

**EUROPEAN
INVESTORS
COUNCIL**

White Book 2021

#WeCreateJobs

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White
Book 2021

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List of Acronyms

CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Association
EIC	European Investors Council
EMA	European Medicines Agency
ESG	Environmental Social and Corporate Governments
EUO	European Union Office in Kosovo
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMC	Independent Media Commission
IMF	International Monetary Fund
KMA	Kosovo Medicines Agency
ME	Ministry of Economy
MFLT	Ministry of Finance Labor and Transfers
MH	Ministry of Health
MIET	Ministry of Industry Entrepreneurship and Trade
MVNO	Mobile Virtual Network Operator
NFRD	Non-Financial Reporting Directives
PPRC	Public Procurement Regulatory Commission
RAEPC	Regulatory Authority of Electronic and Postal Communications
SAA	Stabilization Association Agreement
TAK	Tax Agency of Kosovo
WB	World Bank
WHO	World Health Organization

Foreword

It is my pleasure to introduce, the White Book 2021 edition published by the European Investors Council. The European Investors Council (EIC), is the main business association representing European Union, EFTA and UK firms in Kosovo, to create more jobs in Kosovo. The main objective of EIC is to make Kosovo a more attractive place to do business while supporting business reforms in line with EU acquires and best business practices, which lead to job creation and economic growth for Kosovo.

Given that the European Union remains Kosovo's main trading partner and its main source of foreign direct investment (FDI), and given that Kosovo aspires toward European Union Integration, EIC is ideally positioned as the main partner and interlocutor between the private and public sectors and the main advocate of business reforms that are much needed in Kosovo. European firms are united under the EIC umbrella to work together and to create a better business environment in Kosovo. Our presence is very important to the Kosovo's economy since we represent a significant portion of the economy through capital investments, job creation and tax contributions to the state budget. In addition, the presence of such reputable firms brings Kosovo numerous benefits while helping Kosovo to be more integrated and recognized at the European and global level.

It goes without saying that FDI plays a significant role in the overall economic development of Kosovo. However, the attraction of investors is not automatic and is not evenly distributed across countries, therefore national policies that support and incentivize FDI inflow are extremely important for Kosovo. Furthermore, the current investors are the best promoters of new investment.

Adoption of efficient and cost effective legislation will significantly contribute more jobs being created and higher economic growth for Kosovo. Our recommendations in the White Book will lead to a reduction of business costs, reduction of risk and uncertainty, and fair competition in the free market economy. Such business reforms will mean increasing profits to the firms thereby increasing investment inflows, job creation, and more tax revenue for the state budget. In addition, reducing the risks which are produced by a poorly drafted legislation and frequently changing government policies will have an impact on the value of capital and the number of investments in the market. And finally, fair competition in the free market economy stimulates the entry of new businesses and creates positive competitive forces in the free market economy for more capital investments and job creation.

Eriola Bibola

Chairperson of the Board
European Investors Council

Objectives of the White Book

With the following main objectives, the White Book aims to stimulate a more investor friendly environment in Kosovo and create more business opportunities:

- I. Improvement of investment and business climate** – improvement of the general investment and business development atmosphere is essential into attracting new foreign investors and new capital;
- II. Rule of law** – fight against corruption, equal law enforcement to all parties and independent judicial system contribute to a transparent business environment and stable economic growth;
- III. Identify business barriers** – help business identify barriers and find possible solutions to overcome them through providing support into creating a business friendly regulatory framework;
- IV. Risk reduction** – poorly drafted legislation and frequently changing government policies lead to an increased risk for businesses, which may lead to decline of direct foreign investments in the market;
- V. Fair competition in a free market economy** – stimulates the entry of new businesses and creates positive competitive forces in the free market economy for more capital investments and job creation;
- VI. Improve legal and tax framework** – higher transparency in legislative procedures and more consistent application of tax regulations are important factors for creating a desirable business environment for foreign investors;
- VII. Establish ground communication** – between foreign investors and Kosovo authorities in order to overcome possible challenges and obstacles that investors may face.

Key messages

- I. Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development.
- II. Foreign direct investment (FDI) attraction is not automatic and is not evenly distributed across countries, therefore national policies that support and incentivize FDI inflow are extremely important.
- III. Current Investors who have invested their capital in Kosovo are the best ambassadors for future FDI attraction therefore it is very important that the government understands their business barriers and eliminates them in a reasonable time frame.
- IV. Attracting foreign investments and encouraging present investors to develop their business are of crucial importance for the long-term growth of Kosovo's economy.
- V. Most FDI flows in Kosovo originate from EU and EFTA countries and as such the European Investors have much to offer in terms of "European Best Business Practices". The dialogue with these investors is of vital importance to the economic development of Kosovo.
- VI. Government should lead and own the reforms in strong partnership with the Local and Foreign Investors.

Purpose of the White Book

The White Book is a comprehensive guide designed to provide an overview of latest developments and proposals for improvement of the investment climate in Kosovo in order to drive economic development and job creation. The concrete recommendations come directly from current investors and are focused on some respective sectors of the economy. All recommendations presented in the White Book aim to achieve a stronger economic growth and better living standards for citizens. EIC considers that current investors who have invested their capital and currently operate in Kosovo are a very important resource to provide inputs regarding business barriers and how to overcome them. In this regard, the main purpose of the White Book is to contribute to a structured and long lasting dialogue and partnership between the private sector and the Government of Kosovo and other relevant authorities in order to keep track of the recommendations and the improvements that have been taking place in Kosovo.

This is the second edition of the White Book introduced in Kosovo by the European Investors Council. The White Book will be published on regular basis with new issues identified and progress or lack of it being marked in a systematic format for further follow up. The implementation of these recommendations will contribute to an overall economic well-being of Kosovo and the raising of living standard since the businesses will be able to prosper and grow and in return creating more jobs for the citizens of Kosovo and more tax revenues for the budget of Kosovo.

Methodology of the White Book

The White Book is a tool that creates a consensus amongst current investors in Kosovo regarding topics that they find relevant in their respective sectors. The goal is to share and discuss the White Book with the key stakeholders namely the government, the European Union in Kosovo and international financial organizations (IFI's), in order to collectively contribute to the improvement of the investment climate in Kosovo.

The process of drafting the White Book is very complex and credible since it involves real cases directly from the private sector which the investors face on daily basis. Furthermore, these issues and recommendations are discussed among the investors and key stakeholders and approved by the board of directors at EIC in order to ensure that these recommendations do not represent individual interests of one firm but rather they reflect the opinion of the entire respective sectors and are in line with European best business practices.

This approach or methodology of writing the White Book gives it precisely its credibility in representing the key barriers and solutions for a better investment climate in Kosovo.

Furthermore, the publication of the White Book will be public and will be discussed at the high level conference in order to clarify even further the positions of all stakeholders and to produce a commitment and a follow up process which will ensure the implementation, at a timely manner, of such valuable recommendations.

The White Book represents the following functions:

- *Comprehensive assessment of the current legislative framework in a number of sectors*
- *A tool to track developments in regulatory framework*
- *Draws attention to the issues to be addressed*
- *Sets practical recommendations for the improvement of business climate*
- *Quantifies progress through measurements of “progress card” in each sector*
- *Supports further economic convergence and EU integration*

An overview of the performance of investment climate in Kosovo

Kosovo is a small open economy with a limited but growing production base. The services sector is the largest segment of Kosovo's economy and its driving force, contributing largely to value-added, employment and local trade. Service activities account for 70 percent of Gross Domestic Product (GDP) in 2020 at basic prices and employment of about 85 percent of the total workforce in Kosovo (KAS, 2020). Wholesale and retail trade, real estate, transportation and storage, and financial services are the largest service sectors in the economy.¹ Industry accounts for 26.4% of GDP, with the highest contribution from the manufacturing and construction sectors (11.7% and 8.5% of GDP, respectively). The contribution of agriculture, forestry and fishing to Kosovo's GDP has declined considerably over the past decade, from 15% in 2008 to 6.9% in 2020, although it still accounts for a significant share of employment. Over the past decade, the growth of Kosovo's economy has been relatively strong, on the back of consumption growth supported by high inflows of remittances (over 18% of GDP) and credit from the expanding financial sector. However, given the economy's limited production base, the consumption-driven growth model has relied strongly on imports, which accounted for 56.1%² of GDP in 2019. In combination with the relatively weak export base – 29.1% of GDP – this has resulted in the build-up of significant external imbalances, including high trade and current account deficits, which in 2019 reached 43.8% and 5.6% of GDP respectively.

The structure of Kosovo's economy has influenced the effects of the pandemic crisis to be transmitted mainly through the channel of the economy's external sector. In 2020, Kosovo's external sector was characterized by an increase in the current account³ deficit to euro 480.7 million (7.1 percent of GDP), an annual increase of 20.4 percent, mainly due to the halving of the positive balance of services. On the other hand, the increase in exports of goods and the significant decline in imports due to the decrease in economic activity has affected the deficit in trade in goods to decline by 9.4 percent (4.5 percent increase in 2019) and drop to about 2.8 billion euros (41.5 percent of GDP). Furthermore, remittances received in Kosovo amounted to 980.1 million euros, representing an annual increase of 15.1 percent, while Foreign Direct Investments (FDI) in Kosovo reached the value of 341.7 million euros, representing a significant yearly increase of 34.2 percent. As a result of restrictive measures to manage the spread of the pandemic, economic activity declined by 3.9 per cent in 2020. Regarding 2021, the CBK⁴ projections suggest that economic activity will recover towards pre-crisis levels, marking an increase of about 4.4 per cent. This increase is expected to be generated by domestic demand and net exports. However, the risks to economic activity remain high, mainly due to pandemic developments and political developments.

¹ KAS – Kosovo Agency for Statistics (2021).

² World Bank (2021). World Development Indicators.

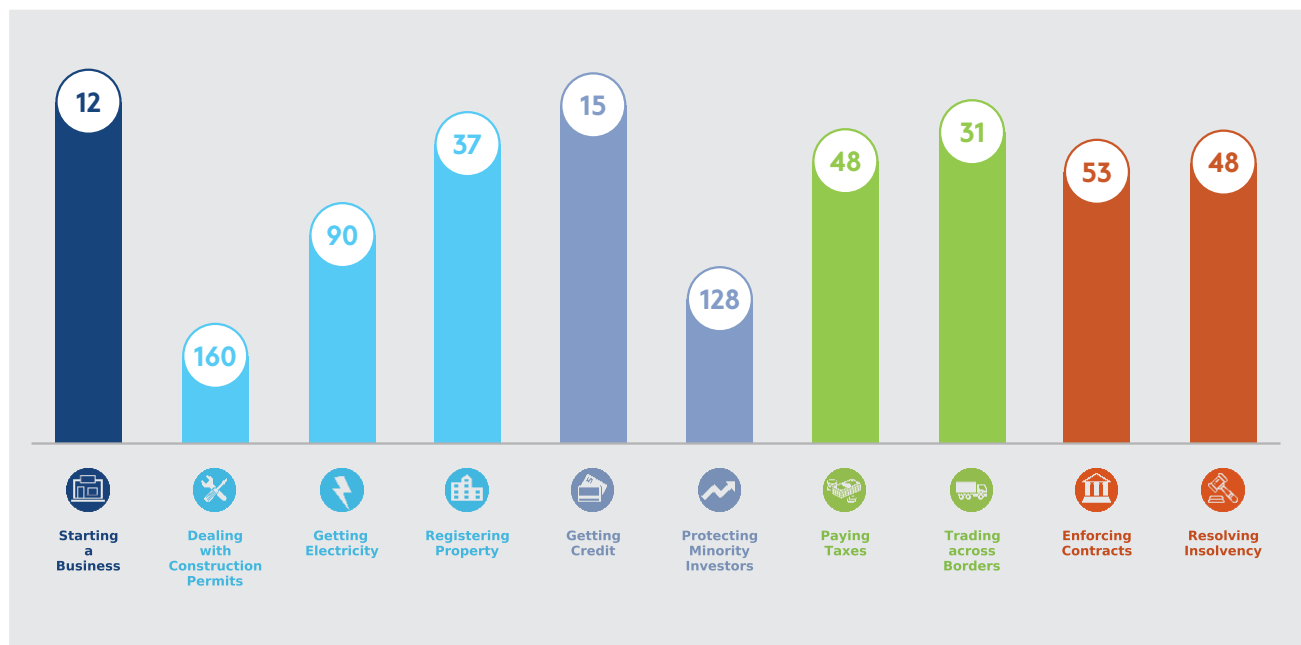
³ Data collected from Central Bank of Kosovo (CBK), current account balance.

⁴ CBK Annual Report – Macroeconomic Performance of Kosovo (2020).

As the main component of domestic demand, consumption is expected to record a real growth of 2.8 per cent, based on expectations that private consumption will grow by 2.8 per cent and public consumption by 2.4 per cent. Factors that are expected to affect the growth of private consumption, among others, are the increase in remittances, credit growth and the Economic Recovery Program. By the end of 2021, remittances are expected to record an annual increase of about 11.8 per cent.

Kosovo's index of economic freedom⁵ scored 66.5, making its economy the 58th freest in the 2021 Index. However, its overall score has decreased by 0.9 points, primarily because of a decline in property rights. Kosovo is ranked 32nd among 45 countries in the European region, and its overall score is below the regional average but above the world average. Kosovo's economy has been in the ranks of the moderately free since the beginning of its index grading in 2016. However, economic freedom is stymied by political instability, high corruption perception, an unreliable energy supply, a large informal economy, unresolved property disputes, and a tenuous rule of law reflected in low index scores for property rights and judicial effectiveness and government integrity. These low scores on very valuable indicators is reflected heavily on attracting potential investors in Kosovo. While in terms of doing business⁶, Kosovo was ranked 57th according to the report that covered 190 economies of the world with an overall score of 73.2 on ten indicators. Chart 1 shows in more detail the performance of Kosovo and its ranking in many indicators.

Chart 1: Kosovo's scores in doing business report in 2020



Source: Doing Business Report (2020)

⁵ Index of Economic Freedom – Kosovo (2021).

⁶ Doing Business Report 2020 – Easy of Doing Business in Kosovo.

As shown in chart 1, starting a business and getting credit scored the highest among 190 countries with a score of 12 and 15, respectively. Unfortunately, other indicators such as getting electricity, dealing with construction permits, enforcing contracts and resolving insolvency scored very low, reflecting FDI inflow.

Foreign Direct Investment in Kosovo

Investment in Kosovo has been modest; however, most of this investment, including foreign direct investment (FDI), has not supported the growth of the domestic production base or the tradable sector. Over the past decade, investment has mainly gone into the wholesale and retail trade, construction, transport, and financial service sectors. These sectors support domestic consumption and, except for financial intermediation, have limited impact on the growth of domestic productive capacities or productivity-enhancing spillovers. Similarly, FDI has been mainly market-seeking, with the largest share allocated to the real estate and construction sectors (nearly 60% over the past decade). For better illustration, table 1 highlights key sectors and their performance over the year.

Table 1: *Foreign Direct Investment in Kosovo during 2012-2020 by economic activities*

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total	229.1	280.2	151.2	308.8	220	255.4	272.1	254.6	345.7
Agriculture, forestry and fishing	-0.7	0.4	0.2	0.9	1.3	-1.3	0.1	1.5	2.8
Mining and quarrying	-24.5	-14.1	4.1	-36.9	-19.4	-4.9	-2.7	-6.9	29.1
Manufacturing	33.8	13.8	-35.1	20.0	4.2	6.1	-17.7	14.2	-4.6
Electricity, gas, steam and air conditioning supply	0.7	63.0	5.9	12.9	-0.4	-0.8	12.1	13.5	30.0
Water supply; sewerage, waste management and remediation activities	1.4	2.1	2.7	1.7	0.6	0.0	2.5	-0.6	0.2
Construction	30.4	15.3	-19.9	43.1	28.1	5.1	24.8	-17.1	11.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	14.2	14.5	8.3	12.6	14.0	9.0	19.6	-6.7	-8.1
Transportation and storage	37.5	0.8	0.7	0.4	0.9	-0.8	-0.2	-6.2	-16.0
Accommodation and food service activities	0.6	0.3	0.1	0.0	0.8	1.1	1.8	1.4	1.1
Information and communication	-3.3	2.5	0.5	2.4	-4.2	-3.8	-9.6	2.3	1.6
Financial and insurance activities	23.0	4.2	41.9	64.4	19.0	55.2	15.5	13.9	85.1
Real estate activities	95.1	121.2	118.2	153.3	139.7	154.7	205.2	223.8	201.1
Professional, scientific and technical activities	5.1	4.4	3.0	4.7	5.8	5.7	5.2	3.4	3.6
Administrative and support service activities	0.2	41.3	15.7	24.3	21.9	23.7	4.7	3.7	0.8
Public administration and defense; compulsory social security	0.9	1.5	2.2	2.1	1.9	1.3	0.9	1.7	1.1
Education	0.1	0.2	0.0	0.3	0.8	0.7	0.7	1.3	1.3
Human health and social work activities	0.7	0.9	0.8	2.7	1.3	-1.0	-0.4	0.6	0.3
Arts, entertainment and recreation	0.3	0.6	0.0	...	0.1	0.0	0.5	0.5	-0.1
Other service activities	0.9	1.2	0.4	-1.4	3.9	3.7	7.2	2.8	1.7

Source: author's compilation based on CBK data (2021)

Trade in Services

Trade in Services for 2020 was characterized by export revenues in the amount of €994.4 million. The sectors that have performed best are: travel with €628 million, Information and Communication Services (ICT) with €71.7 million, professional / business services with €139.6 million, construction services with €12 million, and personal services, cultural and recreational with €3.2 million. Unlike the previous year, 2019, where the export of services was €1,675 million, 2020 has had a significant decrease in exports in the amount of €680.6 million compared to the previous year due to the Covid-19 pandemic. However, it is interesting that 2020 has resulted in a more significant increase in communication services, €4.5 million and professional / business services, €18 million. The following table 2 presents Kosovo's exports and imports in services between 2018 and 2020.

