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THE WORLD BANK IBRD • IDA | IFC International Finance Corporation | MIGA Multilateral Investment Guarantee Agency

# Kosovo:

## *Country Private Sector Diagnostic*

**OCTOBER 2026**

# About the Country Private Sector Diagnostic

The private sector is an engine of long-term economic growth and a catalyst for global social and economic development. When functioning well, it promotes innovation and entrepreneurship, improves access to and the quality of economic opportunities, and supports the sustainable use of natural resources. In developing economies, the private sector creates the majority of jobs, generates tax revenue, and accounts for significant investment.

The Country Private Sector Diagnostic (CPSD) seeks to unlock private investment and job creation through policy action. Prepared jointly by the institutions of the World Bank Group, each report analyzes specific sectors of the economy in which private investment could accelerate growth if appropriate policy and regulatory issues are addressed.

Designed from the perspective of an investor or entrepreneur, this new generation of reports seeks to identify untapped private investment opportunities and the barriers that stand in their way. Subsectors of the economy are chosen based on their potential to attract private investment, create more and better jobs, generate domestic revenue, and foster sustainable, inclusive growth in response to targeted policy action. The report aims to help policy makers prioritize impactful actions that can be taken in the near term to remove disincentives to private investment, while delivering on broader development goals.

The CPSD is a core Bank Group country diagnostic that guides the design and implementation of country strategies, public and private investment projects, budget support operations, advisory services, and other analytical work. It is intended to be of interest to domestic and foreign business investors, government officials, Bank Group staff and management, civil society, and other development partners.

CPSDs are also a central instrument of the Bank Group's jobs agenda as articulated in the 2025 Development Committee paper *Jobs: The Path to Prosperity*, and the 2026 paper *Creating the Enabling Environment for More and Better-Paid Jobs*. These papers emphasize the need to translate private sector development into broader and higher-quality employment outcomes at scale. CPSDs support this agenda by identifying country- and sector-specific barriers to private investment critical to job creation. They align with the Development Committee's approach: investing in human capital and infrastructure, strengthening business-enabling policies, and mobilizing private capital at scale.

CPSDs complement other Bank Group analytical work that informs the Bank Group's engagement with Kosovo. This includes the *Country Growth and Jobs Report* currently under preparation, building on the *2021 Country Economic Memorandum*; the *2024 Country Climate and Development Report*; the *2024 Poverty and Equity Assessment*; and the *2023 Public Finance Review*. Together, these diagnostics provide an integrated evidence base on Kosovo's growth, jobs, climate, poverty and equity, fiscal, and private sector investment priorities. The new *Streamlined Country Diagnostic* builds on these core diagnostics to identify key development challenges and opportunities and inform the next Bank Group Country Partnership Framework for Kosovo.

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# Content


Acknowledgments ..... iii

**Executive Summary** ..... iv

1 **Country Context and Business Environment** ..... 1

2 **Sector Selection** ..... 19

3 **Utility-Scale Solar and Wind Electricity Generation** ..... 23

3.1 Sector Context and Potential for Private Investment ..... 24

3.2 Constraints to Private Investment and Recommendations ..... 31

4 **Business Services** ..... 38

4.1 Sector Context and Potential for Private Investment ..... 39

4.2 Constraints to Private Investment and Recommendations ..... 48

5 **Manufacturing of Building Components** ..... 56

5.1 Sector Context and Potential for Private Investment ..... 57

5.2 Constraints to Private Investment and Recommendations ..... 67

**Appendixes**

A. Estimates of Potential Increases in Private Investment and Employment ..... 75

Notes ..... 82

Abbreviations and Acronyms ..... 95

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# Executive Summary

Kosovo has achieved considerable progress in its relatively short economic history. With continued reforms, it has the potential to attract the substantial private investment needed to create more and better-paid jobs and achieve deeper European integration.

## Ready for the Next Generation of Private Sector Reforms

**Kosovo is Europe's youngest economy—one that needs more private investment, and where private investment has the potential to be truly transformative, driving faster growth and creating high-quality jobs.** Since declaring independence less than 20 years ago, Kosovo has made significant strides in establishing market institutions, strengthening human capital and developing infrastructure. A young population, a strategic location in the heart of Europe, macroeconomic stability underpinned by euroization, and a strong commitment to European integration are among the country's key assets that could support greater participation in regional, European, and global value chains. Kosovo's private sector has also matured despite the country's legacy of transition from a planned economy, driven by knowledge and capital infusion from its sizable diaspora and by significant financial deepening. New sectors, including information and communication technology (ICT) services, have emerged and contributed to rapid growth in services exports, while goods exports have become more diversified.

**More productive private investment can support higher-paying jobs and faster convergence with European Union (EU) income levels.** Average incomes are about one-third of those in EU peers and on current trends, meaningful convergence would take many decades. Increasing both the level and impact of domestic and foreign private investment is therefore essential for accelerating economic growth and creating higher-quality, better-paid jobs for young Kosovars. This CPSD identifies areas where targeted policy action can help unlock that investment potential.

**Kosovo's economic gains have been underpinned by strong and sustained ties with its diaspora, whose remittances, travel spending, and real estate investment have**

**been a cornerstone of the country's growth model.** Remittance inflows accounted for almost 13 percent of Kosovo's gross domestic product (GDP) in 2025. Travel and transport services, largely driven by diaspora spending, account for nearly two-thirds of Kosovo's services exports. The diaspora has also supported the rapid expansion of ICT and business services exports, primarily to German-speaking markets, which reached almost 20 percent of services exports in 2025. Diaspora networks have similarly driven the growth of the building components and construction materials manufacturing sector by facilitating access to European markets and supply chains.

**These inflows have supported consumption, poverty reduction, and Kosovo's transition to upper-middle-income status—but the growth model now needs to evolve.** Together with financial deepening and strong public investment, diaspora-related inflows have financed sustained growth and boosted household consumption. Between 2010 and 2024, GDP per capita more than doubled and poverty nearly halved, and Kosovo crossed the upper-middle-income threshold in 2018. Looking ahead, the economy now needs to grow beyond this dependence on diaspora—broadening its productive base, attracting investment on the strengths of its domestic fundamentals, and generating more productive and better-paid jobs for its young population.

**Kosovo has several structural advantages that are potentially attractive to private investors.** Its location at the crossroads of regional infrastructure corridors linking Western Europe with the Balkans, combined with duty-free access to the EU market and its ambition to become an EU member state, positions the country as a potential trade gateway. A young population—nearly half of Kosovars are under age 30—provides a demographic advantage, supporting the expansion of a productive domestic workforce and the development of skills aligned with investors' needs at a time of demographic aging across much of Europe. Widespread broadband coverage and high rates of digital adoption underpin a digitally capable economy. Prudent fiscal management and the unilateral adoption of the euro have kept public debt low and provided a stable macroeconomic environment attractive to investors.

