative reports of dissatisfied investors
 - Long list of arbitration cases
 - Lack of testimonials

Policy recommendations

- » Acquire some large investment projects of international high-profile companies which are best suited as testimonials for the country image marketing

Expected effects

- » Promising business cases for potential foreign investors
- » Growth potential for local companies as potential suppliers
- » No effect on state expenditure, in some cases new public infrastructure needed
- » Long-term increase in tax revenues from increasing income

Final remarks and outlook

Observations

- » Respondents generally rate the business climate as good
- » Discrepancy between ongoing reforms and companies' perceptions

Outlook

- » Great potential for Kosovo's economy:
 - » For nearshoring investment
 - » For IT-/BP-outsourcing etc.
- » Quick-wins for mentioned short-term policy recommendations
- » Long-term mammoth tasks worth solving
- » Effective communication of reform achievements is key

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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