Table 2: *Foreign Direct Investment in Kosovo during 2012-2020 by economic activities*

Years	2018	2019	2020
Export of services	1,561.6	1,675.1	994.9
Import of services	705.8	749.1	603.3

Source: author's calculations based on CBK data (2021)

While in terms of sectors, table 3 illustrates over the years their performance from 2018 to 2020. From table 3, we see that 2019 had the highest performance only in the travel sector had exports worth 1.23 billion euros, heavily based on diaspora visits to the country. Whereas 2020 has had the highest performance in the ICT sectors and professional / business services, due to the pandemic situation with COVID-19, many services are provided online, affecting access to foreign and nationwide markets.

Table 3: *Export of top sectors during 2018-2020 in million euros*

Sectors	Travel	ICT	Professional business	Construction	Culture personal Recreative	Difference total (+ -)
2018	1,228.2	55.8	122.5	23.1	3.7	–
2019	1,321.4	67.2	121.7	20.5	6.2	+93.2
2020	628	71.7	139.6	11.9	3.2	-693.4

Source: author's calculations based on CBK data (2021)

Trade in goods

Compared to services, Kosovo, during 2020, has a trade deficit that reaches the figure of 2.8 billion euros. Despite the 9 percent decline from 2019 is still very high and comes as a result of the mismatch between the value of exports and imports. Exported goods reached the value of 474.9 million euros, an increase of 91.4 million euros or 23.9 percent higher compared to 2019. In terms of imports, they marked a value close to 3.3 billion euros, lower by 200 million euros, respectively a decrease of 6 percent. Table 4 shows negative trade balance of good over the years.

Table 4: Trade in goods during 2015 - 2020 in million euros

Indicators/ year	2015	2016	2017	2018	2019	2020	↑↓% 2020/2019
Export	325,294	309,626	378,010	367,500	383,491	474,960	24%
Import	2,634,694	2,789,493	3,047,018	3,347,007	3,496,942	3,296,918	-6%
Trade balance	-2,309,400	-2,479,867	-2,669,008	-2,979,507	-3,113,451	-2,821,958	-9%

Source: author's calculations based on KSA data 2021

As shown in Table 4, the huge negative trade balance of Kosovo remains challenging. While in terms of the geography of trade, the structure of partners remains largely the same, for both exports and imports, respectively. Moreover, in terms of exports, a large part of exported goods went to EU countries, reaching the value of 174.4 million euros or 37 percent of total exports with an increase of 26 percent. However, we can consider that the most important countries for domestic exports are the following countries: Germany, Italy, the Netherlands, and England. Meanwhile, imports from the EU amounted to 1.5 billion euros, a decrease of 12 percent. Most imported goods come from EU countries (representing 46.7 percent of total imports), mainly from Germany, Italy, Greece, Slovenia, and Poland. The following table 5 presents the trade exchange of Kosovo with EU.

Table 5: Trade in goods with EU in million euros

Indicators/ year	2015	2016	2017	2018	2019	2020	↑↓% 2020/2019
Export	106,052	69,998	94,226	110,874	138,534	174,418	26%
Import	1,112,892	1,202,110	1,312,241	1,457,340	1,749,435	1,539,209	-12%
Trade balance	-1,006,840	-1,132,112	-1,218,015	-1,346,466	-1,610,901	-1,364,791	-15%

Source: author's calculations based on KSA data 2021

In the following two tables, 6 and 7 are presented the most critical trading countries for exporting domestic goods to the EU, representing 88 percent of total exports to the EU in 2020 and the most important trade countries for imports from EU countries in Kosovo, which represent 85 percent of total imports from the EU in 2020.

Table 6: Exports to EU in million euros

Country	Exports 2020
Germany	43,984
Italy	28,724
Nederland	21,831
Great Britain	14,803
Sweden	8,969
Belgium	7,884
France	7,646
Austria	7,066
Bulgaria	7,031
Finland	5,326

Table 7: Imports from EU in million euros

Country	Imports 2020
Germany	427,227
Italy	185,783
Greece	138,904
Slovenia	104,065
Poland	103,320
Bulgaria	87,903
Croatia	87,021
Austria	68,974
Hungary	52,294
France	46,220

Trade with CEFTA

Kosovar goods, exported to CEFTA countries, reached the value of 210.7 million euros, covering 45 percent of total exports, an increase of 27.8 percent compared to 2019. While imports from CEFTA countries are 18.7 percent of total imports, they increased by 22.4 percent compared to 2019. The value of goods imported from CEFTA countries amounts to 615.4 million Euros. Kosovo's main trading partners in CEFTA countries remain Albania and Macedonia, with Albania being the most important destination for Kosovo's exports, covering 23.2 percent of total exports. Tables 8 and 9 below provides information on exports to CEFTA countries.

Table 8: Exports to CEFTA in million euros

Country	2016	2017	2018	2019	2020
Albania	42,054	60,257	68,252	67,378	110,231
Macedonia	38,573	45,850	43,737	44,125	44,082
Montenegro	13,889	19,877	19,425	19,557	18,577
Serbia	41,331	48,245	33,529	27,361	30,522
Bosnia & Herzegovina	8,405	8,793	8,556	6,383	7,286
Moldova	12	3.2	15.7	12.85	8.45
Total	144,264	183,025	173,515	164,815	210,705

Source: author's calculations based on KSA data 2021

Table 9: Imports from CEFTA in million euros

Country	2016	2017	2018	2019	2020
Albania	115,791	151,815	206,492	223,899	190,994
Macedonia	156,715	156,495	172,176	240,641	188,728
Montenegro	13,692	16,038	16,322	28,620	24,331
Serbia	387,783	449,920	388,928	5,784	174,043
Bosnia & Herzegovina	79,112	81,673	69,164	2,149	36,516
Moldova	214	156	479	1,621	857
Total	753,307	856,097	853,562	502,713	615,470

Source: author's calculations based on KSA data 2021

Basically, the trade balance remains high, although the absolute gap between import costs and export earnings has widened essentially owing to imports growing at an average relative year-on-year growth rate of about 12 percent during 2015–2020. Exports have also grown at an average rate of 23 per cent per annum over the same period, albeit from much lower base levels. Thus, the low rate and instability of export growth are such that export levels are not actually converging – or catching up – to import volumes. This pattern of limited export growth in the context of rising trade imbalances is reflected in the slow but evident improvement (from –0.78 in 2015 to –0.75 in 2020) in the normalized trade balance, which measures the difference between exports and imports to total external trade. As suggested by the trade dependence index (which measures a country's total external trade relative to domestic GDP), Kosovo's level of trade integration with the world economy amounted to as much as 59 per cent of domestic GDP in 2020. Export propensity (share of exports in GDP) measures the degree of reliance on foreign markets by domestic producers. In Kosovo, this index had remained consistently low even in 2020. This trend reflects not so much a lack of export orientation in Kosovo's productive economy. More fundamentally, it reflects the slow pace of reactivation of Kosovo's productive capabilities – whether for export or domestic. In the following table, 10 are presented more in detail the indicators.

Table 10: Trends of indicators over the years

Indicators/Years	2015	2016	2017	2018	2019	2020
Trade balance (mil)	-2,309	-2,480	-2,669	-2,980	-3,113	-2,822
Normalized trade balance	-0.78	-0.80	-0.78	-0.80	-0.80	-0.75
Export-import coverage index	12%	11%	12%	11%	11%	14%
Trade dependence index	51%	51%	53%	55%	55%	56%
Export propensity index	6%	5%	6%	5%	5%	7%
Import dependency index	75%	78%	81%	89%	89%	83%
Relative growth rates of exports	22%	21%	24%	23%	24%	27%
Relative growth rates of imports	10%	10%	11%	12%	13%	12%

Source: author's calculations based on KSA data 2021

Trade in goods from January to September 2021

January-September of 2021, compared to the same period of the previous year, marks an increase in the volume of Kosovo's trade with other countries. Thus, the trade turnover compared to the same period last year results in a rise of 46 percent, reaching the value of 1.2 billion Euros. Nevertheless, even during this time, Kosovo's trade balance is characterized by a high deficit of 2,791 million euros. Referring to statistical data, we understand that in the general composition of trade exchanges, imports represent 86 percent of foreign trade and exports with a tiny percentage of only 14 percent. Goods exported from Kosovo in January-September this year marked an increase of 63 percent. The export value amounts to 541.2 million Euros, the higher for €209 million. We also have an increase in imported goods where the value of imports in January-September 2021 is over 3.3 billion euros, an increase of 1 billion euros which is 44 percent higher than January-September 2020. The structure of partners remains largely the same, for both exports and imports, respectively. Statistical data show that Kosovo mainly trades with two countries, namely European Union countries and CEFTA countries.

A large part of exported goods went to EU countries, reaching 175.7 million euros or 32.5% of total exports. However, we can consider that the most important countries for domestic exports are: Italy, Germany, the Netherlands, Bulgaria, etc. Meanwhile, imports from the EU amounted to 1.4 billion euros or 44.6% of total imports. Kosovo imports goods mainly from Germany, Italy, Greece, Poland, and Slovenia. Likewise, CEFTA is an important trading partner. Kosovar goods which are exported to CEFTA countries cover 37.9 percent of total exports for January-September 2021. In the period January - September 2021, exports to CEFTA countries were about 205.1 million euros, an increase of 37 percent for the same period. The most attractive countries for Kosovar goods are Albania, Macedonia, and Serbia, followed by Montenegro, Bosnia, and Herzegovina. Imports from CEFTA countries were about 631.8 million euros, an increase of 53 percent, and covers 19 percent of total imports for this period. Kosovo imports goods mainly from Serbia, Albania and North Macedonia, representing 91.1 per cent of total imports from CEFTA.

Telecommunication Sector

Key elements of the telecom sector

The Regulatory Authority of Electronic and Postal Communications (RAEPC) reported the total number of fixed Broadband internet users (Q1, 2021 with 373.800) and mobile internet 3G/4G users (Q1, 2021 with 1.97 million user), representing 125.8 percent penetration rate on fixed broadband internet and 81 percent penetration rate on mobile internet.

Fixed market in Kosovo continues to grow with same trend, where according to RAEPC publication data from 2018 the household penetration rate overreached above 100%. Three main companies offering fixed services in Kosovo market remain such as: IPKO, Artmotion, and Kujtesa which covers over 73% with its fixed service Kosovo's market, while IPKO and Telekom of Kosova (Vala) provide also mobile internet (3G and 4G) service. The mobile telecom market in Kosovo is mainly shared by two mobile network operators (Vala and IPKO), and third operator- MTS operator as local subsidiary of Telekom Serbia with limited authorisation provides its services to small number of users mainly in the areas populated by Serbs minority. In addition to this, in Kosovo market continues to operate MVNO D3 operating on IPKO's network mainly providing data SIM service. Mobile revenues in Kosovo market continues to decline, these revenues significantly have continued to shrink during 2019 and 2020 with almost 29%, with revenues falling from 108 million EUR in 2018 to less than 76 million EUR during 2020. Kosovo's telecommunications services continue to be predominantly prepaid service especially in the mobile segment and one of the least expensive in the region with having similar quality of services and benefits in comparison with regional telecommunication providers. RAEPC data indicates mobile telephony penetration in Kosovo is over 108.5 percent (Q1, 2021), covering over 99 percent of inhabited areas and 91 percent of Kosovo's territory.

Key elements of the telecom sector

Regional roaming agreement of Western Balkans "Roam like at home" supported by the European Union and signed in April 2019 among 6 countries of WB was implement successfully. Roam like at home agreement has entered into force in the 6 countries of Western Balkans as of 1 July 2021, enabling its respective mobile users while in roaming in the WB , communication and entertainment without surcharge from their domestic retail prices for calls, SMS and data. Officially from December 2016 Kosovo has obtained new country code (+383), while the implementation of the country code was done in the phases. Since June 2019, the IPKO operator has completed the implementation of the country code and the migration of all IPKO mobile phone users, while the state operator Vala, and has failed to complete this process until today. The sector of digital television services is regulated by the Independent Media Commission, which so far has licensed around 42 network operators that distribute digital television services in Kosovo.

The transition process of TV broadcasting from analog to digital has stagnated, the IMC authority long time ago took some very initial steps regarding the transition process, and no further action toward this issue have been taken. Such a transition would create new opportunities, but it is unlikely that this transition of the TV signal from that analog to digital will happens in near future.

Opportunities

Mobile network operators are committed to improving their 4G services so there will be opportunities for provision of related infrastructure while starting to assess opportunities for 5G in the near future.

It should also be reported that RAEPC, after constant pressure from the operators has finally, in 2019, evaluated the frequency spectrum and thus decreased the prices for acquiring such spectrum. While the authorization for usage of 1800MHz and 900 MHz have been extended for additional period of 20 years, operators, in order to provide better services in existing and future technologies will need more resources, therefore, the decrease of prices was needed for a normal function of telecommunication sector.

Challenges

The telecommunications market in Kosovo is becoming more challenging and unpredictable. The most significant developments in the market is the fixed service segment where the competition continues be very aggressive not only introducing and pushing new offers in the market with cheap prices and very rich TV including sport content but also trying to ensure a certain number of local channels as their exclusive content (they have taken advantage of amendment of legislation of Independent Media Commission, therefore gaining exclusive rights for broadcasting of some local channels, and making therefore very high priced and conditional offers on their behalf).

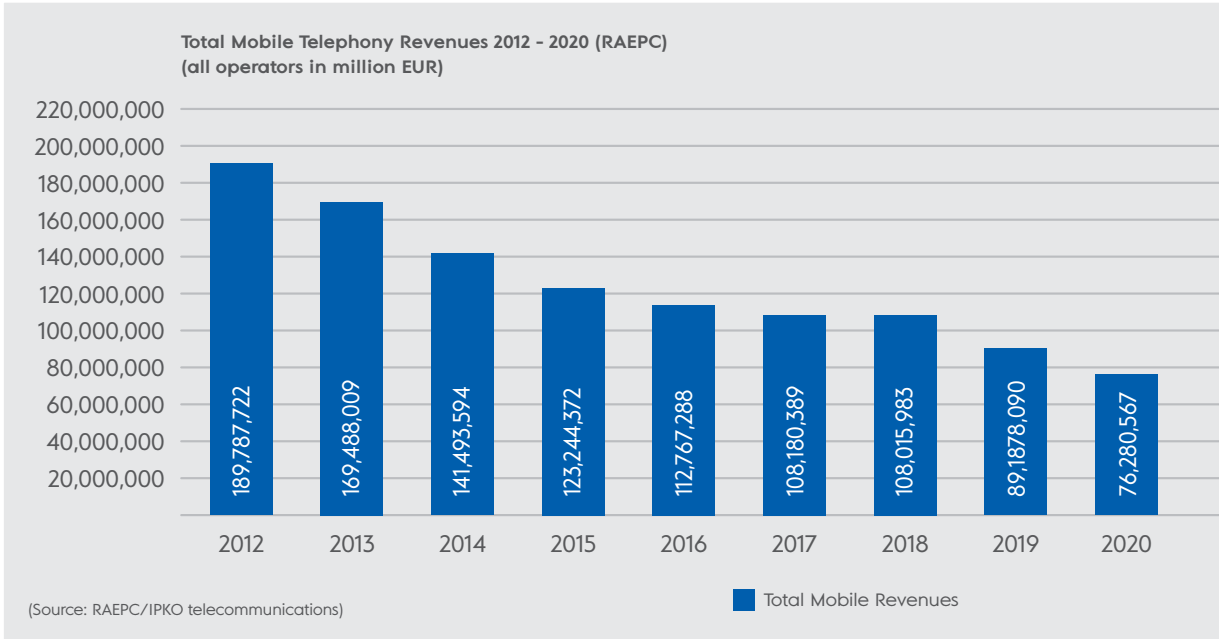
Furthermore, there is a large presence of small ISPs, especially of illegal OTT/IPTV operators, which easily penetrate and expand their services by broadcasting television content without any copyright for retransmission. The violation copyright on the broadcasting rights and tax evasion directly affect the pricing strategy. Regulatory authority (Independent Media Commission) is not playing its role on fighting such illegal operations, while prosecution and investigators request material proofs which cannot always be obtained in such cases. There are regulatory hindrances from the part of IMC, which are making the operation in the market even more difficult.