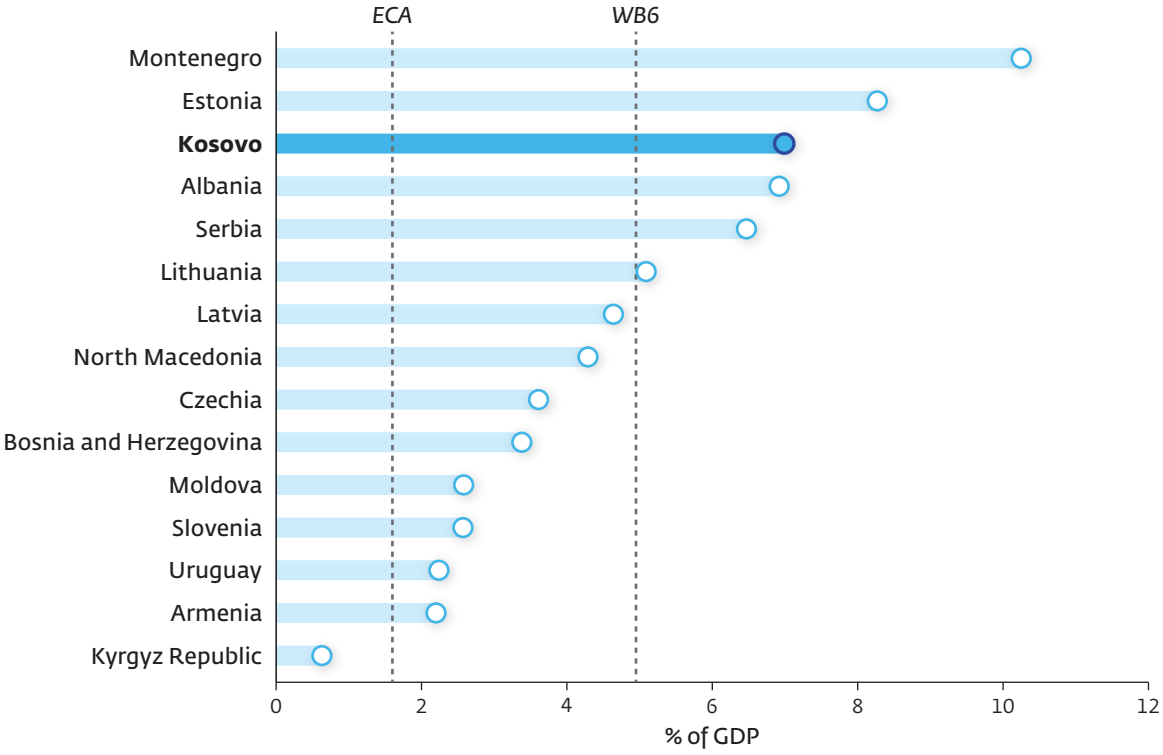
**Nonetheless, Kosovo faces persistent obstacles to attracting the private investment needed to create more and better-paid jobs.** Only 34 percent of the working-age population was employed in 2024, well below peers, with an even larger employment gap for women. Trade is underdeveloped: goods exports amounted to 9 percent of GDP, far below most comparators and only a fraction of goods imports, which stood at 57 percent of GDP. The significant income gap with the EU continues to drive emigration, with around one-third of people born in Kosovo now living abroad. These pressures are compounded by an energy sector that relies on two outdated coal-fired thermal power plants, resulting in high greenhouse gas emissions, air pollution, and frequent power outages.

**Although foreign direct investment (FDI) inflows are higher than in comparators, they are concentrated in real estate, with limited scope for knowledge and technology spillovers (figure ES.1).** In recent years, net FDI inflows averaged 7 percent of GDP, exceeding the regional average of 5 percent of GDP and that of most comparator countries. However, diaspora investment in residential real estate accounted

Figure ES.1

## Kosovo Attracts Sizable FDI Yet Concentrated in Sectors with Limited Spillovers, Such as Real Estate

**a. FDI net inflows, Kosovo and comparators, 2020–24**




**b. FDI inflows by sector, Kosovo, 2021–25 (%)**

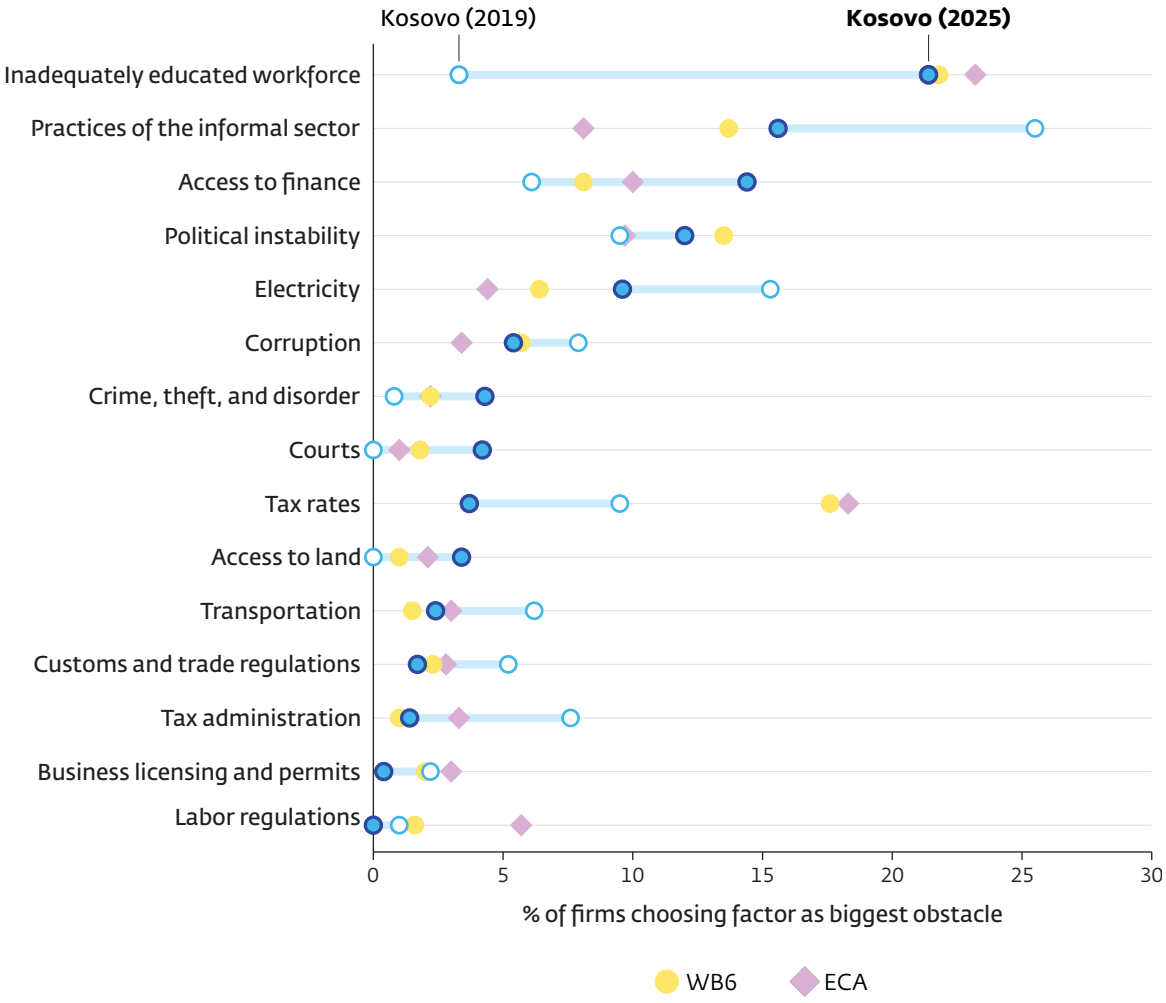
*Source:* Based on data from CBK and UNCTAD.
*Note:* FDI = foreign direct investment; WB6 = Western Balkans Six.

for three-quarters of FDI between 2020 and 2025, with most of the remainder directed to financial services. Relatively little FDI has flowed to sectors with greater potential to generate productivity and technology spillovers.

**Unreliable electricity, gaps in workforce skills, and institutional and structural barriers continue to discourage private investment (figure ES.2).** Firms identify an inadequately educated workforce (21 percent), informal sector practices (16 percent), access to finance (14 percent), and access to electricity (10 percent) as their main obstacles to doing business. The growing importance of skills and access-to-finance

Figure ES.2

## Workforce Skills, Informality, and Access to Finance Lead Doing Business Constraints




*Source:* World Bank Enterprise Surveys.
*Note:* ECA = Europe and Central Asia; WB6 = Western Balkans 6.

constraints likely reflects Kosovo's gradual shift from lower-value-added activities toward more diversified and sophisticated segments in services and manufacturing, which require greater specialized skills and investment finance. Continued emigration and associated brain drain further exacerbate these constraints. Political instability is also a growing concern, cited by 12 percent of firms in 2025, up from 9 percent in 2019. Although infrastructure reliability has improved overall, electricity-related constraints remain a significant deterrent to private investment.

**The CPSD takes an investor perspective to identify sectors where private investment can be boosted by removing constraints that discourage investment through concrete policy actions.** The selection of sectors follows a rigorous, systematic process that includes analysis of quantitative and qualitative indicators and stakeholder consultations, including interviews with private investors, companies, technical experts, policy makers, and development partners. The criteria for selecting sectors include whether they can attract significant private investment over the medium term if well-identified constraints can feasibly be addressed by the public sector in the near term. Recognizing that an element of judgment is involved, the selection is not intended to be exhaustive; rather, it aims to facilitate focused analysis and concrete recommendations. On this basis, the CPSD sets out actionable policy recommendations in three sectors: utility-scale solar and wind electricity generation, business services, and building components manufacturing.

**Each sector offers substantial investment potential that targeted and feasible policy action could unlock, with distinct but complementary pathways to faster growth, better jobs, and deeper European integration.** Investment in utility-scale solar and wind generation could strengthen energy security and reliability of electricity supply—a critical bottleneck for business services and building components manufacturing—while also reducing air pollution and carbon emissions. Given the scale of investment needs, this can only be achieved through large-scale private sector participation. Business services hold substantial potential to generate well-paid jobs for young Kosovars, including women, if barriers are addressed. Building components manufacturing could create a significant number of jobs, boost goods exports, and contribute to greater energy efficiency in Kosovo's building stock. With targeted reforms, the sector has the potential to be among Kosovo's most competitive in export markets. The three sectors are mutually reinforcing. More reliable and cleaner electricity would support the competitiveness of both business services and manufacturing, while deeper integration with European markets would expand opportunities across all three. Together, they can support a more productive, export-oriented, and internationally integrated private sector. The following sections summarize the investment potential of each sector and the main constraints discouraging private investment.

# Utility-Scale Solar and Wind Electricity Generation

**Kosovo's aging coal-fired thermal power plants raise concerns for public health, the environment, and energy security, and limit export opportunities to the EU.** These plants generate around 90 percent of Kosovo's electricity, contributing to significant air pollution and carbon dioxide emissions, while their high carbon intensity undermines competitiveness in the EU market. Their unreliability, combined with insufficient generation from other sources, increases dependence on costly electricity imports and can lead to outages for households and businesses at peak hours. Import dependence has already raised the cost of electricity for medium-size industrial consumers following the liberalization of this segment of the retail market in June 2025. To address these challenges, Kosovo aims to more than double the share of renewables in installed capacity, from 23 percent in 2024 to 63 percent by 2031, mainly by enabling private investment in solar and wind generation through competitive auctions.

**Realizing this potential will require addressing key constraints to private investment in utility-scale solar and wind electricity generation.** The most significant barrier is uncertainty over offtake arrangements, stemming from delays in renewable auctions and limited liquidity on the Albanian Power Exchange (ALPEX), Kosovo's power exchange. Even when government-backed power purchase agreements (PPAs) are secured, concerns about the long-term payment capacity of the Kosovo Transmission, System and Market Operator (KOSTT), the government-designated offtaker, weaken their bankability. A further challenge is limited domestic balancing capacity and reserves to cover periods of low solar and wind electricity generation, translating into high transmission grid charges and high balancing costs for investors under support schemes.

**Regulatory barriers further undermine investor confidence.** An outdated cadaster, short public land leases, and complex land expropriation procedures restrict access to land for utility-scale projects and transmission lines. Complex administrative procedures linked to municipal planning and the allocation of public land leases constitute additional deterrents to investment, with legal requirements to include projects in municipal development plans and zonal maps potentially delaying project development by up to eight years. Greater institutional coherence and a more structured public-private dialogue are also needed to reduce governance-related uncertainty.

**Targeted reforms could unlock substantial private investment, enhance energy security, and support a just and competitive energy transition.** The most urgent reforms are to adopt and implement a multiyear auction schedule and operationalize the liquidity guarantees for KOSTT, the transmission system operator, that were introduced by the 2025 Rule on the Renewable Energy Support Mechanism. Additional measures

that could create more diversified offtake opportunities and reduce investment risk include enabling virtual PPAs, simplifying municipal planning requirements, streamlining public land lease procedures, extending lease durations to match project lifetimes, and introducing easements or rights-of-way for transmission lines. A regulatory framework for battery energy storage systems (BESS), competitive BESS auctions, and a transition to a 15-minute market time unit on ALPEX could increase power system flexibility and reduce balancing costs for investors under support schemes. Kosovo has already started implementing several of these reforms by preparing an amendment to the Law on Public Property to extend public land lease durations, initiating revisions to the Law on Spatial Planning, and developing a draft renewable energy auction pipeline for 2026–28.

**These reforms could deliver major economic and climate benefits.** By 2035, they could enable up to US$1 billion in private investment, create 8,300 more and better-paid jobs (both direct and indirect), and avoid an estimated 24 percent of Kosovo's annual carbon dioxide emissions. They would also strengthen energy security, support a more reliable electricity supply for businesses, and advance Kosovo's EU integration and climate goals.

## Business Services

**The business services sector has the potential to become a dynamic export engine and source of well-paid jobs.** A young, multilingual, and increasingly skilled workforce, strong cost competitiveness, and diaspora-rooted German-language capabilities support this potential. Kosovo leads the Western Balkans on the 2024 Information Technology Competitiveness Index and ranks third globally in the 2024 Offshore BPO Confidence Index, trailing only India and Poland. The sector has expanded rapidly over the past decade, driven by rising European demand for outsourcing and increasing digitalization. Business services exports quadrupled between 2021 and 2025. Wages in the sector are considerably higher than the national average, but remain low relative to Central European hubs, preserving a cost-quality comparative advantage.

**Despite this strong potential, the sector faces hurdles to scaling up and attracting private investment, particularly related to labor regulations and skills availability.** Labor shortages and skills mismatches, exacerbated by emigration, are particularly challenging for this labor-intensive sector. Four in five business services firms report difficulty finding skilled workers, with educational institutions struggling to keep pace with evolving industry demand. Firms also identify restrictive and outdated labor legislation as a constraint to workforce flexibility and remote work, reflecting a regulatory framework designed before the emergence of 24/7 service delivery to international markets.

**Regulatory barriers impede investment in an asset-light sector that depends on strong data protection, cybersecurity, and regulatory certainty, particularly as firms seek to move up the value chain and adapt to artificial intelligence.** Fragmented digital regulations, weak cybersecurity governance, and misalignment with the EU's General Data Protection Regulation (GDPR) create barriers for firms handling EU client data. Although Kosovo's secured transactions framework formally permits intangible assets to be used as collateral, banks rarely accept them in practice, leaving asset-light business services firms effectively unable to access bank financing. The absence of legally recognized electronic signatures for private commercial contracts also raises transaction costs for cross-border contracting.

**Unreliable electricity is a critical operational constraint for the business services sector, often triggering service-level agreement breaches.** Although electricity reliability has improved over the past year, frequent power outages can undermine compliance with service-level agreements with international clients, particularly where there is an expectation of 24/7 availability.

**Targeted reforms could unlock private investment and position the business services sector as a competitive export engine.** Priorities include clarifying the regulatory framework for flexible and remote work; adopting binding GDPR-aligned guidance and model contracts; and making the national cybersecurity agency fully operational. Improving the practical use of intangible assets as collateral would meaningfully improve credit access for asset-light firms, while legal recognition of e-signatures for private commercial contracts would reduce cross-border transaction costs. Closing the skills gap will require employer representatives to co-sign competency frameworks for new vocational education and training (VET) qualifications, accelerating approval of pending ICT occupational standards, and establishing a sector skills intelligence system to better align training with industry needs. Effective implementation of the Rule of Quality of Electricity would help address a critical operational bottleneck. Reforms that facilitate private investment in utility-scale solar and wind electricity generation could also contribute to strengthening electricity reliability and addressing this critical bottleneck for business services firms.

**By adopting these recommendations, the sector could attract between US$68 million and US$177 million in investment, while generating 32,000 to 46,000 direct and indirect more and better-paid job opportunities, including for youth and women.**

# Manufacturing of Building Components

**Kosovo's building components manufacturing sector sits at the intersection of strong domestic construction demand, growing EU-wide push for energy-efficient buildings, and an established but underexploited export base.** The sector offers private investors a low-cost, quality-certified production base with demonstrated access to high-value European markets and significant scope to scale. Manufacturers are integrated into regional supply chains, sourcing key inputs—including steel, aluminum, plastics, glass, and insulation materials—from international markets. They supply windows, furniture, metal-based components, insulation materials, and HVAC (heating, ventilation, and air conditioning) systems to residential and commercial clients in Kosovo, the EU, and CEFTA (Central European Free Trade Agreement) construction markets. Exports have grown strongly and could expand further as Kosovo deepens its international integration, particularly through EU-led initiatives to strengthen regional transport connectivity and improve trade facilitation through initiatives such as the EU–Western Balkans Green Lanes at major border crossing points.

**Growing demand for energy-efficient building components across Europe provides an important opportunity for Kosovo's manufacturers.** The 2021–23 energy price shock accelerated demand for energy-efficient construction, while new EU regulations are expected to increase building renovations substantially. Capturing this opportunity, however, will require Kosovo's manufacturers to meet increasingly stringent EU product standards and scale up domestic production capacity.