Meanwhile, in the mobile segment, recent roaming agreement of the Western Balkans "roam like home", the high presence of WiFi networks and its free use, as well as the use of wide range of mobile communication applications like Viber, WhatsApp, has led the revenue decline in this segment. Despite the efforts of the operators to boost the traffic usage and upgrade their customer base, the mobile market continues to remain largely prepaid (about 80 percent of the market). This segment has been strongly influenced by free usage of the Wifi network and various mobile communication applications enabling free communication where this has significantly contributed to a decline of voice and SMS services in international and national traffic. On the contrary, till now mobile data traffic hasn't been affected much.

While operators need to invest in mobile data in order to keep up with the market developments, they continuously face market challenges described above and also regulatory challenges, while these last year's facing also the situation with pandemics, along which, no support was provided from the regulatory which would enable also the possibility of investments. Main regulatory challenges are excessive annual regulatory fees for usage of frequencies, numbering and supervision of the market imposed by RAEPC, wrong interpretation of Law on Public Procurement by PPRC, difficulties with permits to roll out the network, bizarre and illegal municipal taxes, setting of tariffs for copyright works (explained in details in the next section, together with recommendations on market improvements).

In general, Kosovo mobile market continues to be under pressure because operator's revenues have continuously decreased over the past 6-7 years. According to RAPEC reports, the overall mobile revenues decreased to as low as 76 million euros in 2020 or comparing to 2018, mobile revenues have decreased by 29%⁷.

Table 1: Kosovo mobile revenue (in million Euro)



⁷ <http://www.arkep-rks.org/?lcid=1,162>

Main issues identified

- **Contract enforcement**

While RAEPC has evaluated and thus decreased the price for frequency spectrum in 2019, which was essential for normal functioning of the market, the annual fees for usage of the same frequencies, also annual fee for usage of numbering and the one for supervision of the market remain very high. When comparing with EU and regional countries, Kosovo remains as one of the countries with highest annual regulatory fees, as annual spectrum costs represent 15.5% of operators' mobile revenue, which is three times higher than the average for all international markets (4.4%). Effective spectrum pricing policy must balance a number of competing objectives, as this directly impacts operator's returns on investments, distorting investment decisions, and also imposes financial constraints on operators. Therefore, we consider that such enormous annual regulatory cost can reduce network investment and lead to higher consumer prices.

- **Deliberate breach of Law on Public Procurement in the telecommunication sector**

The issue remains unsolved, for six years now. As put in the previous White Book, the relevant institutions responsible for public procurement in Kosovo, namely, Public Procurement Regulatory Commission (PPRC) and Procurement Review Body (PRB) are considering Telekom of Kosovo as public authority or administration and not as publicly owned company, which it is. Such interpretation from both these institutions came as a result of a legal opinion on application of article 9.4 of the LPP, which foresees that if a service is available from another public authority, the public authority intending to buy such good or service should make sure that such service or goods are not available from another public authority. By this interpretation, Kosovo Telekom is defined as public authority. Such definition was adopted by PPRC in 2016, and since 2017 it is being applied also by PRB, therefore allowing the direct granting of all state institutions' contracts' to Telecom Kosovo without using open tender procedures. Based on this interpretation, private operators are now not able to compete on the large market of state institutions, losing some clients (municipalities, ministries and other state authorities) which in the past had conducted tenders and granted contracts to private operators.

Such deliberate breach of Law on Procurement is also breach of the Law on Foreign Investments and the Stabilization and Association Agreement (SAA), which aim to protect foreign investor and improve general investments and business development atmosphere in Kosovo, which is indeed essential into attracting new foreign investors.

While the breach in hand has resulted in serious distortion of the competition, the Government has, in April 2020, received a recommendation from the Competition Authority of Kosovo that such activity is in breach of the competition, however, it has chosen to ignore the same.

As the only protection, IPKO has sent all decisions of the PRB to relevant courts and in two cases the court established that there was breach of Law on Public Procurement, and we have now started to request for damages for said cases. However, courts are acting very slowly while private operators are being damaged heavily, for a period of 6 years now.

The new Law on Public Procurement is in process of being amended for three years now (as it was concluded that it needs to be aligned with EC Directives and SAA), therefore, the Government should extend hand to private sector and act on proceeding faster with this law, as it is evident that they will not stop the breach at any point.

- **Illegal operators and copyright issues on fixed market**

There are many illegal operators providing IPTV services (hundreds of channels) without any copyrights for Kosovo and without any intervention from the media regulator (IMC). For almost 12 years now, dozens of complaints have been filed at IMC and court, without any result. We also initiated criminal charges against individuals conducting such illegal activities, however, no specific results so far, cases are still pending for years, whereas the harm is increasing on daily basis. On latest meeting with IMC, they have already confirmed that they detected some suspicious IPs for one of the illegal operator we claimed against, however, they claim not having authority nor the resources to further examine such case. This leads to the perception that IMC is hesitant on taking measures pursuant to its purpose and their lack of action is having high impact on the rise of this phenomenon. As long as illegal operators, perform their work illegally and suffer no consequences, it is evident that they will grow in number.

- **Illegal taxation by municipalities and hindrances for expanding mobile network**

This remains a very serious matter and all operators are facing consequences. As per Law No. 03/L-040 on Local Self Government, Municipalities decide on their own Regulations on taxes, tariffs and payments. Such Regulation is only approved by the Ministry of Finance prior to its adoption, and it is not checked by any other relevant ministry or authority that also deals with and/or regulates electronic communications services. This has resulted in not having a unique taxing system for all Municipalities of Kosovo, but each Municipality has its own taxing system for different activities within their territory. Most of the taxes applied are illegal, however since there is no monitoring system by any central authority, they still keep applying them.

Some of the illegal taxes applied are: Tax on Immovable property (even though there is a decision of Supreme Court and the Law on Electronic Communications explicitly excludes telecommunication network as taxable); tax for lease of GSM antennas even in cases when located in private lands: annual tax on laying the infrastructure, tax on business activity (even though Kosovan authority regularly report that they have abolished the annual business license fee, while the Municipalities have only changed its naming), and similar.

In addition to above, mobile operators face huge obstacles when expanding its network. Few municipalities have requested consents for non-ionizing radiation for GSM sites, even though such request is not foreseen by the Administrative Instruction no.01/2017 for Municipal Environment Permits. This has caused long delays of the process and additional costs for operators. We have been opposing these taxations in front of the Court, and for one of the cases we have received the Judgment of the 3rd instance (Supreme Court), which had ruled in favor of one of the Municipalities. We have addressed to Constitutional Court for assessment of such Judgment, however we are of the opinion that it is challenging to treat each taxation on case to case basis, as a unique taxing system should be established in Kosovo. Other critical issues which arose from last publication of White Book

- **Implementation of Number Portability by ARKEP/RAEPC**

The Country Code +383, has been fully implemented from IPKO side on 1st of June 2019. IPKO despite all the difficulties presented along the process, technical, operational, financial, resources, and also those of public opinion, has been working with increased intensity to undertake all the necessary actions, in accordance with RAEPC decisions. This migration to the Code has impacted IPKO in many ways, except in the material way, it has affected many of our customers, who were not able to use some of their regular apps, due to the applications not accepting the new country code +383. At the same time, it impacted also the roaming side. All the agreement with roaming operators were terminated due to the change of the code, and even now we have not achieved to sign all those agreements again with the roaming operators. The incumbent operator at the same time, did not have any obstacles in this regard, as it did not implement properly the CC at the time and until today, it is not clear whether it has or not implemented the code fully yet.

Such non implementation in its entirety of the country code +383 by the state owned operator, is highly having impact on other projects to be implemented, such as Number Portability because of technical issues. Number Portability as result, cannot be proceeded with until the other operator fully implements country code. The ARKEP Regulation on Number Portability has been approved for years now, however due to the situation above there are no developments in this regard.

It is of absolute essentiality organization on implementation of Number Portability, in today's economic and operational environment. Kosovo most probably is the only country in EU not implementing this. The effect of appropriate measures and actions not being taken properly is harming the customer, telecommunication sector in Kosovo and IPKO, which is fully capable of undergoing all the relevant procedures for implementation of the Number Portability for two years now, whereas is not given the possibility of such, as result of lack of action from the Regulator.

It is crucial that the obstacles in the path of creating better conditions for increasing and protecting the competition are overcome and the Regulator should take concrete actions to ensure such conditions.

- **Change of must carry obligation from IMC**

On November 2020, Independent Media Commission adopted the new Regulation on Distribution of audio-visual services, by changing the must carry rule/Article 9. The must carry rule was previously regulated by IMC, via its Regulation no. 2016/01 for distribution of audio and audio-visual media services. Based on the previous Regulation operators were obliged to include on their platforms all licensed televisions that have the status of must carry channel. Based on this, all cable operators in Kosovo carried around 24 channels which had the status of must carry, without any compensation for any of the parties. With the new amendment, this regulation obliges distribution operators (such as IPKO) to carry on their platforms televisions that have a license for terrestrial broadcasting (can also be seen with simple antennas). Whereas, the preliminary regulation no. 2016/01, which has been in force for more than 5 years in a row, and has managed to finally consolidate the market, as a criterion for determining the status of must carry had the content that televisions have broadcast, defining them with status with mandatory transmission of televisions that had generalist content, for the sole purpose of ensuring and promoting media pluralism, which fails to be achieved with the current regulation.

IPKO, but also other operators have opposed this change at the time of the public consultation, but it was evident that the change was made with full tendency and pressure from stakeholders who are favored by this change.

The misuse of this obligation has already begun, because some televisions have already transferred the right to distribute their channels to Artmotion and Kujtesa, and have sent abnormal offers, which small operators have refused.

Same approach was intended also towards IPKO, and extended period of negotiations took place which resulted unsuccessful as these televisions were centered on abusing with their favourable positions (which IMC made possible) therefore sending enormous and conditional offers which makes no operator able to afford. As result as of 1st of September 2021, 3 local channels were excluded from our platform (as per their request).

As result, we are now found in a very unfavourable position and for that, IMC is responsible due to taking actions and adopting regulations that distort the audio-visual market. Note that on the same unfavourable position are also our customers, who have no longer access to these local channels.

- **Tariffs for copyright works for collecting societies**

After failure of almost 10 years of negotiations between operators and collecting societies, the Government has on 19.10.2020 issued the Decision 12/36 which finally set the tariffs for copyright works that are rebroadcasted via cable operators. The tariffs set are extremely high, taking into account the market conditions, namely, IPKO will be obliged to pay 0,45EUR per user, which will result in between EUR 500k-600k yearly. Whereas the position/proposal of cable operators, was 0.5 and 1%, what would result somewhere between EUR 50k to 100k yearly. Such proposal which was also supported by an independent report made by an expert company in Slovenia.

Upon receipt of the Decision of the Government we have reacted, and have requested from the Government to take under consideration and comply with the legal requirements for setting of the tariffs. To address the situation, it should be emphasized that the Decision in question has been an arbitrary, it did not involve the operators in final stage of definition of tariffs. At the same time, it was issued without defining conditions on how shall the collecting society operate, e.g.: the collecting society has a very general license and we have countlessly asked for confirmation if the collecting society will be one-stop-shop, more precisely if it will include the rights for all audio-visual work being broadcasted but we did not receive such information. Unavailability of such information, shows just how establishment of such society lacks transparency.

As result of our continued appeal, we have succeeded to postpone the application of the decision for 6 months, based on the Decision 13/38 issued on 30.10.2020. However, the former Government, even though it has promised to review the prices, it did not. At the moment we are in procedure of arranging the meeting with Minister of Ministry of Culture, Youth and Sports to enable renegotiation and resetting of tariffs, so that new proposal is submitted to the PM, however as this issue has been subject of discussion for so long now, us cable operators remain sceptic on how this matter will turn out at last.

It should be noted that cable operators at the same time are under extreme pressure from the Collecting Society, whom has filed lawsuit proposing security measures against 5 biggest cable operators in Kosovo, and have been threatening of filing criminal charges against responsible individuals of each operator, though this case clearly does not have any element of criminal offence. In addition to that, this pressure as said, is centred on 5 biggest operators, whereas other 32 smaller licensed operators are not subject of any of their request. This fact, reveals even more, our questions related to their functionality and their intention.

It is crucial that a solution is found related to this issue, as we seek payment of tariffs when those are properly set. Thus our intention is not to avoid the payment, but decrease of the amount, as if also all the legal requirements were met before setting the tariffs, the market in Kosovo does not allow us to meet their request.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
1	Decrease of annual regulatory fees for usage of frequencies	2020		X	
2	Implementation of procurement law on telecommunication market	2020	X		
3	Fight against illegal operators and copyright issues on fixed	2020	X		
5	Removal/improve of illegal taxation by municipalities and hindrances for expanding mobile	2020	X		

Recommendations for market improvement

- **Illegal operators and copyright issues on fixed market**

IMC, as regulator of audiovisual market, is expected to finally take this situation seriously and address the same by engaging all relevant authorities such as police, prosecution and court.

- **Illegal taxation by municipalities and hindrances for expanding mobile network**

A unique and lawful taxing system should be adopted by all municipalities, avoiding all illegal and unnecessary taxes. The relevant ministries should all cooperate in order to create such unique system. There should be no request that are not foreseen in applicable laws and regulations related to putting mobile antennas.

- **Implementation of Number Portability Project**

Regulatory Authority on Electronic and Postal Communications should take concrete actions on implementation of the Number Portability, which should not take more time than first half of 2022.

- **Amendment of the must carry obligation**

IMC, as regulator of audiovisual market should take measures on promoting media pluralism and on limiting the possibility of abuse of their position by televisions and also operators. Due to the fact that IMC failed to control the abuse of must carry obligation, we expect for them to change the must carry obligation, as defined in Regulation No. 2016/01.

- **Tariffs for copyright works for collecting societies**

Ministry should propose to the Prime Minister new proposal of decreased tariffs for copyright works for collecting societies.

Banking Sector

Key elements of the banking sector

The banking system in Kosovo is currently well capitalized, liquid and profitable. 11 banks operate in the market with 8 commercial banks (6 subsidiaries of foreign banks and 2 locally owned) and 3 branches of foreign banks with total assets of € 5.3 billion or 64 per cent of GDP at year end 2020. The banking system is majority foreign-owned, and includes subsidiaries of German (ProCredit), Austrian (Raiffeisen), Slovenian (NLB) and Turkish (TEB) parent banks. System-wide CAR is above 16.5 per cent, liquidity ratio is well above the regulatory minimum and return on equity 14 per cent. Asset quality is acceptable. NPLs are the lowest in the region (2.7 per cent at year-end 2020), as a result of stricter lending standards, better enforcement for problem loans and overall expansion of lending by commercial banks. In the following, the increase in NPLs reflects the increased risk posed by the pandemic situation. The coverage level of non-performing loans with provisions in this period was 139.6 percent from 163.5 in the previous year. Whilst remittances from the Kosovan diaspora initially slumped in 2009, they have recovered strongly and add some stability to the deposit base.⁸

Key indicators of the banking industry

The banking industry in Kosovo has shown continuous stability and sustainability in providing security and reliability to the citizens of the Republic of Kosovo. The banking industry has recorded positive growth in almost all its key indicators, which shows a sound market of this industry.⁹ The structure of banking sector liabilities is dominated by deposits, which represent more than 80 percent of total liabilities. Deposits at the banking sector have recorded an annual growth of 11.5% percent, amounting at euro 4.3 billion. Deposits in the banking sector consist of household deposits, which participate with a share of 68.5% percent in total deposits, whereas the deposits of private sector enterprises compose 24.0 percent of total deposits at the end of 2020.