**Building components manufacturers face a combination of policy-induced distortions and market failures that raise operating costs, discourage investment, and limit firms' ability to scale and adapt to evolving market conditions.** Businesses identify several key constraints: unreliable and increasingly costly electricity, coupled with cumbersome connections to the grid; opaque land markets and cumbersome construction permitting; skills mismatches, particularly shortages in technical occupations such as CNC (computer numerical control) machine operators, welders, and CAD (computer-aided design) and CAM (computer-aided manufacturing) specialists; working capital shortages arising from upfront supplier-payment requirements while foreign buyers operate on 60-to-90-day payment terms; and limited access to long-term investment finance.

**Addressing these constraints is critical to unlocking private investment and enabling firms to move up the value chain.** Modernizing VET curricula would help address persistent skills gaps that the current system is poorly equipped to fill. Fast-track permitting for industrial projects and a formal industrial zone land-use category could reduce delays and improve predictability in the current sequential, multi-institution review

process. Redesigning network connection arrangements could accelerate electricity access for manufacturing facilities and help resolve the legal impasse preventing grid connections in industrial parks. On the financing side, facilitating receivables-based lending could ease working capital constraints.

**Addressing these constraints could catalyze private investment between US$187 million and US$296 million and create between 21,000 and 33,000 direct and indirect jobs.** Expansion of the sector could strengthen export competitiveness while deepening links with Kosovo's domestic construction sector.

**The three sectors identified in this CPSD point to a common diagnosis: Kosovo has substantial private investment potential but does not yet have all the enabling conditions needed to realize it.** Each sector lies at the intersection of Kosovo's EU accession trajectory and its need to attract a qualitatively different type of private investment: productive, job-creating, and internationally integrated. Renewable energy development is essential for maintaining Kosovo's competitiveness in EU markets as carbon-related requirements, including the carbon border adjustment mechanism, become more stringent. Growth in business services depends increasingly on alignment with EU data protection and digital trust standards. Building components manufacturers must meet increasingly stringent EU product and sustainability requirements to retain and expand their export base. Across all three sectors, the principal constraint is not a lack of private interest. Investment pipelines exist in energy, business services firms are expanding, and manufacturers are already exporting. Rather, incomplete regulatory frameworks and weak institutional coordination raise costs, create uncertainty, and prevent investment from reaching its full potential. The recommended reforms are targeted, feasible, and mutually reinforcing. More reliable electricity would directly benefit both business services and manufacturing; stronger VET systems would help address skills shortages across both sectors; and improved access to finance through the use of intangible assets as collateral and receivables-based lending would address financing constraints that extend beyond the sectors examined here. Kosovo does not need to address every constraint simultaneously, but progress on these interconnected priorities will need to be coordinated. The EU accession process provides both a reform roadmap and an external anchor for doing so.

## Realizing Its Potential

**Kosovo has made measurable progress since independence.** GDP per capita has more than doubled, poverty has nearly halved, and new sectors like ICT services have emerged with no prior base. The economy now needs to broaden beyond the diaspora-supported growth model that underpinned this first chapter of development. The reforms identified in this CPSD can support that transition. They are specific, actionable, and within reach.

They do not require large fiscal outlays, but regulatory decisions and legislative alignments that the EU accession process already incentivizes. Momentum toward EU integration, a maturing private sector, and growing investor interest across all three sectors provide a timely opportunity to advance these reforms. The cost of inaction is not stasis but the continued erosion of Kosovo's competitive position, the loss of talent to emigration, and the concentration of investment in real estate rather than more productive sectors capable of generating better-paid jobs and lasting prosperity. The payoffs from acting are large and achievable.

Concrete policy actions in the three sectors have the potential to catalyze an estimated US$1.2 billion to US$1.5 billion in new private investment and generate between 61,000 and 87,000 more and better-paid jobs (both direct and indirect) over the medium term, approximately five to ten years. This would be equivalent to 14.5–20.7 percent of Kosovo's total employment in 2024. The recommendations in this CPSD cover a range of issues including foundational reforms in infrastructure and skills, measures to strengthen the business-enabling environment, and actions to catalyze private capital at scale, corresponding to the World Bank Group's three-pillar jobs framework. Table ES.1 summarizes the main constraints to attracting the private investment needed and recommended actions to address them across the three sectors.

Table ES.1

# Summary of Constraints and Recommendations

| Constraints | Recommended actions |
|---|---|
| **Utility-scale solar and wind electricity generation** | |
| *Rationale*<br>• Large-scale investment is needed to strengthen energy security and support decarbonization.<br>• Private investors have opportunities to expand renewable electricity generation through power purchase agreements (PPAs) with the government and corporate buyers in the European Union (EU). | |
| **1. Investors in renewable electricity generation face uncertainty over off takers for the electricity they produce.** | **1a.** Adopt, publish and adhere to a multiyear auction schedule, including site-agnostic auctions with larger capacity targeting multiple investors, underpinned by a legal requirement for the Ministry of Economy.<br>**1b.** Define virtual corporate PPAs in Kosovo's regulatory framework as financial instruments that are subject to supervision and investor protection and apply derivative market obligations, in line with EU financial and energy market rules. |
| **2. Concerns about the ability of the Kosovo Transmission, System and Market Operator (KOSTT), the government-designated offtaker, to meet long-term payment obligations reduce the bankability of government-backed PPAs under renewable auctions.** | **2.** Define the operational modalities of the liquidity guarantee mechanism for Kosovo's Renewable Energy Support Fund (introduced by the 2025 Rule on the Renewable Energy Support Mechanism), including the guarantee provider and contractual terms. |
| **3. The legal requirement to include solar and wind projects in municipal development plans and zonal maps can delay project development by up to eight years.** | **3.** Replace the requirement to include solar and wind projects in municipal development plans and zonal maps with an authorization from the municipal administration (harmonized across municipalities) confirming that projects do not conflict with these documents. |
| **4. Too short (15-year) public land leases undermine the commercial viability of renewable energy projects.** | **4.** Amend the Law on Public Property to allow public land leases of 30 to 40 years, in line with the Law on the Promotion of the Use of Renewable Energy Sources. |
| **5. The Law on Public Property introduces additional administrative steps for the allocation of public land leases.** | **5.** Clarify responsibilities of the Forestry Agency and the Office for Public Property Administration (OPPA) to streamline procedures and avoid overlap and specify that solar and wind projects that are awarded through renewable auctions may obtain public land leases through direct agreement rather than through a separate auction process organized by the OPPA. |
| **6. Land expropriation procedures for transmission lines that cross land plots with different owners lack flexibility to adjust the size or location of parcels for towers once the process has begun.** | **6.** Award land for transmission lines through permanent or temporary easements or rights of way that can be adjusted flexibly rather than through expropriation. |

*(Table continues next page)*

Table ES.1

# Summary of Constraints and Recommendations *(continued)*

| Constraints | Recommended actions |
|---|---|
| **7. Insufficient power system flexibility and balancing resources result in high imbalance costs for investors.** | **7a.** Adopt the draft Law on Electricity (which includes battery energy storage systems [BESS] provisions) and develop supporting secondary legislation on BESS.<br>**7b.** Procure BESS competitively through auctions with long-term PPAs.<br>**7c.** Shift to a 15-minute market time unit (MTU) on Kosovo's electricity markets (Albanian Power Exchange) from the current hourly MTU. |
| **Business services** | |
| *Rationale*<br>• The sector is growing rapidly and generates well-paid jobs, especially for women and youth.<br>• Kosovo also benefits from a cost-quality comparative advantage in international services. | |
| **1. Outdated labor legislation and regulatory ambiguity on working hours and remote work arrangements limit scale, weaken competitiveness in international markets, and create compliance risks for exporters.** | **1a.** Issue an administrative instruction under Law No. 03/L-212 on Labor specifying overtime calculation methods, maximum weekly overtime limits, and documentation requirements for remote and hybrid work contracts.<br>**1b.** Mandate a standardized labor inspection checklist to ensure uniform enforcement across the Labor Inspectorate. |
| **2. Misalignment with the EU's General Data Protection Regulation (GDPR) standards and weak cybersecurity governance inhibit access to EU export markets.** | **2a.** Adopt and publish implementing regulations on GDPR-compliant data transfer mechanisms applicable to Kosovo-based processors operating in the business services sector.<br>**2b.** Make Kosovo's national cybersecurity agency fully operational. |
| **3. Asset-light business services firms have limited access to bank financing.** | **3.** Unlock financing for asset-light business services firms by enabling the use of intangible assets as collateral through four key actions:<br>a. Expand Kosovo Credit Guarantee Fund guarantee coverage to asset-light business services exporters;<br>b. Broaden the coverage of the Electronic Pledge Registry;<br>c. Issue guidance on the valuation of intangible assets, drawing on established international frameworks; and<br>d. Update the regulatory framework for receivables and factoring. |

*(Table continues next page)*

Table ES.1

# Summary of Constraints and Recommendations *(continued)*

| Constraints | Recommended actions |
|---|---|
| **4. The absence of legally recognized electronic signatures for private commercial contracts raises transaction costs for cross-border contracting.** | **4.** Adopt an administrative instruction under Law No. 08/L-022 on Electronic Identification and Trust Services to enable legal recognition of electronic signatures for private commercial contracts and provide a practical compliance guide for firms on electronic identification, authentication, and trust services. |
| **5. Skills mismatches and weak occupational standards drive information and communication technology (ICT) labor shortages.** | **5a.** Mandate the employer representative, the Kosovo Association of Information and Communication Technology, to co-sign competency frameworks for new vocational education and training qualifications curricula before accreditation.<br>**5b.** Approve the pending ICT occupational standards. |
| **6. Unreliable electricity constrains business services operations, increasing the risk of service-level agreements breaches.** | **6.** Operationalize the Rule of Quality of Electricity Service ERO/No. 17/2019 for commercial and industrial electricity subscribers by adopting the pending implementation methodologies and annexes required for enforcement. |
| **Manufacturing of building components** | |
| *Rationale*<br>• Scope to leverage Kosovo's rapidly growing domestic construction market.<br>• Opportunity for investors to access EU-wide demand for energy-efficient buildings. | |
| **1. High grid-connection costs and the lack of a cost-recovery mechanism discourage investment, while a legal impasse between the Kosovo Investment and Enterprise Support Agency (KIESA) and Kosovo Electricity Distribution and Supply (KEDS) delays connections in industrial parks.** | **1a.** Revise the distribution network connection charging methodology to ensure cost-reflective and time-bound reimbursement by KEDS or KOSTT for all eligible connection and reinforcement costs borne by investors.<br>**1b.** Issue a government decision establishing a standardized long-term infrastructure-use-right agreement under Law No. 08/L-125. |
| **2. Lengthy and unpredictable timelines for construction permits delay investment in manufacturing plants.** | **2.** Issue an administrative instruction under Law No. 04/L-110 establishing a fast-track mechanism for processing Category II and III construction applications. |
| **3. Lack of an "industrial zone" land-use category in spatial planning legislation requires separate conversion of agricultural land before permitting.** | **3.** Amend Law No. 04/L-174 and Law No. 02/L-26 to formally introduce an industrial zone category and establish a time-bound, streamlined land-reclassification procedure. |

*(Table continues next page)*

Table ES.1

## Summary of Constraints and Recommendations *(continued)*

| Constraints | Recommended actions |
|---|---|
| **4. Vocational education and training (VET) curricula are poorly aligned with industry needs, contributing to shortages of welders, machinists, computer numerical control (CNC) operators, and computer-aided design (CAD) and computer-aided manufacturing (CAM) specialists, while structured work-based learning is absent in VET programs.** | **4a.** Update VET curricula for welders, CNC operators, carpenters, and CAD and CAM specialists to reflect current occupational standards and competency-based learning frameworks.<br>**4b.** Amend Law No. 04/L-058 to require a structured on-the-job training module as a formal requirement for VET certification in building components manufacturing occupations. |
| **5. Working capital constraints and limited receivables-based finance constrain firms' capacity to reinvest.** | **5.** Introduce secondary legislation and implementation guidelines to facilitate structured electronic invoicing, integrate qualified electronic signatures into financial sector workflows, establish explicit digital authentication standards for electronic invoices, and recognize digital receivables as eligible collateral. |
| **6. A large informal segment, sustained by weak and uneven enforcement of standards and certification requirements, undercuts formal firms.** | **6a.** Establish a voluntary, publicly accessible digital registry of certified products.<br>**6b.** Strengthen enforcement by introducing targeted, risk-based inspections for prioritized product categories. |

# 1 Country Context and Business Environment

Kosovo has achieved strong rates of economic growth, but the creation of more jobs—especially better-paid jobs—is needed. Increasing private investment is key to solving this challenge.

## 1.1 Growth and Investment

**Kosovo has made substantial economic and social progress since independence, underpinned by a decade and a half of robust growth and rapid poverty reduction.** Real GDP grew by an average of 4.3 percent annually between 2010 and 2024,—well above the pace in many regional peers—supporting Kosovo's transition to upper-middle-income status in 2018 (table 1.1). Over this period, GDP per capita more than doubled, and the share of the population living below the US$8.30-per-day poverty line nearly halved between 2009 and 2019.[1] This progress has proved broadly resilient: despite the disruption caused by the COVID-19 pandemic, Kosovo recovered quickly, and real GDP growth

Table 1.1

### Key Economic Indicators

| | 2010–19 average | 2020 | 2021 | 2022 | 2023 | 2024 | 2025e |
|---|---|---|---|---|---|---|---|
| **GDP** (US$, billions) | 6.8 | 7.7 | 9.4 | 9.4 | 10.5 | 11.2 | 12.7 |
| **Real GDP growth** (%) | 4.6 | −5.3 | 10.7 | 4.3 | 4.1 | 4.6 | 3.6 |
| **GDP per capita** (US$) | 3,763 | 4,413 | 5,408 | 5,457 | 6,159 | 6,648 | 7,613 |
| **Investment** (% of GDP) | 29.7 | 29.7 | 32.9 | 32.5 | 31.5 | 31.6 | 33.0 |
| **Inflation** (%, period average) | 2.0 | 0.2 | 3.3 | 11.6 | 4.9 | 1.6 | 3.9 |
| **Fiscal balance** (% of GDP) | −2.0 | −7.6 | −1.3 | −0.5 | −0.3 | −0.2 | −0.7 |
| **Public debt** (% of GDP) | 11.7 | 22.0 | 21.1 | 19.7 | 17.2 | 16.8 | 16.9 |
| **Current account balance** (% of GDP) | −7.9 | −7.0 | −8.7 | −9.2 | −7.2 | −8.4 | −9.6 |
| **Gross reserves** (US$, billion) | 0.8 | 1.0 | 1.3 | 1.2 | 1.2 | 1.3 | 1.3 |
| **Total reserves** (in months of imports) | 2.7 | 3.0 | 2.5 | 2.2 | 2.0 | 2.0 | 2.0 |
| **FDI, net inflows** (% of GDP) | 5.1 | 5.1 | 5.3 | 8.2 | 8.7 | 7.7 | 5.8 |

*Sources:* World Bank Macro Poverty Outlook Database (April 2026), World Development Indicators, and Haver Analytics.
*Note:* e = estimates. Kosovo's population in 2025 was 1.6 million.

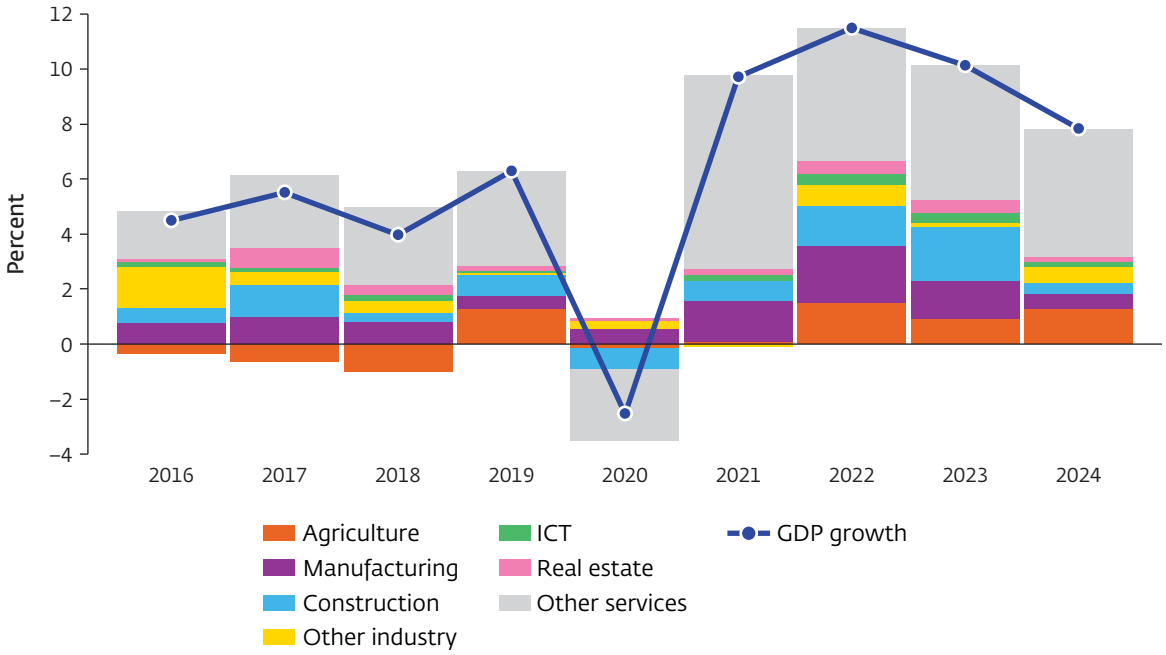
averaged approximately 4.2 percent between 2022 and 2025. Services were the main driver of GDP growth, followed by manufacturing, underscoring a strong postpandemic rebound in both sectors (figure 1.1).