Table 2: *Structure of Assets of the Banking Industry*

Structure of assets of the banking industry (million euro)					
Description	2016	2017	2018	2019	2019
Cash and balances with CBK	457.3	499.4	541.8	622.5	798.8
Balances with commercial banks	342.0	296.6	340.8	440.6	562.2
Securities	510.3	486.4	430.2	526.5	584.3
Loans and leasing	2,230.0	2,485.5	2,755.5	3,031.6	3,246.6
Fixed assets	58.5	60.1	79.6	98.9	118.5
Other Assets	39.0	41.8	37.5	40.1	54.9
Total assets	3,637.10	3,869.80	4,185.50	4,760.50	5,365.34

⁸ European Bank for Reconstruction and Development (EBRD)

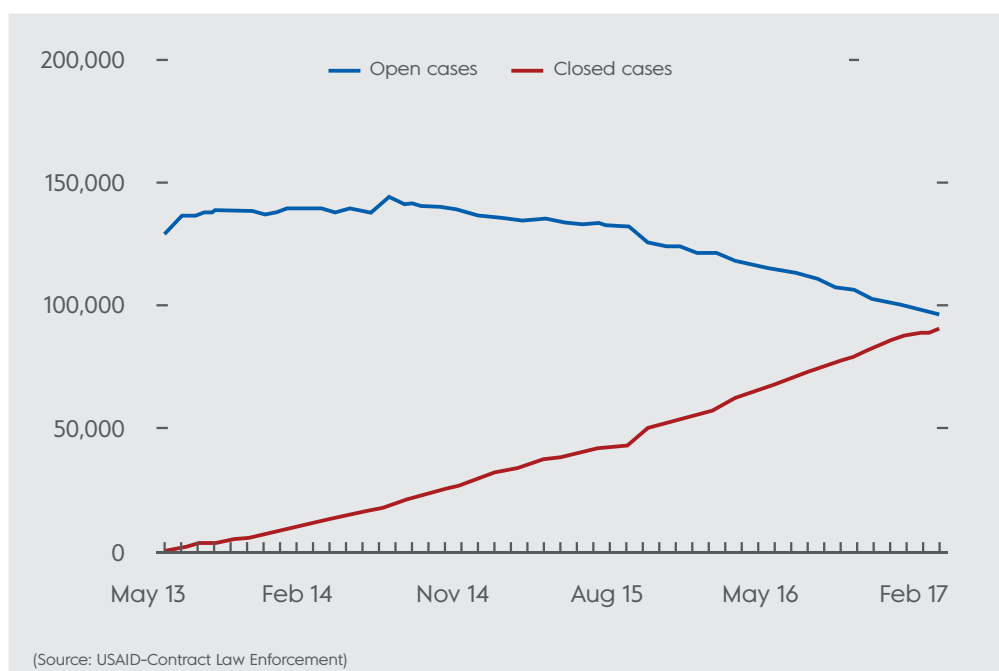
⁹ <http://www.arkep-rks.org/lcid=1,162>

Main issues identified

- **Contract enforcement**

One of the main barriers of the banking sector for doing business is contract enforcement. Based on our internal survey, there are over 7,000 backlogged court cases only for the banking sector left from previous years in Kosovo justice system. It is accounted that these backlogged court cases have a value over 150 million EUR!

Figure 1: Kosovo: Court Backlog Clearance



As the above chart indicates, the private enforcement agents system since its beginning has had a significant role and still continues to play an important part into reduction of court backlogs and eased asset recovery.

- **Reduction of cash transactions**

Based on different publication for Kosovo economy, it is estimated that 30% of Kosovo GDP is informal.¹⁰ Informal economy is developed mainly through cash transactions which are not reported. Our society is cash based which burdens this issue even more. Bringing this amount of money within the legal system will help to invest this money in the economy.

¹⁰ European Commission Kosovo Report 2018.

- **Electronic signature**

The usage of electronic signature is not yet formalized within Kosovo, which represents another barrier for doing business in Kosovo. It is expected that during the year of 2021 the Law on Electronic Identification to be approved within the Kosovo Assembly.

- **Prevention of legal uncertainty and better implementation of the existing legislation**

Banking sector often has been challenged by different respective institution where laws have been interpreted in arbitrary way where in some cases banks have been asked to implement legislation even on retroactive bases. These cases have created uncertainty on doing business where every public institution can interpret the law in its own way.

- **Glitch over the implementation and interpretation of the new law's/regulations (ad-hoc interpretations)**

The political instability and the associated policy making infrastructure producing ad-hoc decision making on fiscal and other policies represent an obstacle for the investors such as banking system. Implementation of laws and regulations should be aligned with the prevailing conditions of the external environment and the endurance of the existing systems and economic sustainability of introducing new policies. Thus, implementation of EU regulations and best practices should also be followed with the aftermath analyses preparation for capacity building of human resources and IT infrastructure allowing easier implementation and fewer places for ad-hoc decision making which further leads to being the opposite of best practice implementations.

- **Poor efficiency of the court system**

Kosovo's inefficient court system hindered bank lending and economic growth as one of the main challengers of countries prosperity process. Kosovo's courts have a large number of unsolved cases due to low institutional capacity, weak processes. Thus, as creditors could not efficiently obtain and enforce contracts against debtors, the banking system attempted to mitigate such risk by more collateral and higher interest rates, which negatively impacted credit growth throughout the years. The back log of more than 100 thousand cases within the country of 1.8 million inhabitants makes Kosovo the worst amongst the Balkan countries. In the meantime in contradiction with the negative trends of contract enforcement process and all other components of PESTEL analyses relevant for investors the lending rates continued with the decreasing trend due to decrease of a single component that of the cost of funding.

- **Lack of Commercial Court of Kosovo**

Kosovo faces a serious crisis in the ability of its courts to enforce civil judgments because all proceedings for commercial judicial disputes between legal entities are conducted by a Department within Basic Court in Prishtina which consist 4 judges for all court cases at the level of the Republic of Kosovo. A separate Economic Court would be very important in resolving commercial disputes and effectively to handle the workload that would have been placed on them with much higher acceleration on the final decisions.

- **Lack of educated and skilled judges dealing with commercial issues**

There is a need to increase its practical skills training for judges and court staff to handle complex legal issues in the areas of commercial, insolvency, securities or any other commercial issues. The judge's professional knowledge must be kept current on the rapidly evolving business regulatory environment in Kosovo and world trends too.

- **Lack of communication between commercial justice and financial institutions**

Banks cannot be informed on a daily basis by the Department of Economic issues in Pristina within the municipal court of Prishtina, for companies which have declared bankruptcy or have been imitated bankruptcy procedures against them. There is no online database associated with ARBK, CBK and Banks where financial institutions would be notified for the bankruptcy of companies that could potentially be Bank customers.

- **Development of Residential mortgages**

Currently the residential mortgages are at the very low level of developing due to the problems that our citizens are facing on getting the ownership of their properties. Mainly most of the new buildings all over Kosovo have not yet completed the technical acceptance by the respective municipality. Due to this fact, the buyers/citizens can't transfer the ownership of their property. Therefore, the banking sector can't use the advantages that are given by the Central Bank through the regulation for residential mortgages due to the absence of the ownership by the citizens for these properties. In fact, it is almost impossible to issue loans by the banking sector based on the criteria's set out in this regulation.

- **Enabling capital markets in Kosovo**

With exception of government debt, there is currently no established capital market in Kosovo, and no dedicated legislation on tradable securities and related market activities in place. Private debt is able to patch together different currently applicable pieces of legislation, which cover issuance (Law Nr.04/L-093) on Banks, Microfinance Institutions and Non-Bank Financial Institutions, enforcement (Law 04/L-139 on Enforcement) and others. With regard to equity instruments, or financial derivatives there is currently no legislation in place which would regulate their activities. Consequently, there is no venue where trading of such instruments would occur.

In addition, establishment of a regulatory body for capital market activities would ensure coherence of market activities in compliance with applicable law, setup a framework for education and licensing of local market participants to ensure an appropriate level of expertise, and generally providing for a stable and resilient financial system. Provision of legislative reference¹¹ would vastly enhance issuers' reliance on diversified sources of financing, whereas investors would gain confidence in the market and attract additional capital to it. Investment banks' interest is to bring together the issuers and investors and thus make earnings, which do not burden their balance sheet.

Special consideration should be given to government tax policy with regard to the capital markets, in particular by avoiding unintended differences between tax regimes across various market instruments. A government policy that attracts foreign capital could include tax allowances for the Diasporas' capital invested in Kosovo, even if no double taxation treaty is in place yet. Open, diversified, liquid, transparent and efficient markets are in the interests of all participants involved in them, as well as to the benefit of end-users.

- **Lack of discipline on financial reporting and appropriate code of corporate governance**

Taking in consideration the level of informal economy in the country being more than 30% of the GDP, it represents an inherent risk for the investors and one of the main opponents of financial reporting discipline. Hence lack of financial reporting discipline as a product of informality leads towards unreliable financial reporting system. Unreliable financial reporting represents one of the main obstacles of real economy on fund raising or availability of sources of capital. As such Kosovo's banking system faces on day to day basis with the obstacle of lack of true and fair financial reporting as the largest investor of the real economy. Along with the discipline in financial reporting, there should be discipline and awareness for tax declaration and payments as well. Also, non-transparency in tax payments has a negative impact on a country's economy.

¹¹ https://ec.europa.eu/info/sites/info/files/171120-corporate-bonds-report_en.pdf

The existing financial reporting environment prevailing in the country directly impacts on the risk perception and the associated costs to mitigate the risk through alternative means (longer analyses). Thus, the efficiency and effectiveness of the lending process and the risk management process are negatively impacted.

Lack of financial reporting discipline is followed by lack of corporate governance structures of legal entities further contributing negatively on the reliability of financial reporting system. In the meantime it impacts hampering the economic growth of the country. The current credit depth of Kosovo at rate of above 40% percent of the GDP is still below what Kosovo needs to support stronger economic growth. It is presumed that closing the credit gap, credit growth should outperform nominal value of GDP growth for medium term basis in order to reach the expected economic growth.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
6	Hire more legal officers for different levels of the courts within the justice system, which will help judges to handle the large number of cases. Also, financial sector legal cases should be treated with priority due to direct impact on the economy as a whole.	2018		X	
7	Close remaining gaps in regulation regarding write offs.	2018			X
8	Bring Kosovo's cadaster system into line with international standards.	2018		X	
9	Respective institutions should fight grey economy, therefore more money will be available for the banking sector which afterwards can be invested	2018	X		
10	Drafting a law which will clearly define the use of electronic signature would help businesses to sign long-distance contracts and speed-up processes.	2018			X
11	The Ministry of Environment and Spatial Planning should define the ownership title of the property owners all over Kosovo.	2018	X		
12	Develop dedicated legislation such as the Law on Capital Markets and a regulatory authority. As we move forward and the market takes off, the need to develop dedicated legislation that would regulate basic market activities is strongly recommended.	2018	X		

Recommendations for market improvement

- **Drafting the new Law on Banks**

The current law is dated as of 2012, therefore the need for amending the Law on Banks is very important in order to be adapted with the new dynamic environment of daily doing businesses. The main changes that we are expecting to be included within the new law are towards corporate governance, resolution, exposure limits, defining of main control functions of the bank, capital market etc.

- **Establishment of the Commercial Court**

We recommend to establish the Commercial Court in order to significantly reduce this backlog. We recommend also that financial sector cases to be treated with priority since this will have direct impact to Kosovo economy overall.

A unique and lawful taxing system should be adopted by all municipalities, avoiding all illegal and unnecessary taxes. The relevant ministries should all cooperate in order to create such unique system. There should be no request that are not foreseen in applicable laws and regulations related to putting mobile antennas.

- **Regulatory framework**

O Write-offs: close remaining gaps in regulation incl. for (i) country and transfer risk; (ii) collateral valuation; (iii) pre-set forbearance criteria.

O Cadastral information: intensify efforts to bring Kosovo's cadaster system into line with international standards (ongoing).

- **Reduction of cash transactions**

Fighting grey economy from the respective institutions will help the Kosovo economy overall as well this means more money for the banking sector which can be invested.

Recommendations for market improvement

- **Electronic signature**

Drafting a law which will clearly define the use of electronic signature would help the banking sector as well as other businesses to sign long-distance contracts, to speed up the process of doing business, reduce costs and reduce physical archiving of documents and toward a more digital environment.

- **Increase judiciary system capacities**

Increasing capacities of the judiciary system (training of judges and court staff about commercial justice in general).

- **Receive information on daily basis for bankrupt companies**

Banks should be informed on a daily basis by the Department of Economic issues for companies which have declared bankruptcy or have been imitated bankruptcy procedures against them. An online platform should be created in order for banks to be informed accordingly and in time.

- **Define residential mortgages ownership**

Request to the Ministry of Environment and Spatial Planning to define the ownership title of the property owners all over Kosovo.

Recommendations for market improvement

- **Establish capital markets**

We recommend to create and develop dedicated legislation such as the Law on Capital Markets and a regulatory authority.

As we move forward and the market takes off, the need to develop dedicated legislation that would regulate basic market activities (including debt, equity and money markets) and venues (including over-the-counter, stock market and other securities depository facilities) are strongly recommended. Regarding the regulatory body for capital market, the following steps should be undertaken:

- Discuss with relevant interest groups.
- Create multi stakeholder task force which builds up feasibility plan of action
- Come up with a white paper outlining the proposed action plan.

- **Increase financial discipline**

Government and relevant state authorities should undertake immediate steps to raise the financial reporting awareness together with tax declaration discipline. Fight against informal economy will provide future stable economic growth for the country.

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Main problems identified

The business community worldwide is increasingly addressing environmental, social and governance issues to meet sustainability challenges of this period. This is in part driven by changing shareholder demands, regulation, climate changes, public pressure and reputational concerns. However, it is also driven by new business opportunities that are emerging, better access to talents that are aware and concern of the behavior of corporates as well as changes in consumer behaviors.

While an increasing number of companies are defining their business case for ESG reporting worldwide, this is still not the case in Kosovo, there is a need that Non-Financial Reporting Directive (NFRD) to be adapted in Kosovo. Sustainability and sustainability reporting is essential for the development of modern capital markets. In the world there is increased regulatory scrutiny, a gradual shift of global financial flows towards sustainable investment alongside societal pressure are steadily driving the sustainability agenda forward. The international business community is increasingly incorporating ESG considerations into their policies, practices and reporting. Effective corporate ESG integration is vital for risk management and the identification of new business opportunities as countries move towards net zero economies.

Investors, lenders, and asset managers worldwide require private and public companies to measure their Environmental, Social, and Governance (ESG) performance. Increasingly, entrant retail investors are aware of the abbreviation ESG. This accelerated during 2020, as the COVID-19 global pandemic made each and every one of us realise how exposed we are to the natural world, the impact of environmental degradation and the related social pressures.

Climate change will only be possible if all stakeholders act together, and the UN framework is an ideal vehicle to ensure that the objectives of the Paris Accords are met. The Principles for Responsible Banking (PRB) are concrete and require operational implementations, the impact of which can be major, on the conduct of the transition. RBI Group has become an official Signatory of the UN Principles for Responsible Banking beginning of the year 2021, and important goal at RBI and Raiffeisen Bank in Kosovo is therefore to support customers with sustainable financial products and services in their transformation to a sustainable future and, at the same time, to make a positive contribution to society.

Raiffeisen Bank in Kosovo is committed to promote sustainable finance solutions to its customers and help customers' transition towards carbon-neutral business models. Besides the internal motivation to align profit with purpose, as a signatory of Principles of Responsible Banking Framework we are proactively engaged in Paris-aligned targets and redirection of capital flows towards sustainable activities.

Companies in Kosovo that are willing to comply with the EU Taxonomy, Paris Agreement or Sustainable Development Goals, and are contributing to a positive environmental or social impact, can be supported by Raiffeisen Bank in Kosovo in all aspects of sustainable activities with the corresponding financing products. Sustainable finance is not only limited to financing of solar panels or electric vehicles, a broader range of activities can be eligible. This applies also for carbon-intensive industries, such as the production of steel, cement or aluminum, transport, and energy sector.

Our role in the market is not just to finance the transition, but also engage with our customers in counseling them how this shift will look like, not just the green part of the financing, but also other business activities such as compliance with labor law, or the community investment as so on. We support our customers to finance activities contributing to sustainable cities and communities, waste management, green energy, water management, circular economy, green buildings, healthcare, diversity, education, communities and other.

To tackle the global climate change challenge, we will build successful synergies with sustainable real estate customers. We will offer green real estate loans to finance sustainable real estate projects with a positive, measurable environmental impact. The loan can help our residential real estate and commercial real estate customers fund energy efficiency, energy saving, refurbishment with improvement in energy label or green buildings projects. We offer our customers green lending products to fund projects that provide measurable environmental benefits. In the context of new global sustainable development and climate challenge green project loans help our customers to address transition to carbon neutral technologies.

New investments (CAPEX) with a green impact, can be eligible for a green investment loan. Typical examples: Investments in energy efficiency improvements within the production process, green transport, green buildings, or green energy. In addition to green financing, we also advise our customers

with regards to the EU-Taxonomy (where applicable), promotional financing and/or co-financing with fund such as EBRD. And the last is an ESG-linked corporate finance as a general purpose that is linked with ESG (Environment, Social and Governance) key performance indicators, such as: Amount of CO2 reduction, waste reduction, water saving, quota of recycling material. The focus here is set on the ESG performance of the issuer/borrower and not on a specific investment or project.

All of these options are to help our customer transition to a more sustainable business model in the future, all measurable to make a positive impact in the future.

Insurance Sector

Key elements of the insurance sector

Insurance is a very important component for the financial sector and the wellbeing of the economy. A well regulated insurance industry can significantly contribute to economic development through transfer of risk and mobilization of savings.

Insurance Industry in Kosovo is currently on a good path to experience a higher level of development namely due to the recent reforms and regulatory measures that have been taken during 2018-2020.

This white paper is a continuation and an update of the white paper published in 2018 and provides a brief overview of the insurance industry as well as recent developments in the sector and recommendations for further improvement and strengthening of the insurance sector.

Main positive developments during 2018 – 2020

During this period much progress has been achieved namely by the regulator Central Bank of Kosovo, the Tax Administration of Kosovo and other governmental and non-governmental bodies in order to improve and strengthen the insurance sector in Kosovo. Below are the main positive reforms or measures taken towards regulating the insurance industry:

- **Law on Red Cross has been declared unconstitutional and void**
(Insurance companies are no longer obligated to pay 1% of premium to the red cross)
- **Law on Corporate Income Tax has been amended**
(Insurance companies are no longer obligated to pay 5% tax on revenues).
- **Regulatory measures have been taken toward companies who were not solvent**
(closed one company and placing under administration other companies as necessary.) (2 companies sent in liquidation)
- **Premium for MTPL (obligatory product) has been adjusted to reflect some level of inflation.**

All of these are positive developments and will place the insurance industry on a path to stability needed for the safety of the clients.

Regarding the tax legislation changes during 2019, it must be noted that the income tax of the insurance sector in Kosovo was taxed 5% on gross premiums sold, while all other industries profits

were taxed 10% of taxable income. From August 2019 the insurance industry will be taxed the same way as other industries, which is considered to have a positive impact in insurance companies. The administrative instruction on implementation of such changes is not published yet, so practical implementation and some potential clarification for problematic topics can be addressed through the administrative instruction.

Main issues Identified

- **Regulatory framework**

Insurance sector represents only 3% of the financial sector. Furthermore, two main indicators reveal that Penetration (Gross Written Premium / GDP – measured at 1.4%-c.a.) and Density (Gross Written Premium / Capita – Measured at EUR 44/capita) are the lowest in the region, while remaining far from the EU average. Market is oversaturated with a high number of companies in the market. Currently there are 12 Insurance Companies (including 2 Life Companies). This situation has led to a price war among companies in a fight for market share.

These price wars, have pushed a number of companies into insolvency, and some others albeit solvent they are illiquid.

Insurance Law is clear in this aspect, if a company doesn't maintain adequate capital level, they have to either inject fresh capital, or license must be taken and they shall be liquidated. The regulator is already taking all necessary measures in this regard and enforcing the law since the situation poses a significant Systemic Risk, since if one company is liquidated, the outstanding liabilities toward policyholders are transferred to other remaining companies in the market.

The situation presents significant risk to the industry (systemic risk within the sector), since if/(when) these companies will be liquidated, the outstanding insurance liabilities from these companies will be transferred to Compensation Fund, which in turn shall be financed from the insurers remaining in the market. This might in turn, push even more insurers into insolvency given the weak capital adequacy position of some companies.

In the face of solvent insurers, this situation presented double punishment, first they have to compete in the market with the insolvent companies and second, they might have to pay their claims later on.

In Life sector there are 2 companies with total 3.8 million EUR gross premium, only 4% of total market share in insurance industry. Regulatory can help increase life market share, especially with simplifying licensing process of the banks as Life products representative (Agent/Broker), because bank products are linked with Life insurance. Also bank channels are the safest sales channels for Life products.

- **Unregistered vehicles**

Although official data do not exist, it is estimated that there are more than 40 thousand (c.a) unregistered and uninsured vehicles that actively participate in traffic. Having a Third Party Liability Insurance and registration of the vehicle is mandatory by law. The non-implementation of this law has a significant negative impact on the Insurance industry. These are the two main ways in which the non-implementation of the law damages the industry:

- a)** Registering these vehicles would increase the premium written by insurers for 5-6 Mil per year and also implementing the law.
- b)** Further to being deprived from this income, insurers have to pay the claims coming from these vehicles, as the victims of traffic accidents caused by uninsured vehicles must be compensated by Compensation Fund and Compensation Fund is financed by insurers. On yearly basis, industry pays 4-7 Mil EUR claims for uninsured vehicles.
- c)** At the same time, the state budget experiences losses in taxes as well, the losses being estimated at 3 - 3.5 Mil (c.a).
- d)** Further than financial losses, this issue has social consequences as these vehicles do not pass technical inspections, and pose higher risk to participants in traffic.
- e)** Currently there are no sanctionary measures in cases where the owner of the vehicle does not register the vehicle. Even if the owner goes at a later date to register the vehicle, there are no penalties from Registration Center, but there are penalties within the MTPL Insurance System, which are applied from the Bonus Malus system, and are subject to delays on renewal of the MTPL Policy.

This issue was evidenced also in the European Commission Kosovo Report in 2018.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
13	The CBK must continue further with implementing/enforcing the legislation which is in force. Implement/enforce Solvency 1 measures, put into liquidation process companies who do not add capital and so on.	2018	X		
14	Stronger inter-institutional coordination to address the issue of non-insured, non-registered vehicles.	2018	X		
15	Amending the Law on Red Cross	2018			X
16	Adoption of regulatory measures in the field of insurance sector against companies that not solvent; Premium for MTPL	2018		X	
17	Amending the Law on Corporate Income Tax	2018			X

Recommendations for market improvement

- Enforce the regulatory Framework CBK must continue further with implementing / enforcing the legislation which is in force by:

- Implementing / enforcing Solvency 1 measures;

- Initiate liquidation process for companies that cannot / do not want to add capital

- Implementing "soft" regulation on Corporate Governance;

- Increasing the conditions for granting licenses to new insurance companies.

- **Address issues regarding unregistered vehicles**

Sanctionary measures to be added to legislation for vehicles that are not registered and stronger inter-institutional coordination is required to address the issue of non-insured, non-registered vehicles.

- **Solutions are in the legal provisions of the existing laws:**

- Law No. 04/L-018 On Compulsory Motor Liability Insurance

- Law No. 05/L-132 On Vehicles

- Law No. 05/L-088 On Road Traffic Provisions

Mining and Minerals Sector

Key elements of the Mining and Minerals sector

Right from the beginning when dealing with Mining and minerals sector, key issues that were initially identified with the White Book 2018 remain generally unsolved and no or very minor relevant progress has been recorded since then.

In 2010 the Assembly of Kosovo adopted the Mining Law, the main objective of which was to establish the much-needed order in the mining sector and offer investors clarity and predictability with respect to their investments. The Mining Law was introduced as a special law with a superseding effect over all laws and/or subsidiary legal instruments that are inconsistent with it. As it will be elaborated in greater detail below, the superseding effect of the Mining Law was not limited solely to the narrow field of mines and minerals but included also any and all other fields of law that have an impact in the mining sector.

In light of the ambiguities that were prevalent in the mining sector at the time of its adoption, the Mining Law provides for an explicit provision repealing conflicting provisions. Namely, the repealing effect of Article 88 of the Mining Law is twofold: (a) firstly, this legal provision repeals existing legislation that governed the mining sector prior to its adoption, i.e. UNMIK Regulation No. 2005/2 on “The Establishment of the Independent Commission for Mines and Minerals” and, inter alia, UNMIK Regulation 2005/3 on “Mines and Minerals in Kosovo”; and (b) secondly, and more importantly, Article 88 of the Mining Law establishes that the Mining Law shall “prevail over and supersede any provision or aspect of any other law of Kosovo that is inconsistent or in conflict therewith.” The latter element of Article 88 of the Mining Law is quite broad and applies to any legislative instruments, whether laws of subsidiary legal instruments, which related to or have an impact in the mining sector.

The repealing effect of the Mining Law is based on two general principles of legal interpretation. Namely, in addition to the principle of *lex specialis derogat legi generali*, under which the Mining Law as a special law repeals all laws of general nature, the Mining Law also takes precedence over prior laws by virtue of being a latter law. Indeed, based on the principle of *lex posterior derogat legi priori*, the Mining Law takes precedence over the Law on Agricultural Land which predates the Mining Law. Consequently, the inconsistencies between the Mining Law and the other legal instruments impacting the mining sector do not require any amendments or further legislative work. On the contrary, these inconsistencies can easily be removed with the appropriate application of the aforementioned principles of interpretation.

Main problems identified

- **Differences between Mining Law and other legal instruments**

Inconsistencies exist between the Mining Law and other legal and subsidiary legal instruments governing and/or impacting the mining sector in Kosovo.

Without prejudice to the fact that there may be more inconsistencies between the Mining Law and other legal and subsidiary legal instruments governing and/or impacting the mining sector, in this section we shall expose certain inconsistencies on the requirement to secure surface rights for exploration and exploitation activities, provided for by Article 31 of the Mining Law, as they relate to the limitations on the size and the duration of leases for forest land foreseen by Article 13.7 and Article 13.8 of the Administrative Instruction on the Change of Use of Agricultural Land, as amended and supplemented. In this respect, it should be noted that Article 21 of the Mining Law provides that an exploration license for construction materials can be granted for a period of two (2) years, which can be extended for extended up to two (2) times, where each extension cannot be longer than two (2) years. With respect to the surface over which exploration license can be granted, the aforementioned provision provides that the exploration license cannot be granted for a surface that exceeds fifty (50) hectares.

On the other side, with regard to exploitation licenses, Article 30 of the Mining Law provides that an exploitation license can be granted for a period of twenty-five years (25), which can be renewed once. It is important to note that Article 30 of the Mining Law does not foresee any restrictions on the size of the area in which exploitation is conducted. Namely, paragraph 1.2 of Article 30 of the Mining Law provides that the exploitation license “shall apply to such area as may be required for the concerned mineral resource.” It is evident that the aforementioned provisions of the Mining Law aim to accommodate investments based on the characteristics of the minerals that are sought to be exploited. This explains why - while for exploration purposes the size is limited - for exploitation activities the size of the mining area is based on the concerned mineral.

Notwithstanding the aforementioned provisions, Article 13.7 and Article 13.8 of the Administrative Instruction for the Change of Use of Agricultural Land limits to twenty (20) hectares the area for the provisional change of use of agricultural for mining activities. The limitation pertaining to the surface area, which has been introduced by a subsidiary legal instrument, is not only in contradiction with the Mining Law but also has no legal basis in the Law on Agricultural Land. Namely, Article 11.7 of the Law on Agricultural Land provides in explicit terms that the provisional change of use of agricultural land for mining purposes can be done only for superficial quarries that are larger than 0.5 hectares. As it is evident, this legal provision establishes the minimum surface area threshold for considering the change of the use of agricultural land for mining

purposes. Such a minimum threshold indicates that change of use of agricultural land is not allowed for small mining projects. This could be explained by the fact that the economic and social benefits caused by a mining project conducted in a surface area of less than 0.5 hectares do not outweigh the detrimental impacts caused to agricultural land by it.

Having said the above, it is also important to note that the Law on Agricultural Land does not foresee any limitations for the maximum surface area of agricultural land the designation of which can be changed. This is due to the fact that such a maximum threshold is not foreseen even by Article 30 of the Mining Law given that - as noted above - the ultimate size of the mine depends on the mineral that is sought to be exploited.

In light of the above, the restrictions on the surface area for the change of use of agricultural land, which are foreseen by Article 13.8 of the Administrative Instructions on the Change of Use of Agricultural Land, not only have no legal basis in the Law on Agriculture but are in contradiction with Article 21 and Article 30 of the Mining Law. Indeed, it should be noted that the change of use of agricultural land foreseen by Article 11.7 of the Law on Agricultural Land and Article 13.7 and Article 13.8 of the Administrative Instructions on the Change of Use of Agricultural Land, govern change of use of agricultural land for mining purposes. In light of this and based on the interpretation methodology described under section 1 of this opinion, the surface area limitations for the change of use of agricultural land, provided by Article 13.8 of the Administrative Instructions on the Change of Use of Agricultural Land, has been superseded by the surface restrictions, and the lack thereof, for exploration and exploitation purposes, provided under Article 21 and Article 30 of the Mining Law, respectively.

- **Custom and VAT exemption for imported cement**

On top of the above, another issue has been recently raised in mining and mineral sector. Cement produced abroad and imported in Kosovo can be exempted from custom duties and VAT, when it is to be used as “raw material” for further processing purposes, i.e. for the production of concrete or mortars. This means that local cement producers are suffering damages because they are charging VAT to their local end customers, whilst same customers can import cement from abroad at less prices because of their exemption of VAT. It is evident that this creates an uneven and unfair playground which does not provide for equal treatment of business players and negatively affect local producers. Of course, this does not refer only to cement, but to all products that fall into this “raw material category” and are produced both locally and abroad. The issue is also discussed under Taxation section of this paper where also relevant recommendations are given.

- **Legal status of mining strategy**

The Mining Law has also established the legal basis for the adoption of the Mining Strategy, which is defined as the “framework document which defines long-term policies of the mining sector.” While Article 73 of the Mining Law does not stipulate the precise legal status of the Mining Strategy, paragraphs 3 and 4 of this legal provision provide some guidance as to the status of this document and its effect on other laws that impact the mining sector. Namely, paragraph 3 of Article 73 of the Mining Law provides that “during the preparation and implementation of spatial and urban plans, all public authorities shall take full account of and comply with the Mining Strategy promulgated by the Assembly.

Such Mining Strategy shall prevail over any inconsistent spatial or urban plan.” The term “Public Authority”, as used in Article 73.3 of the Mining Law is defined by Article 1.52 of the Mining Law as “any governmental executive authority, public body, ministry, department, agency, or other such authority that exercises executive, legislative, regulatory, public administrative or judicial powers. The term “public authority” shall also include any otherwise private organization or establishment to that extent it exercises any of the aforementioned powers pursuant to a grant of authority under a normative or sub normative act or pursuant to a delegation of authority from another Public Authority.”

In addition to the above, paragraph 4 of Article 73 of the Mining Law provides that no Public Authority shall approve any spatial or urban plan without the consent of the Ministry of Economic Development. According to this legal provision, the Ministry of Economic Development shall approve such spatial and urban plans only after getting the consent of the Independent Commission on Mines and Minerals that such spatial and urban plans have no detrimental impact on the Mining Strategy. On the basis of the above, it is clear that the Mining Strategy not only takes precedence over all spatial and urban plans adopted by any public authorities but that such public authorities cannot adopt spatial and urban plans without getting the confirmation from the Ministry of Economic Development that such plans are not in contradiction with the Mining Strategy of Kosovo.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
18	Harmonization of inconsistencies or contradictions between different local legislation regarding the time restrictions on use of agricultural land.	2018		X	
19	Mining projects should be harmonized with spatial, urban and municipal development plans, however, in case of any contradiction between them, the mining strategy must take precedence over any spatial and urban planning documents.	2018	X		

Recommendations for market improvement

- **Harmonization between relevant mining legislation**

There must be harmonization of the inconsistencies or contradictions regarding the time restrictions on use of agricultural land provided by Article 11.9 of the Law on Agricultural Land. It should be noted that the five (5) year limitation is in direct contradiction with Article 30 of the Mining Law, which provides that the exploitation license can be granted for a period of twenty-five (25) years, which can be renewed once. Since the purpose of the change of use of agricultural land, foreseen under Article 11.7 of the Law on Agricultural Land is to facilitate exploitation of minerals that are located beneath such land, the time period of such temporary change of use must be in line with the maximum duration of an exploitation license, as foreseen under Article 30 of the Mining Law. Indeed, given that the purpose for the change of use of the agricultural land is facilitation of mining activities, the term of the provisional use must accommodate its intended re-designation. Consequently, Article 30 of the Mining Law takes precedence when determining the maximum duration of the provisional change of use of agricultural land for mining purposes.