**Kosovo's economic gains have been underpinned by strong and sustained ties with its diaspora, whose remittances, travel spending and investment in real estate are a cornerstone of the country's external financing.** The diaspora also drives the transfer of knowledge, entrepreneurial capital, and international networks, channeling business expertise and market access back into the domestic economy in ways that generate employment and catalyze sector-level growth. Formal remittance inflows accounted for 12.8 percent of Kosovo's GDP in 2025.[2] Travel and transport—largely driven by diaspora spending—represent nearly two-thirds of Kosovo's goods and services exports (figure 1.2, panel b) and accounts for 30 percent of GDP in 2024.[3] The diaspora has also supported the rapid expansion of Kosovo's ICT and business services exports—primarily to German-speaking markets—which reached 18.1 percent of services exports in 2024.[4] Diaspora networks have similarly driven the growth of the building components and construction

Figure 1.1

## A Two-Engine Rebound: Services Led the COVID-19 Recovery, with Industry Close behind

Contribution to GDP growth, by sector

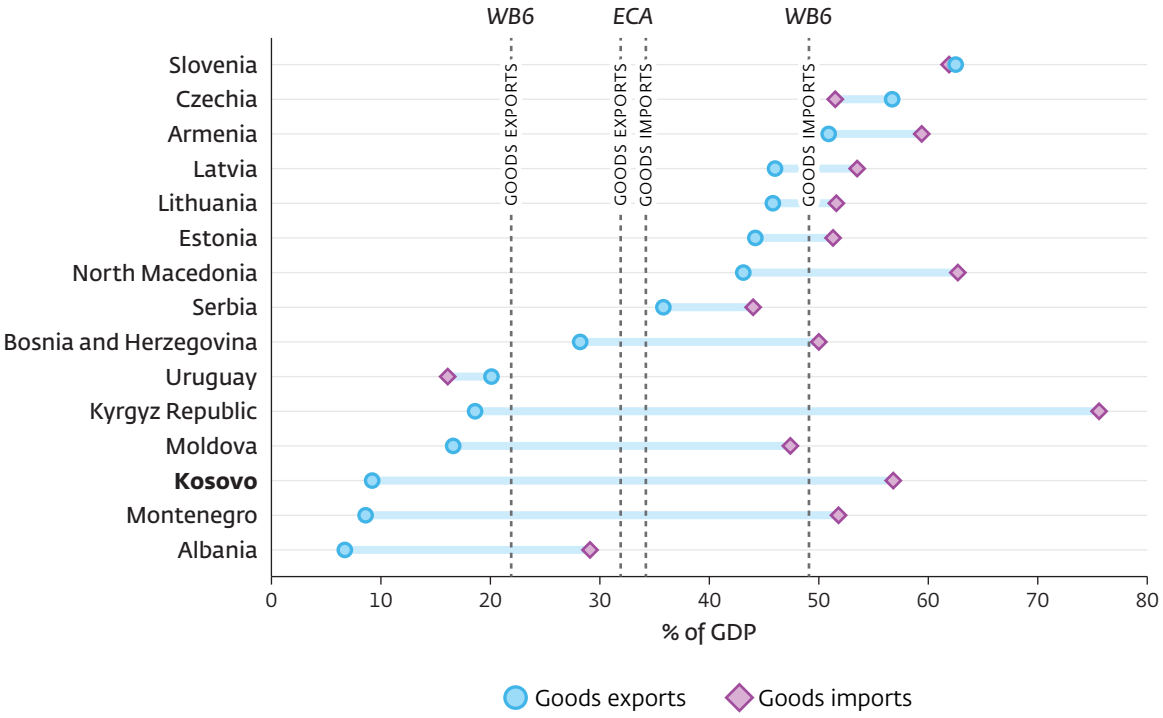



*Source:* Based on data from World Development Indicators database.

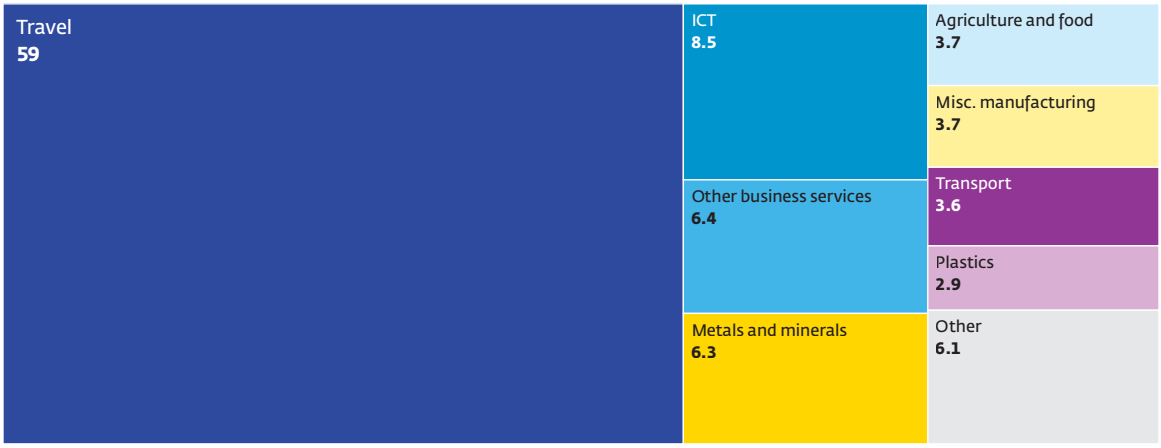
Figure 1.2

# Services Dominate Kosovo's Exports, While Goods Exports Lag Comparators and Are a Fraction of Goods Imports

**a. Goods exports and imports as a share of GDP, Kosovo and comparators, 2024**




**b. Goods and services exports as a share of total, Kosovo, 2024 (%)**




*Source*: Based on data from World Development Indicators database, Kosovo Statistics Agency, and CBK.

materials manufacturing sector by facilitating access to European markets and supply chains.[5] Diaspora-funded residential real estate investment accounted for nearly 75 percent of FDI inflows between 2021–25 (figure 1.5, panel b).[6] These inflows—combined with financial deepening and strong public investment—have financed a sustained increase in household consumption and supported poverty reduction.

**Kosovo has several structural advantages that are of potential interest to private investors.** Its location at the crossroads of regional infrastructure corridors linking Western Europe with the Balkans, combined with duty-free access to the EU market under the Stabilization and Association Agreement (SAA), positions it as a trade gateway. A young population—nearly half of Kosovars are under 30—offers a dynamic labor force at a time of demographic aging across much of Europe.[7] Full broadband coverage and high rates of digital adoption underpin a digitally capable economy.[8] Prudent fiscal management and unilateral adoption of the euro have kept public debt low (16.9 percent of GDP at end-2025), placing Kosovo among the least indebted countries globally and providing a stable macroeconomic environment for investors.

**Despite strong economic growth, Kosovo faces persistent social, economic, and environmental challenges.** Real GDP per capita was just 29 percent of the EU average in 2024 (2021 purchasing power parity [PPP] terms).[9] Growth has not translated into significant job creation: only 33.8 percent of the working-age population was employed in 2024, well below regional and structural peers (58.1 percent) and aspirational peers[10] (58.6 percent) (table 1.3). The gap is even larger for women, with an employment rate of 18.4 percent compared to 54.3 percent in aspirational peers.[11] Trade remains underdeveloped, with goods exports at 9.2 percent of GDP—far below most comparators and a fraction of goods imports (56.9 percent of GDP) (figure 1.2, panel a)—contributing to a persistent current account deficit of 9.6 percent of GDP as of 2025.[12] These economic pressures are compounded by an energy sector heavily reliant on two outdated coal-fired thermal power plants, resulting in high greenhouse gas emissions, air pollution and frequent outages that impose significant economic losses across sectors.

## 1.2 Productivity and Jobs

**Predominantly low-productivity services account for 46.5 percent of Kosovo's GDP and 70.2 percent of employment.**[13] The expansion of Kosovo's nontradable services industries has been supported by the demand generated through large financial inflows from the diaspora. Eighty percent of Kosovo's employed workers are in sectors with below average productivity—almost all of them services industries (figure 1.3). Total factor productivity grew only modestly prior to the COVID-19 pandemic but has accelerated in

Box 1.1

## The EU Integration Agenda—a Catalyst for Investor-Friendly Reforms

Kosovo's EU accession trajectory and the EU Growth Plan are significant reform drivers. Kosovo is set to receive €883 million in EU funds under the Reform and Growth Facility (RGF) during 2024–27 to support EU convergence. Key regional integration initiatives under the RGF would provide significant benefits to landlocked Kosovo. These include efforts to streamline trade facilitation with the EU through "green lanes" at major border crossings as well as early access to the Single Euro Payments Area (SEPA). However, political deadlock in 2025–26 delayed implementation.

Beyond the RGF, Kosovo participates in regional integration efforts that support reform. Under the Common Regional Market (CRM) agenda—steered by the Regional Cooperation Council—Kosovo is engaged in initiatives covering trade, investment policy harmonization, and digital integration, including elimination of intra-regional roaming charges across the Western Balkans. Kosovo is part of the Central European Free Trade Agreement (CEFTA), which governs trade relations among Western Balkans economies and supports the reduction of nontariff barriers and deeper value chain integration with the EU. While distinct from the EU accession process, these regional frameworks serve as important stepping stones toward EU integration. Kosovo also concluded a free trade agreement (FTA) with the European Free Trade Association (EFTA, Switzerland, Norway, Iceland and Liechtenstein), and also has an FTA with Turkey since 2019.

Kosovo is a contracting party to the Energy Community Treaty, committing to align its legislation with EU standards, including in electricity market liberalization, renewable energy, and energy efficiency. Regional electricity market integration—through cross-border transmission interconnections and participation in balancing markets—helps improve energy security, reduce costs, and attract investment in renewable energy, with direct benefits for private sector competitiveness.

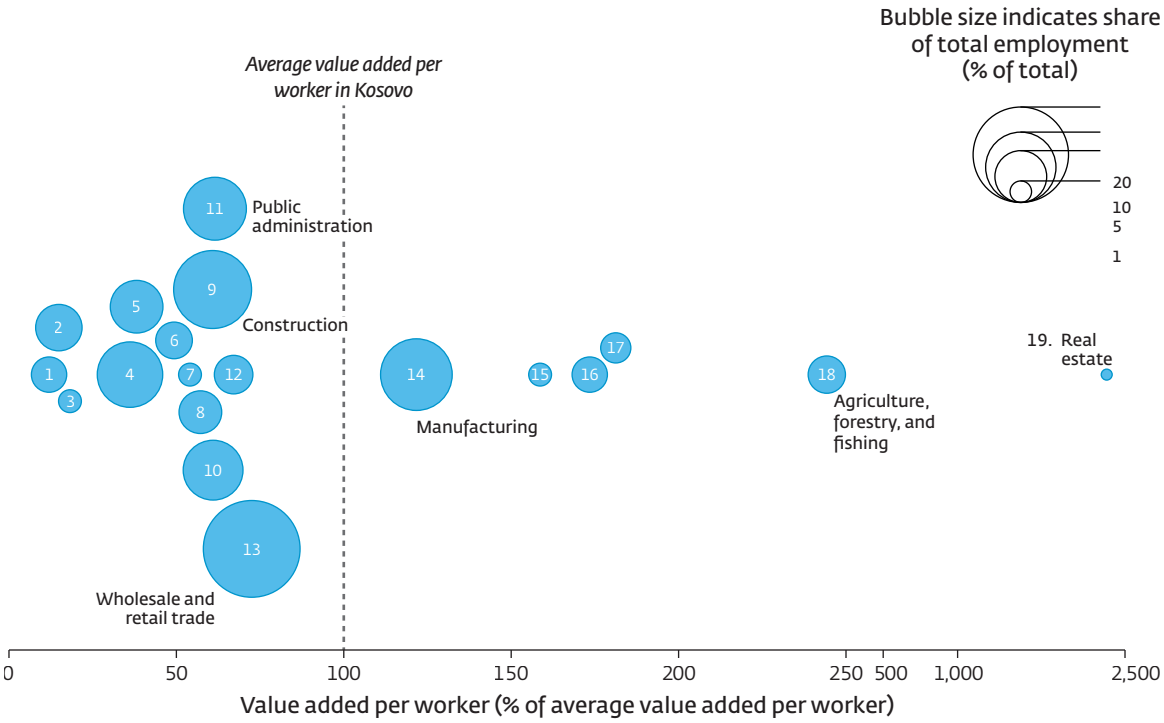
its aftermath.[14] Reflecting low rates of firm survival and growth, micro, small and medium enterprises (MSMEs) account for 99.9 percent of businesses in Kosovo and 75.5 percent of employment (2020).[15]

**Kosovo's manufacturing sector is showing signs of structural transformation, with rising labor productivity and growing export diversification, though low-value-added activities continue to dominate job creation.** Labor productivity in the manufacturing sector is 20 percent above the economy-wide average (figure 1.3). The sector's furniture and building material segments are both export-oriented and fast-growing. In 2024, several manufacturing goods were among Kosovo's top 15 exports, many of them related to furniture and building materials, such as furniture and furniture parts, mattress supports, windows and doors. At the same time, the share of metals and minerals in Kosovo's goods exports has declined from 76.1 percent in 2010 to 32.6 percent in 2024.[16] This decline

Figure 1.3

# Eighty Percent of Employment Is Concentrated in Sectors with Below Average Productivity

Employment and relative value-added per worker, by sector, 2024




*Source:* Calculations based on Kosovo Agency of Statistics Structure of Gross Domestic Product by Economic Activity and Year and Employment by Activity and Sex.
*Notes:* Kosovo's average value added per worker is indexed to 100. Value added per worker is used as a proxy for labor productivity. Numbers in the bubbles correspond to the following sectors and their respective employment shares: (1) other service activities, 2.5 percent; (2) administrative and support services, 4.4 percent; (3) arts, entertainment, and recreation, 1.0 percent; (4) education, 8.9 percent; (5) health, 5.7 percent; (6) professional, scientific and technical activities, 2.7 percent; (7) water, sewage and waste, 1.0 percent; (8) accommodation and food services, 3.7 percent; (9) construction, 12.7 percent; (10) transportation and storage, 7.4 percent; (11) public administration with donors, 8.2 percent; (12) information and communication, 3.0 percent; (13) wholesale and retail trade, 19.7 percent; (14) manufacturing, 10.7 percent; (15) mining and quarrying, 1.0 percent; (16) finance and insurance, 2.5 percent; (17) energy, 1.8 percent; (18) agriculture, forestry, and fishing, 2.8 percent; and (19) real estate, 0.2 percent.