In light of this and based on the interpretation methodology described under section 1 of this opinion, the time period limitation for the change of use of agricultural land provided by Article 11.9 of the Law on Agricultural Land has been superseded by the restrictions provided under Article 21 and Article 30 of the Mining Law, respectively.

- **Legal status of mining strategy**

The Mining Strategy must take precedence over any spatial and urban planning documents that are in contradiction with it. On the basis of this, it can be argued that the Mining Strategy has made obsolete the Regulation No. 01/2011 on the "Treatment of Communities in the Mining Sector", as amended, the main purpose of which is to ensure that the mining project is in line with spatial, urban and municipal development plans.

Petroleum Industry

Key elements of petroleum industry

Petroleum market in Kosovo even today remains dependent on imports. There are currently Nine (9) Major Import Companies in Kosovo who have Storage Plants (Tank Farms) to store large Quantities and 600 Operational Petrol Stations. Kosovo is a 360 million Liter Market in White Products such as Diesel and Unleaded fuel. Kosovo has no domestic oil Supply and no Pipelines.

There are no Refineries in Kosovo while most of the Regional Countries (Western Balkans) do have refineries. The Petroleum industry is facing high duties and taxes such as the high excise tax which makes petroleum product Prices.

The main law governing the Oil sector in Kosovo is Law no. 2004/5 on Trade with Petroleum and Petroleum Products enforced in 2004, amended by Law nr. 03/L-138 enforced in 2009. The Law applies to the wholesale and Retail Supply, Transport, and Storage of Petroleum and its Products. The Petroleum Market structure is controlled by the Ministry of Trade and Industry through the Division for Petroleum Market Regulation.

Main problems identified

- **Customs Duties and VAT on Non-Received Goods (Evaporation of Petroleum)**

Due to the nature of the products, every time Petroleum products are Transported or even Stored a portion of the products will evaporate. This is an internationally recognized fact accepted in EU Policy & Directives. Therefore, no excise duty should be charged on product volumes that are never received and by extension, never sold. This issue is of crucial importance that must be corrected accordingly so as to ensure the fair and correct tax treatment of the sector.

Thus, while the Customs and Excise Code provides for cases of losses during Transport and Storage in customs Warehouses, and despite the fact that Article 22 of the Law on VAT provides for tax to be applied only to goods supplied, in practice there are frequent complaints from companies that although Evaporation losses did occur during Transport, handling or Storage of Petroleum Products, these Companies have been liable to pay Excises Duty and Tax on Products and Tax on Profit for Products that were verifiably never Received.

- **Discriminatory treatment among petrol importers**

Unequal treatment is observed between Wholesalers and Retailers as both are eligible for Obtaining an Import License in Kosovo. The existence of the Policy of too many Import Licenses of Petroleum Products in Kosovo is diminishing the importance of existing Tank Farm Investments in this country. Moreover, today, it is physically impossible to control all Trucks that enter Kosovo on a daily basis. Wholesalers have Tank Farm Installations (where Quantity and Quality can be checked, Registered and Certified at any time, while Retailers are Owners of Petrol Stations, with limited Storage Capacity, lesser Obligations and Costs.

It is worth noting that unlike the European Union and its Member States, the Petroleum Industry in Kosovo is facing some practices which question not only the reliability of Safety Stock in case of Emergency but also making it more difficult to control the Quality and Quantity imported to Kosovo at any given time.

Moreover, Tank Farm Importers are obliged to keep at all times an Emergency Stock - a fraction of their own storage capacity. Retail Petrol Station importers however, are allowed to import for other / third retailers while keeping a much smaller stock at their Petrol Station.

- **Lack of Requirements for Compulsory Stocks (COS)**

Security of Energy Supply in Kosovo is where there is constantly an increasing demand while Kosovo remains fully reliant on imports. The Compulsory Oil Stock (COS) should be implemented with the purpose to secure the society with sufficient Energy Supplies also in periods with restricted or limited supplies. The 90 days COS capacity should be implemented as soon as possible.

- **Practices in the European Union**

The issue of Product breakdown, loss and Evaporation is regulated in the European Union through Regulation no. 952/2013 on the Customs Code of the Union and through the Directive 2008 / 118 / EC on General Rules on Excise. Article 124 of the Customs Code specifies cases where the customs debt is annulled, inter alia, paragraph 1, item g) provides for cases when "The disappearance of products or the non-fulfillment of the obligations arising from the legislation is the result of total destruction or irrevocable loss of products as a result of the nature of the products or unforeseeable force majeure or as a result of instructions from the customs authority; for the purposes of this paragraph, products shall be considered irrevocably lost when they are no longer usable by any individual".

Additionally, paragraph 4 of the same article states that "The provisions in force regarding standard rates of non-taxable loss as a result of the nature of the products shall be applicable where the person concerned cannot establish that the true loss exceeds that calculated by applying standard rates for the products in question".

On the other hand, the aforementioned Directive states that Member States have the right to set specific conditions to establish the losses incurred as a result of the nature of the products, whether in transport or in processing processes. However, paragraph 5 of Article 7 - Time and place of loading [with customs duties] clearly states that Member States must draw up rules and publish conditions when the loss of products will be acceptable.

Regarding Tax Treatment, Directive 2006/112 / EC on the Common System of Value Added Tax states that "Except in certain cases, the moment of the occurrence of the liability occurs and the tax becomes chargeable at the time of the supply of goods or services. The relevant provision in Kosovo's legislation is in full compliance with this provision of the European Directive. However, as explained above, the practices so far, do not provide for the proper implementation of this or other provisions elaborated in the following paragraphs.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
20	There must be a set percentage that is recognized as a loss in petroleum sector (evaporation) which must be reflected into the law rather than regulated by administrative instructions.	2018	X		
21	Have clear criteria and pre - requisites for obtaining an import license with minimum petroleum tank farm facilities rather than petrol stations. Additionally, petroleum products imported should be placed first inside tank farms and can be released to the market only after being tested for quality and quantity. Tank farms should also be available for inspection at any time.	2018	X		

Recommendations for market improvement

Implement EU Norms & Directives in Petroleum Industry in Kosovo.

1. Eliminate Custom Duties and VAT on Evaporated Petroleum.

The following steps are necessary to be undertaken in order to address this issue:

- Harmonizing Kosovo's Legislation on Petroleum Sector with EU Standards, Norms & Directives.
- Implement measure 6 of the fiscal package 2.0 without any further delay;
- In practical terms there must be a set percentage that is recognized as a loss and this must be reflected into the Law rather than regulated by administrative instructions.

2. There should be no discrimination between Petroleum Importers

In order to minimize and eliminate the discrimination between Petroleum importers in the market, the following steps should be taken:

- Have clear Criteria and pre-requisites for Obtaining an Import License with Minimum Petroleum Tank Farm Facilities (minimum 2 million liters storage capacity for each product), not Petrol Stations;
- All Petroleum Products imported should be placed first inside the Tank Farm of Importers and after being tested for Quality and Quantity then to be released to the Kosovo Market. Thus, our request to minimize the import licenses to only those who use Petroleum Tank Farms and not Petrol Stations, as per EU Policy & Directives.
- Ensure Safety Stock based on "Sales" instead of "Tank capacities".

Pharmaceutical Sector

Key elements of the market

PA properly functioning pharmaceutical sector can make a big difference to the quality of people's lives and has a significant economic effect. The Kosovo Medicines Agency (KMA), in combination with Kosovo Customs, controls the importation of pharmaceutical products and medical devices. A valid import license is required for the importation of these products. However, before obtaining an import license companies should obtain marketing authorization. The marketing authorization and importation of pharmaceutical products and medical devices is regulated by the Law on Medical products and Equipment, No. 04/L-190 and other relevant legal norms. The Kosovo Medicines Agency (KMA) is responsible for protecting people's health by providing quality and guaranteed medical products and equipment, and services related to medical products and devices through the licensing of professional companies and individuals.

Kosovo spends around 3% of GDP on health sector which is a very low amount compared with the regional countries which average around 6% of their GDP and while in the EU countries this percentage exceeds 10%. In addition, Kosovo lacks a public health insurance system and as a result patients do not get reimbursed for the purchase of pharmaceuticals unless they have private health insurance.

Kosovo pharmaceutical market is primarily represented by the pharmaceutical distributors (namely wholesalers and retail pharmacies) as well as suppliers such as manufacturers. Currently there is only one pharmaceutical manufacturer in Kosovo, Trepharm. Kosovo pharmaceutical manufacturers face difficulties in exporting and only cover about 5%-10% of the market therefore there is a considerable trade deficit with respect to import – export.

Kosovo is far better in crude birth and death rates than its neighbors with crude birth rate at 15.7% (while in the region they are as low as 8.7% in Bosnia and Herzegovina) and crude death rate at 5% (while in the region they go up to 14.6% in Serbia). Analysis of the health status of the population shows that the number of deaths in 2011 in Kosovo, was 421.9 deaths per 100,000 inhabitants. In comparison with European countries, this number is very compared to European countries who have 813 deaths per 100,000 inhabitants (2012 data). The health status analysis of the population shows the degree of illness in Kosovo is the lowest with a total of 422 cases per 100,000 inhabitants in 2011 compared to the EU with 663 cases per 100,000 inhabitants.

The health system in Kosovo

Kosovo health system is relatively new bearing in mind the fact that Kosovo has only recently, in the last decade, begun to function as an independent country. In the former Yugoslavia the health system was relatively well organized, advanced and comparable with health-systems of other developed European countries.

Based on the available data, it is shown that the pharmaceutical market in Kosovo is largely covered by the import-foreign pharmaceutical companies which almost completely cover it, and the participation of local companies is around less 5%; although data of the two companies claim that they cover 10–20% of the market as we have mentioned above. Serious competitors and key players in the market are the pharmaceutical companies of the former Yugoslavia, which dominate the pharmaceutical market in Kosovo. However, other foreign companies should not be overlooked because they are also largely penetrating in the pharmaceutical market. The key players of pharmaceutical market are competitors from the territory of the former Yugoslavia as Krka and Lek-Sandoz from Slovenia, Pliva, DietPharma, Apipharma & Mdph from Croatia, Alkaloid and Fitopharm & Medi from Macedonia, Hemofarm and Zdravlje from Serbia, Bosnaljek of Bosnia and Herzegovina, as well as some world known companies from the wider circle (Roche, BerlinChemie, Aventis, Sanofi, Dade Behring, Beti-Fickinson, Menarini, Bayern Shering, B. Braun, Chem & Ursa, Theis Pharmamed, Nobel, GSK, etc.). We can say that Roche, Krka, Pliva and Alkaloid cover 30% of the pharmaceutical market in Kosovo.¹²

Kosovo public healthcare sector employs 14,617 people. Out of it 6,231 work at the primary level across 38 municipalities, 7,228 work at secondary (7 regional hospitals) and tertiary level (University Clinical Center in Prishtina) and 1,158 work for the Ministry of Health.

Overall public budget covering all the healthcare system in 2020 is EUR 233 million. Out of this budget, 35 million Euro or approximately 15% goes for pharmaceutical prog and ind equipment. Overall pharmaceutical market is approximately 70 million Euro.

Positive Developments

In cooperation with World Health Organization the Ministry of Health has set “ceiling” pricing for each medical product. The Administrative Instruction for price regulation of medical products and appliances applies only to medical products and equipment that are part of the “Essential List”. The Essential List is a “register” of drugs, compiled by the state, which are mandatory for MH to buy. In addition to the Essential List this year will be drafted the List of Refundable Medicines. This list will initially have about ten products that are mainly for chronic diseases (i.e. Cardiovascular, Lung and Cancer) for which Kosovars have higher mortality. The list has not yet been finalized, it is planned that by the end of this year the products from this list will be taken free of charge by Kosovar patients in pharmacies.

Another positive development is the publication of the administrative instruction on regulation of prices for medicinal products and medical devices in 2019. This publications sets and fixes the maximum purchase price (price ceiling) for medicinal products on the List of Essential Medicines, the fixed price for reimbursement by the Health Insurance Fund, and the wholesale and retail fixed price of medicinal products which are sold through entities licensed for Wholesale and Retail Distribution of Medicinal Products in the Republic of Kosovo.

¹² Ezar, P. and Zori, O. (2007). Organising for Network health care: towards future organizational models. Network health care Journal of medical Marketing.

Main problems identified

- **Referential pricing system**

This system would enable to compare local prices with those of several countries chosen and to impose a pricing ceiling to pharmaceutical distributors. Creation of such a system avoids the misuse of the healthcare system, like increasing prices without justification. It can as well regulate margins of the pharmaceutical distributors.

- **Procurement law**

If aiming a qualitative healthcare system, the lowest price is not always a solution. Healthcare professionals shall be involved more when choosing the right solutions and not the procurement officers. These right solutions might sometimes differ from the lowest price and healthcare professionals shall be entitled to choose such if justified as for the benefit of the patients.

- **Healthcare spending**

Kosovo currently spends around 3% of the GDP for its healthcare system. It is the lowest in Balkan and Europe and among the lowest in the world.

- **Regular supply of medications and the essential list**

International companies present in Kosovo are the major contributors to regular drug supply and the leading providers of access to modern therapies.

- **Healthcare data infrastructures are fragmented, insufficient**

Establishing a registry is a key in understanding cancer trends and ensuring continuous care for patients. Establishing and fortifying Health Information system and National Cancer Registry will enable better planning; follow up and understanding the value received in terms of overall survival, management of adverse events; services provided. It will also lay foundation for future of healthcare and prepare Kosovo health system to personalize to the needs of patients, spend where needed and control services and costs.¹³

Ministry of Health allocates a yearly budget for patient's treatments outside of Kosovo, which amounts to approximately 6 million euro. However, in 2019 they spent 10 million euro mainly for Pediatric, Orthopedic and Ophthalmology patients for treatments outside of Kosovo.

¹³ Berisha, M. et al., (2018). Impact of the National Population Register in Improving the Health Information System of Malignant Diseases in Kosova. Acta Informatica Medica, 26(1), p.62.

- **Limited Diagnosis and treatment access**

Investment in diagnosis and access to treatment will enable Kosovo patients to obtain more services in the country and will make healthcare system sustainable. Insufficient resource for genetic sequencing and personalizing cancer care. Investment in this area will enable right patient to be treated with right intervention, which will enable adequate and cost efficient treatment on one side; and is more efficient and more sensitive than single testing provided nowadays

- **National cancer plan**

In line with European initiative EU Cancer beating, Kosovo National cancer plan and Strategy for Personalizing Health care in Kosovo should be developed. Personalizing Healthcare and National cancer Plan go in line as their ultimate goal is to improve prevention, diagnosis treatment and to create sustainable healthcare system that will be able to address the need of patients while controlling the costs.

Regulatory

International Pharmaceutical Companies are facing difficulties in registration procedures and cannot benefit from simplified registration procedures, which are valid for companies coming from EMA and/or USA.

- **List of reference country in the simplified procedure**

It is suggested that the list of reference country be updated periodically based on the information from WHO.

SRA: Regulatory authority which is: (a) a member of the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH), being the European Commission, the US Food and Drug Administration and the Ministry of Health, Labour and Welfare of Japan also represented by the Pharmaceuticals and Medical Devices Agency (as before 23 October 2015); or (b) an ICH observer, being the European Free Trade Association, as represented by Swissmedic, and Health Canada (as before 23 October 2015); or (c) a regulatory authority associated with an ICH member through a legally-binding, mutual recognition agreement, including Australia, Iceland, Liechtenstein and Norway (as before 23 October 2015) (3)."

Australia, Austria, Belgium, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States of America, Norway.

- **Post approval variations**

'Prior Approval' procedure for major variations of type II: Within 60 days following the acknowledgement of receipt of a valid application, the Kosovo Agency shall prepare an assessment report and a decision on the application. The Kosovo Agency may reduce the period referred to in the first subparagraph, having regard to the urgency of the matter, or extend it to 90 days for variations concerning a change to or addition of therapeutic indications.

Notification procedure for minor variations of type IB: If within 30 days following the acknowledgement of receipt of a valid notification, Kosovo Agency has not sent the holder an unfavorable opinion, the notification shall be deemed accepted by all relevant authorities.

Notification procedure for minor variations of type IA: Where a minor variation of type IA is made, the holder shall submit simultaneously to Kosovo Agency a notification containing the elements listed in Annex IV. This notification shall be submitted within 12 months following the implementation of the variation. However, the notification shall be submitted immediately after the implementation of the variation in the case of minor variations requiring immediate notification for the continuous supervision of the medicinal product concerned.

Variations which are approved in reference countries as major (Type II) or moderate (Type IB) variations receive approval by the Kosovo Agency, within 20 business days, from the day of receiving the complete application for a variation. If no objection from the agency is received by the end of review period, the change is considered approved and can be implemented by the manufactures immediately.

Minor variations (Type I) can be implemented by the manufacturers immediately and should be filed to the Kosovo Agency after filing to the reference countries.

- **Sample requirements under simplified procedure**

The applicant must submit mock-ups or pictures as well as Certificates of Analysis for application marketing authorization in case of request of the official KMA laboratory.

- **Compassionate Use /Pre Approval Access Programs**

In cases of health care system needs, Minister of Health authorize compassionate use for non-authorized drugs. Compassionate use means making a medicinal product available for compassionate reasons to a group of patients with a chronically or seriously debilitating disease or whose disease is considered to be life-threatening, and who can not be treated satisfactorily by an authorized medicinal product. The medicinal product concerned must either be the subject of an application for a marketing authorization or must be undergoing clinical trials in the reference countries.

- **Clinical Trial**

A clinical trial may be conducted only if: (a) the rights, safety, dignity and well-being of subjects are protected and prevail over all other interests; and (b) it is designed to generate reliable and robust data.

- **Lack of national health insurance program**

In theory, Kosovo provides free healthcare. However, most patients have to pay for their medication. Many treatments are unavailable, or only received after long waiting periods. The government has acknowledged these problems and is planning to reform the system. The centerpiece of the reform is the introduction of compulsory health insurance for all. In spring 2014, the parliament passed relevant legislation for a complete overhaul of the country's public health system but the same system is not put into action yet.

- **Healthcare spending out of the country**

There circulates a number that approx. 150 mil EUR per year is spent from Kosovars for healthcare services out of the country (predominantly in Macedonia, Turkey and Albania). This leads to the conclusion that there is a huge lack of services even in a private health care sector.

- **Non-prescription medical sales in the pharmacies**

Today in the Kosovo pharmacies almost everything can be purchased without a prescription. Due to uncontrolled usage of medicines, Kosovo has the highest usage rate of antibiotics in Europe.

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
22	Ministry of Health should regulate the referential pricing of medical products in Kosovo. Best practices should be taken into account and not only take the lowest referential price.	2018	X		
23	During the procurement procedures, Ministry of Health should be able to negotiate directly with the producers in order to get the maximum rebates and benefitions for its patients.	2018	X		
24	The health legal framework must be completed and harmonized with EU legislation; transparency and predictability of business and legal security are the basic pre - requisites for the sustainable functioning of the pharmaceutical industry in Kosovo. Representatives of the pharmaceutical industry should to be included in the legislative processes.	2018		X	

Recommendations for market improvement

- **Create and implement an effective referential pricing system**

MoH has already identified this issue and is currently drafting an administrative instruction, which will regulate the referential pricing. It is important that MoH doesn't do the same mistake as MoH of Albania, by taking the lowest price of the referential countries and enabling a negative incentive to the well-established pharmaceutical companies.

- **Direct negotiations by the MoH during the procurement process**

Different tools may be used to assess criteria for including drugs in reimbursement list like MCDA (Multiple Criteria Decision Analysis), which assesses outcomes that matters to patients, physicians and payers. Ministry of Health should be able to negotiate directly with the producers in order to get the maximum benefits for its patients. Countries in the region (like neighboring Albania and Montenegro) have already closed the so-called "Managed Entry Agreements" with different producers, enabling them broader access to innovative treatment through direct negotiations. For example, Albania implemented this by adopting an administrative instruction from the government, which enables Ministry of Health to enter into direct negotiations with the producers.

Procurement should differentiate lots for biologics in tenders due to the specific manufacturing and production process generic concept of substitution of biologic medicines cannot be applied. Separation of different tender parts has clinical role as well in order to enable traceability of the medicine used. Neighboring Countries (i.e. Macedonia and Albania) have already implemented these process in place!

- **Increase healthcare spending**

In order to reach the next lowest country in the region, Kosovo should at least double its spending in the healthcare system. Increasing healthcare spending is a must for increasing healthcare quality.

- **Enforce the national health insurance program**

The compulsory health insurance platform should be implemented as soon as possible, so we recommend the Government to give special attention to this topic and find recourses to put in force the already approved law on health insurance.

Recommendations for market improvement

- **Decrease healthcare spending out of the country**

This money should be kept in the country by increasing healthcare services in the public and private sector. Public sector should include a co-payment possibilities for enhanced healthcare services.

- **Harmonize the local legislation with best EU practices**

The legal framework must be completed and harmonized with EU legislation; transparency and predictability of business and legal security are the basic prerequisites for the sustainable functioning of the pharmaceutical industry in Kosovo. Representatives of the pharmaceutical industry should to be included in the legislative process.

Kosovo's health budget must be financially consolidated and increased; ensuring continued growth of the budget for medicines at double rate compared to the rate of GDP growth and the health needs of the insured in the Republic of Kosovo. Make the budget more transparent to increase business predictability and safety of investment in the health and pharmaceutical sector.

A well-established healthcare system requires a functional and efficient link between its three underlying pillars: manufacturers, wholesalers and healthcare institutions (public and private).

Increase the digitization of health services countrywide and create the necessary environment for data sharing and analysis (ex. Finalize the process of implementing electronic medical record, e-prescription and tele-medicine).

Introduce the basic elements of personalized healthcare (real world data and value-based healthcare).

Incentivize the private sector to participate more actively in the healthcare sector. Introduce policies that will serve to decentralize hospital services in order to release the burden of hospitals, shorten patient overloads and offer services directly to the homes of patients.

Taxation Sector

Key tax elements

The taxation section is introduced for the first time in this edition of the white book. In this section some of the most important general taxation issues are identified and discussed. Tax treatments and issues presented in this paper are mainly focused to Corporate Income Tax (CIT) and Value Added Tax (VAT). Addressing the below mentioned issues and recommendations will bring considerable benefits to the economy of Kosovo, so the discussed topics are expected to have impact in a wide range of sectors within the economy.

The Tax Administration of Kosovo (TAK) is the enforcement agency that is responsible for implementing all types of tax legislations. At the same time, the TAK is responsible also for collecting the following government central taxes:

- Value Added Tax (VAT);
- Personal Income Tax (PIT);
- Corporate Income Tax (CIT);
- Withholding Tax;
- Pension Contributions;
- Issuance of Licenses for Game of Chance.

Positive developments

The tax legislation had some positive developments during the last year. The majority of changes in tax legislation were in line with COVID-19 measures undertaken by the Government. The White Book 2020 edition provided the recommendation that raw material produced by local producers should have fair and even treatment as raw material imported from outside Kosovo regarding VAT.

The Law on Economic Recovery introduced in December 2020 regulated such issue by stating that raw materials which are produced by businesses registered in Kosovo, regardless of whether are exported abroad or not, are exempt from VAT. According to the same Law, this treatment will be in force until 31.12.2028.

Main tax issues identified

- **Lack of specialized industry tax inspectors**

The Tax Administration of Kosovo (TAK) should start segregating and creating several special units of tax inspectors who will do tax audits in specific and more complex industries. Currently tax inspectors do not have the appropriate expertise to do the accurate tax audits in some specific and complex industries. The segregation of units or task forces within the TAK will increase the efficiency of tax audits in quality and time efficiency. Lack of such expertise by tax inspectors has resulted in poor resource allocation by the TAK and a lot of troubles for businesses, such as time consuming with unnecessary appeal and court procedures. Inspectors do not have specific information and knowledge for relevant industries and industry specific factors are not taken in consideration, mainly due to the fact that even the law does not take into account such factors.

- **Obligation to pay assessed taxes in tax appeals procedures upfront**

In addition to the very slow handling of judicial cases, an additional impediment to all other sectors in Kosovo, is the legal requirement to pay taxes assessed in tax audit procedures upfront, regardless of whether the taxpayer appeals the assessment or not. This requirement also covers any administrative penalties, penalties for late payment and interest on late payment that must be paid up front prior to initiating appeals procedures, which may also be followed up with a lawsuit in court proceedings if the taxpayer is dissatisfied with the decision of the appeals department within the TAK.

In practice, there have been many cases where the TAK has been ordered by the appeals decision to refund taxpayers after appeals procedures, several months or even years after the payment has already been made by taxpayers. In a few other cases, the TAK was ordered to refund taxpayers after a successful lawsuit in courts several years after the taxpayers had already made the payment of taxes, penalties and interest.

In light of the above, the current practice foreseen in the existing Law on Tax Administration and Procedures No. 03/L-222 is not efficient in that it may unfairly deprive businesses of valuable liquidity even before they have exhausted all their means within the TAK of proving they are not guilty of breaching tax legislation. An alternative to this practice would be to require taxpayers that wish to pursue tax appeals procedures to offer a bank guarantee covering the tax assessment. This practice is enshrined in some tax legislations and if implemented in Kosovo would offer taxpayers a way of maintaining their liquidity until all means of proving their innocence within the tax administration are exhausted.

- **Tax treatment of losses in specific weight or material quantity of business goods for Corporate Income Tax and Value Added Tax purposes**

With respect to determining taxable income, the Law on Corporate Income Tax No. 06/L-105 under Article 9, which regulates disallowed expenses, specifies that the following expenses will be disallowed, we quote paragraph 1.9 "losses in specific weight or material, damages, remains, surpluses, destruction or breakings during production, transport, storing, and displaying, beyond the norms set out with relevant legal and sub-legal acts." The application of this provision has been very problematic not only for the petroleum industry, but for also other industries including the production and energy sectors, especially so because no sub-legal acts have been issued. Although the CIT Law has been amended only recently, this provision has been carried over without any changes from the prior Law on Corporate Income Tax No. 05/L-029, and as such the treatment of losses in specific weight or material quantity of business goods due to evaporation, transportation or the production process remains subject to different interpretations.

Specifically, in the absence of relevant regulation in sub-legal acts, it remains unclear as to whether the business losses should be treated entirely as disallowed expenses or whether they should be allowed as fully tax deductible. Considering that the provision prescribes that losses will be disallowed beyond the norms set out with sub-legal acts, and considering that no norms are set out with sub-legal acts, this matter is open to debate and is a cause for considerable uncertainty as losses may be significantly large in some sectors of the economy so as to threaten the viability of whole sectors.

The same issue stands also from the Value Added Tax (VAT) perspective. VAT should only be charged volumes or quantities of products that are actually received and can be used for business purposes, not charged on quantities or volumes of products that are never used or sold by businesses. So, the TAK should not charge VAT on losses in specific weight or material quantity of business goods.

In light of the above, it is of crucial importance that the government addresses this issue by setting out the norms beyond which losses in specific weight or material quantity of business goods due to evaporation, transportation or the production process will be disallowed. In so doing, the regulation will provide the norms up to which losses will be allowed as tax deductible.

- **Tax treatment of revenues and expenses from hedging and other derivative contracts**

In the current tax legal framework, there are no provisions that regulate the treatment of hedging and other derivative contracts, including contracts such as swap contracts, forwards and futures contracts, options etc.

So far, the Tax Administration has treated such complex transactions on a case-by-case basis as per their best judgment. However, in practice this has resulted in some problems with the tax treatment and the interpretations have not been always aligned, leading to differences in treatments, and even in some cases to recognizing incomes but disallowing expenses for taxpayers.

Meanwhile in some EU Member States, such issues have been appropriately covered by their respective tax legislation, whereby most EU states recognize income and expenses generated from derivative transactions, while in some other EU states incomes and expenses from derivative contracts are outside the scope of taxation.

This matter is of crucial importance particularly to taxpayers that are engaged in economic sectors that operate in markets where trade is subject to frequent and large fluctuations in prices, and it is customary to hedge risk through derivative contracts. Having the legal certainty of an appropriate tax treatment, will ensure that Kosovo taxpayers are not put in a less favorable position relative to other global market players

Progress card - outstanding recommendations

No.	Recommendation	Introduced in the WB	No progress	Some progress	Significant progress
25	Segregate and develop tax inspectors into specific industries	2018	X		
26	Change the methodology of paying assessed amounts in tax audits where tax appeals procedures are applied	2018	X		
27	Fair treatment of raw materials whether they are produced locally or not	2018			X
28	Regulate the CIT and VAT treatment of business losses (losses in specific weight)	2018	X		

Recommendations for market improvement

- **Segregate and develop tax inspectors into specific industries**

We recommend the TAK to have special inspectors for several industries, including banking sector. This way the efficiency of tax audits will be much higher and will minimize misconceptions between parties and potential lawsuits.

- **Change the methodology of paying assessed amounts in tax audits where tax appeals procedures are applied**

In terms of tax appeals procedures, the Law on Tax Administration and Procedures No. 03/L-222 should be amended to allow taxpayers the option of providing a bank guarantee instead of paying the assessed amount in tax audits, where the taxpayer pursues tax appeals procedures.

- **Regulate the CIT and VAT treatment of business losses (losses in specific weight)**

In order to regulate this issue, we recommend issuing a clear guidance on norms beyond which losses will be treated as disallowed expenses for CIT and VAT purposes. Additionally, it is recommended to include specific norms for specific sectors that may be affected in greater part by losses such as the petroleum, production and energy sectors.

Additionally, we recommend the set percentage that is recognized as a loss and to be reflected into the law rather than regulated by administrative instruction.

- **Regulate the tax treatment of revenues and expenses from hedging and other derivative contracts**

We recommend that revenues and expenses from hedging and other derivative contract are regulated in the tax legislation so that taxpayers have the right to recognize incomes and expenses from derivative contracts as regulated in many other EU States. This could be done most efficiently by way of issuance of a sub-legal act, basing such regulation in the general legal provisions guarding the recognition of business expenses.

ICT Sector

DIGITAL FRIENDLY INVESTMENT CLIMATE IN KOSOVO

The importance of the Information and Communication technology (ICT) sector in Kosovo is a topic often discussed in Kosovo. ICT is seen as an attractive sector for economic growth, promoting the export, a critical sector for creating jobs for the youth, return of the youth from diaspora and to keep young talents in Kosovo. This study found that Kosovo had embarked on an ambitious strategy development process in the last ten years. The process of the development and implementation of the strategy was supported by many different international partners. A small group of local ICT supporters emerged as central players in the parts of the strategy that was successfully implemented. Reliable time-series data on the performance and changes in the ICT sector remain hard to find therefore EIC has decided to introduce as of this year specific chapter on ICT Sector that will be updated on yearly basis.

COVID-19 has changed the way we live and work almost overnight. Analysts are struggling to keep pace with the impact on economies, sectors and firms. One thing that we already know, however, is that this crisis is accelerating an already growing trend towards digitalization.

From virtual meetings to automated factories, online orders, digital services are growing in importance, permeating an increasing number of sectors and activities. Worldwide digital firms are adapting to the ongoing crisis more successfully, and others are rapidly skilling up in response to challenges to their business models.¹⁴

For governments looking to drive economic recovery after the pandemic, supporting such digital competitiveness will be the key¹⁵. One way is through foreign direct investment (FDI) in the digital economy, in other words, "Digital FDI."

European Investors Council in Kosovo considers that there is significant evidence that FDI and Government support, can bring technology, know-how, jobs and growth. FDI is also often the largest source of finance for developing economies. Just like traditional firms, digital firms invest abroad to be close to customers, access local knowledge, open new markets and more¹⁶.

Yet attracting FDI in the digital economy requires different policies and regulations, because digital firms have business models that vary from traditional brick-and-mortar businesses. Digital firms rely heavily on data and technology, often involve platform economies and leverage non-traditional assets. European Investors Council's initiative seeks to identify policies, regulations and measures that Kosovo Government authorities can adopt to attract such investment. We're working with our members, EU, EBRD and experts to answer the question: What is the 'secret sauce' to creating a digital-friendly investment climate? The answer will

¹⁴ How The COVID-19 Pandemic Is Fast-Tracking Digital Transformation In Companies (forbes.com)

¹⁵ World Bank (2021). World Development Indicators.

¹⁶ Data collected from Central Bank of Kosovo (CBK), current account balance.

become even more important in the looming economic downturn where there may be fewer resources for investment and therefore more competition to attract scarce capital.

Driving principles:

- Supporting digital competitiveness can help economies recover from the COVID-19 pandemic.
- Foreign direct investment in the digital economy can especially help bring technology, know-how, jobs and growth to developing countries.
- What are some policies, regulations and measures that governments can adopt to attract digital foreign direct investment?

Building on a conceptual framework laid out by the United Nations Conference on Trade and Development (UNCTAD) in its 2017 World Investment Report enabling policies, regulations and measures fall into three pillars. This framework suggests that policies and regulations are important in three areas (1) digital activities, (2) digital adoption, and (3) digital infrastructure.¹⁷

1. Enabling investment in digital firms

The digital economy has generated a host of new business models. From social media and the platform economy to cloud computing and data centers, without the internet, such businesses would not have come into existence. Government that embrace such new business models, create a facilitating environment for digital firms to thrive, and actively promote their digital economy are likely to have greater success in attracting investments.

2. Enabling digital adoption by traditionally non-digital firms

Beyond new business models, the digital revolution has the potential to change traditional ways of conducting business. Local enterprises may adopt various digital services to reduce obstacles caused by physical barriers, simplify supply and value chains, and provide speedy delivery of goods and services.

3. Enabling investment in digital infrastructure

Robust underlying digital infrastructure is key for the development and growth of the digital economy. Attracting investment in digital infrastructure requires a conducive regulatory

¹⁷ World Investment Report 2017 – INVESTMENT AND DIGITAL ECONOMY (unctad.org)

framework, for instance, policies and measures that encourage investment in payment processors (i.e. e-commerce activities, e-signature, data protection, cyber security, etc). Success in attracting foreign investment in digital infrastructure can significantly benefit local companies, especially small and medium enterprises.

- **Insight into Digital Solutions usage in Kosovo, where to improve**

Digital infrastructure consists among others of usage of Digital solutions by public and private entities: companies, banks, government institutions, public utilities, etc.

Benefits of using Digital Solutions dependent on a nature of an entity might be but are not limited to: increase of revenues, reduction of operating costs, introduction of new products and services, improvement of customer experience, Introduction of higher level of accountability, providing services 24X7, making services available to customers wherever and whenever, introduction of new marketing channels, etc.

Benefits for the society are broad: potential for economic growth, increase of transparency, support in formalizing economy, making services more accessible, etc. Usage of Digital Solutions supports economic and social activities when “social distancing” is a necessity.

“Digital solution” is a solution that introduces usage of digital technologies to increase an existing business activity or to perform new business activities. This would be the definition of digital solution we would use prior to the Covid-19 emergency. In this time of pandemic and most likely for a long period forward using digital solutions is the only tool to support business continuity. The above definition would change to:

“Digital solution” is a solution that introduces usage of digital technologies to increase an existing business activity or to perform new business and enable business continuity.

Different digital solutions are introduced to replace traditional “eye to eye” communication with distant-communication in business activities: Digital marketing, Contact centers, electronic signature, electronic payments, etc.

In Kosovo there is a satisfying level of internet penetration, with IPKO (member of EIC) as a leader in providing internet services through land-line as well as through the 4G network. Internet is easily accessible all over Kosovo territory. This accessibility makes it easier to deploy digital solutions. Banks in Kosovo already have lots of digital solutions in place and are providing digital services to their clients. NLB (EIC member), Procredit (EIC member) and Raiffeisen Bank (EIC member) have been introducing for quite some time now different digital channels to their clients. In Kosovo there is a number of experienced IT companies that are capable with their

human resources to support further development of digital infrastructure. Asseco SEE (EIC member) has a large portfolio of digital solution and currently is supporting electronic payment infrastructure as well as providing Contact center solution (LIVE), e-banking, m-banking solutions, service center, etc.

Lately banks continued to improve their digital channels; PCB introduced Online boarding and now clients can onboard and open bank accounts without visiting the branch, apply for loans and use other bank services online. Other banks are moving on same directions. The banks are in frontline of providing digital services. Government and other regulatory entities (Central Bank,...) should move forward with the legislature and other regulations to support this developments and to overcome any obstacle that might withhold this developments.

Following we are giving a short overview of two components on digital infrastructure. Status of their deployment in Kosovo as well as actions to improve.

Electronic payments in Kosovo

In Kosovo electronic payments were introduced more than 15 years ago with Procredit deploying EFTPOS network and therefore usage of payment cards is broadly adopted by customers. ProCredit also introduced e-commerce systems in 2013 enabling merchants to receive payments online. Up to date other banks provide e-commerce platforms, RBKO,TEB and BKT. Still overall number of merchants and the number of transactions is rather low. Up-to date there are less than 100 merchants that have integrated e-commerce payment platforms into their online sale. The main obstacle for the expansion of usage of this option of payment is the total cost of usage compared with number of transactions for merchant. The other obstacle is the know-how of retailers and their technical capacity. If a merchant is already selling online and has an online store, it would need approx. 1,000 Euro budget or more to cover direct costs for implementing the payment of e-commerce solution. Even though the banks bared themselves most of the cost and are applying very low fees for integration and yearly maintenance, most of this cost is for merchant's internal integration. The government and other -stakeholder can develop programs to support this particular activity as well as in education for the merchants. For clarification, a merchant refers to any retailer, utility, public institution that would sell or collect payments. There are online shops like "Gjirafa.com, "fortshpejt.com", "Kosovoshopping.com"; "Gruper-ks.com"; "Merrjep.com" that beyond selling their own products and services online, also act as a "hub" for other retailers (small and medium) to sell online. Supporting a "hub" might help other small retailers to offer their goods and services and collect payment without investing in infrastructure. The mission of a "hub" should be to support small retailers not to be their direct competition.

Currier companies can also act as Hubs. Practically they are acting as hubs but most of them accept only cash payments. Unverified information is that the number of deliveries per day in

Kosovo that comes from online sale is from 5,000-10,000. Some of the carrier companies operating in Kosovo beyond international DHL, TNT are GEP, KOEX, Express, etc. After the COVID-19 pandemic occurred, a new carrier companies, equipped with new vehicles and IT system started operating as example- "NPOST" focused in supporting online sale. This shows overall trend of growth in online business. Since the number of transactions per carrier-officer are low for the banks it is not accountable to provide each officer with an EFTPos equipment. EFTPos – Electronic Funds transfer at Point of Sale is the equipment that enables payment with Bank Cards. Banks provide the EFTPos in Kosovo and still there is not a practice for merchants to purchase them directly and integrate them to the payment system.

The stakeholders (government and other institutions) can develop programs to support the Carrier companies to process electronic payments. The government will benefit directly from supporting this since it will help in formalizing this part of economy that as is, it is a window for informal businesses. Supporting the deployment of electronic payments for Carrier companies would indirectly support growth of online business as it will make possible paying electronically for goods after delivery. Paying in advance and lack of trust that the goods or services will not be delivered is also a barrier that holds back from online orders. Beyond the popular payment cards as alternate or combined to them other means of electronic payment instruments are being introduced to the market. Not describing how they operate following are few of them noticed in the market: Paysera, IBAS, VllasaWallet...

The electronic payment is significant component of digital business. We pointed out some actions that might ease the usage of it.

Electronic signature

Beside electronic payments, electronic signature is other significant component that is crucial for business activities to go digital. Even though there are forms of digital signature in use in different digital solution scenarios (ex. usage of tokens, OTP, password in online banking) in order for solutions to be provided in many practical applications there is a need for a law that regulates electronic signature. The law is already drafted and is waiting for parliament procedure. The draft law named "Law on electronic identification and services based on electronic transactions" is in line with EU regulation Nr. 910/2014 that is referred to as eIDAS (Electronic Identification, Authentication and Trust Services).

eIDAS among others defines Qualified Electronic Signatures (QES). QES is the legal equivalent of handwritten signatures. Implementing QES will support businesses, government institutions and other entities to provide a lot of the services that are now not possible to be provided online. For example: opening a bank account without visiting the bank at all, signing any type of contracts, filing a request or a claim that for now is mandatory to be physically present. eIDAS defines

“Certification authority”- CA as an entity that issue digital certificates for all the parties that need to use QES: citizens, private and public institutions. Certification authority, CA is a company in most cases a private business licensed by the relevant institutions to issue certificates. eIDAS allows a person or entity to use any CA in EU for being equipped with a digital certificate.. Establishing CA in Kosovo would contribute to ease the access to digital certificate for citizens as well as for private and public entities. The government and other stakeholders should support the establishment of CA. The visibility study for CA could be supported in order to find out if it is reasonable to invest in CA in Kosovo.

Nevertheless, if there is a local CA or not, to provide services using QES, public or private entities-companies, banks, government institutions, utilities have to adopt their existing solutions or purchase and implement solutions that will allow usage of digital certificate and integration with CA. CA can authorize entities to issue certificates by certified and audited procedures and solutions. Imagine a scenario: A Bank is using “contact center solution” to video identify the client then through the solution redirects the client to CA for digital certificate issuing. After this is over the client continues to use Bank’s virtual Branch.

Relevant stakeholders and Government should develop programs for educating and supporting entities to implement usage of digital signature

It is encouraging that the government of Kosovo formed after the February 2021 elections has put the priorities on supporting development of IT sector. The Law on digital signature has already passed through lot of approval procedures and it is expected to pass through parliamentary vote by the end of 2021. There was a positive feedback from a meeting EIC members had with ministry of Economy Ms. Artana Rizvanolli. On the public addressing the government officials, the appointed prime ministers adviser Mr. Lulzon Jagxhiu pointed out priorities of the government related to supporting digital infrastructure and business in this order: digital signature and digitalization of government services; supporting the payment platforms and supporting IT projects to increase productivity. This was also the line of priorities EIC was standing and advocating for.

IT/Digital Market and business, firms

IT industry in Kosovo is growing together with capacities of the companies. Startups in short period grow to cover different fields and specific services in the industry. Nevertheless there is not a significant number of the companies that export products and solutions even though there is a number of companies that export services. In order to boost Digital industry the local market demand has limited capacities. It is also opened to external competition. The small market and late developed market didn’t give enough room for local companies to develop

products/solutions that would be competitive for the international market. In the other hand the raised demand all over the world for ICT professionals, Kosovo young population and agility put Kosovar companies and individuals in a position to export IT labor unfortunately on man/day rates or low profitability services. The handicap of this is that there is not a value add in form of IP (intellectual property) or other kind of asset that will be created and the business can benefit in long run. We don't see lot of acquisitions or capital investments involving Kosovar IT companies, this compared to the developments in the region. In order to overcome the stage of exporting man power to exporting products/solution strategies should be developed and the specific Digital and IT solution competences should be encouraged. Artificial intelligence, Security solutions as well as block chain solutions are some of the most valued competences. Government and other stakeholders, Universities, EU and USA sponsored organizations and development programs can support on this direction. Also educating the companies how to attract foreign investment can help.

Automotive Sector

The automotive industry is considered one of the most advanced industries in the global technological development. Different manufacturers from all over the world have developed and built different types of vehicles that have helped improve the mobility of the people worldwide. The technological advancements in the automotive industry are also helping and encouraging a greener and more environmentally friendly future.

Kosovo does not have any production in the automotive industry, however, trade of vehicles in the country is growing on daily basis. The market is relatively young, and price driven. The buying decision relies heavily on the price of the vehicle itself, availability of spare parts and the price of aftersales services.

Automotive industry in Kosovo is becoming a part of the White Book for the first time under this year's edition – White Book 2021.

Like many industries in Kosovo, the automotive industry has its own concerns and challenges that have been set up and addressed for several years.

To improve the functionality of this industry within the market, there have been many proposals for improvement on the legislation of the automotive industry, mainly through Association of Importers of New Vehicles in Kosovo (SHIAR). These proposals include amendments, adaptations and implementations of the existing laws and by-laws, with the purpose of adapting them accordingly to the best practices in the European Union.

These legislative improvements would help save the budget of Kosovo, improve road safety, preserve the health of citizens and the environment, remove barriers of doing business, and reduce informality. However, these proposals have not gotten the needed attention until now. Through White Book 2021, the Association of Importers of New Vehicles in Kosovo representing the automotive industry, is going to introduce some of the key issues that the industry is facing in the market while proposing some concrete recommendations for the Government authorities. In this regard, for the Automotive industry in Kosovo the following issues are of immediate concern:

1. Homologation of new vehicles

We, as an association, have for years criticized the Monopoly created by a single Homologation center as well as the way Homologation has been implemented in Kosovo. Therefore, we welcomed the abolition of this Monopoly in Kosovo.

However, we are concerned that the lack of proper control and analysis of vehicle documentation during import (Certificate of Conformity or CoC), leaves room for abuse and numerous irregularities in the import of vehicles.

In this regard, the Government of Kosovo must set up safe mechanisms, in order not to damage the budget and the citizens of Kosovo.

2. Vehicle Registration Center

In the registration center, we have identified many issues that are not in accordance with the regulations and practices of the European Union, but also of the countries in the region.

a. Currently the automotive industry is the only business category required to present the complete import documents of their products to the end customer. This is required by the registration center. As a result, each of our customers can calculate the profit generated in the sale of the vehicle. This regulation also violates trade secrets and data protection policies. From experience in other EU or regional countries, we know that the final invoice and technical documentation from the manufacturer are sufficient to register a vehicle.

b. Eliminate the need for technical inspections of the new vehicle upon the first registration. In order to register a new vehicle (production for the European market) a vehicle technical inspection certificate is required. This creates unnecessary costs and procedures for us and our customers.

c. Elimination of the notarized contract and technical control, when a vehicle is sold by an authorized dealer. Currently for used vehicles (even 3 – 6 months) it is required by the registration center that a notarized contract is presented in order to register the vehicle. An invoice by an authorized dealer, similar to new cars should be sufficient.

d. Reports from Kosovo Registration Centers

Currently we do not have statistics on the general vehicle market in Kosovo. As in the countries of the region and in all European countries, it is important to present information publicly that does not infringe on the privacy of the applicant. Information on the market is important for planning and reporting to the manufacturers.

3. Environmental pollution and emissions

Aim of the legislation in the automotive industry should be to comply with the latest environmental European standards. Therefore, measuring, controlling, and categorizing of vehicles in circulation based on gas emissions should commence.

A clear incentive policy for cars with lower emissions such as those with Zero Emissions (Electric) and those with lower emissions (Hybrid) similar to European and regional practices including Albania, should be implemented.

New policies are needed to encourage investments in electrification of vehicles that include better infrastructure for charging stations.

4. Road safety

In Republic of Kosovo, over 160 people die every year from traffic accidents. Most of them would have been avoided if the average age of cars in Kosovo had not been over 18 years, or twice that of the average in Europe. Traffic deaths are mainly related to the age of vehicles, which are technically incapable of protecting the life of the passenger in the event of an accident

We welcome incentives that would encourage sales of new vehicles with the aim of improving road safety and decreasing the number of accidents caused as a result of technical issues in old vehicles.

Conclusions

Being the third publication of this nature, the White Book 2021 has grown with two more industries or sectors making in total nine sectors namely telecommunications, banking, insurance, mining, petroleum, pharmaceutical, ICT, automotive and taxation sectors. In the upcoming years these sectors will expand even further to encompass even more important issues. Furthermore, White Book 2021 has introduced a specific chapter on ESG (Environmental Social and Corporate Governance) principles.

The main objective of the White Book is to deepen the dialogue with the authorities and to draw attention to the precise and concrete problems in the market place and hence the improvement of the investment climate. A good investment climate in Kosovo means there will be more jobs created, more taxes to the state budget, higher standard of living and well-being of citizens, a transfer of know-how to the youth of Kosovo and an overall benefit to the society as a whole, not just firms.

Through successful investments, Kosovo can attract more foreign direct investors who will work with local investors and partners to expand on trade and exports as well as other areas of the service sector. Such improvements on the investment climate can only be positive for the country as a whole. The Government and relevant authorities must work with such investors and such recommendations without any hesitation to implement such recommendations as fast as possible.

The sectors which have been addressed in this White Book represent very important issues that have been discussed now by EIC for a number of years. The White Book will keep track, monitor and measure future progress on the key areas which have been raised. It is intended to serve as a follow up tool as well in ensuring that the Government takes ownership of these issues which have been raised.

There have been some progress in recommendations presented in last edition of White Book, especially the insurance sector has benefited the most with completion of various important recommendations. However, even that there is progress made, there is a lot to be done and there are a number of topics and recommendations that have not shown any progress since 2018.

We remain hopeful that this effort of the European Investors in Kosovo and its partners will be only the beginning of a very structured approach to problem solving and opportunity creation for the future of Kosovo. We invite the Government and relevant authorities to take ownership in resolving such outstanding business barriers and to make Kosovo more attractive for doing business.

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