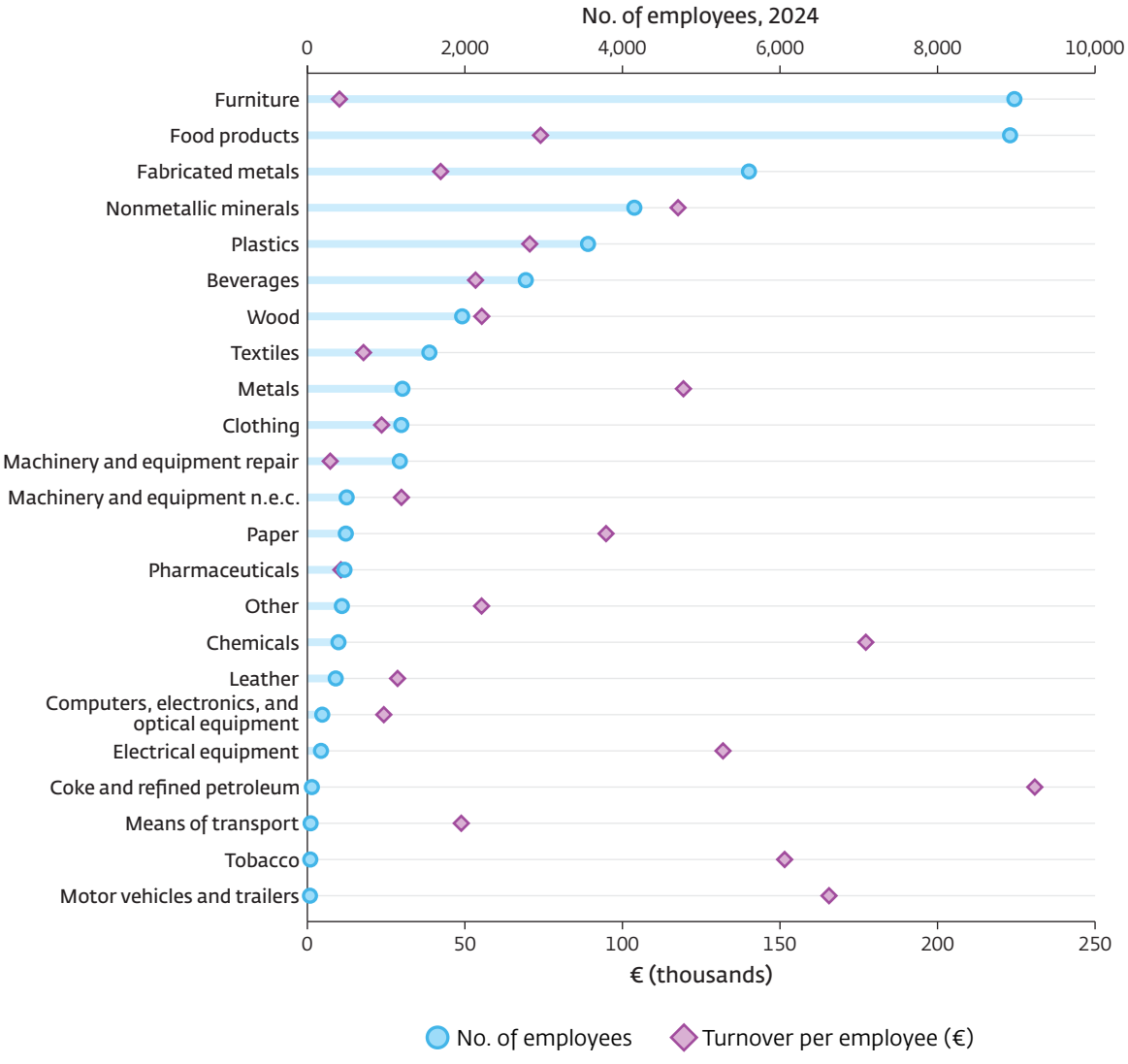
reflects the long-standing underperformance of Kosovo's mining sector—particularly the Trepça complex, which has operated far below capacity since 2000 due to governance, infrastructure, and unresolved ownership issues, and the interruption of nickel exports—as well as the growing weight of diversified manufactured exports. Despite the emerging signs of diversification, the manufacturing sector remains a modest source of employment, accounting for only around 10 percent of total employed individuals in Kosovo.[17] Manufacturing employment is concentrated in a handful of subsectors, led by furniture and food products, where turnover per employee is relatively low (figure 1.4).[18]

**Foreign and domestic investment in Kosovo is largely concentrated in real estate and construction, with limited presence in sectors that generate stronger productivity, technology, knowledge, and environmental spillovers.** Between 2020 and 2024, net FDI inflows averaged 7 percent of GDP, above Western Balkans' average of 5 percent and most comparator countries (figure 1.5, panel a). However, around three quarters of FDI between 2020 and 2025 went into diaspora-driven residential real estate, while most

Figure 1.4

## Manufacturing Employment is Concentrated in Less Productive Subsectors

Employment and turnover per employee, by manufacturing subsector, 2024



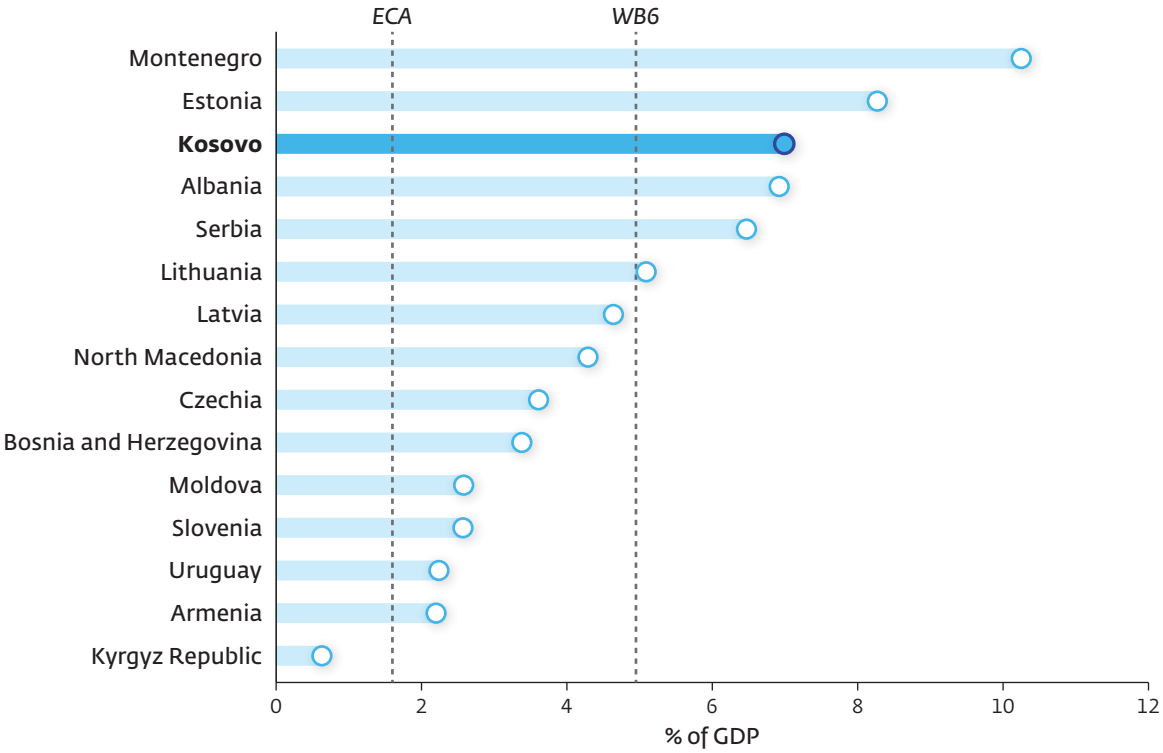

*Source:* Ministry of Industry, Entrepreneurship and Trade (2025), "Sector C: Processing Industry—Report 2024."

of the remainder was directed to financial and insurance services (13.5 percent). Very little FDI has flowed into sectors that typically generate substantial positive productivity, technology, and environmental spillovers—such as manufacturing, business and IT services, or renewable energy. A similar pattern is observed in domestic private investment, which is dominated by wholesale and retail trade (20 percent of private investment),

Figure 1.5

## Kosovo Attracts Sizable FDI Yet Concentrated in Sectors with Limited Spillovers, Such as Real Estate

**a. FDI net inflows, Kosovo and comparators, 2020–24**




**b. FDI inflows by sector, Kosovo, 2021–25 (%)**

*Source:* Based on data from CBK and UNCTAD.
*Note:* FDI = foreign direct investment; WB6 = Western Balkans Six.

accommodation and food services (18.6 percent), manufacturing (16.5 percent), and construction (12 percent). At the firm level, investment is similarly skewed towards tangible assets, with 46.7 percent allocated to construction and 45.1 percent to machinery and equipment, while research and development (R&D) accounts for only 3.3 percent.[19]

## 1.3 Financial and Capital Market Development

**Kosovo's financial system is bank-dominated and almost entirely privately owned, with foreign capital playing an outsized role.** The banking sector comprises 10 commercial banks—all privately owned, with no state-owned commercial banks. Of these, 7 are foreign-owned and hold 83.6 percent of total banking system assets, with the EU as the main source of capital.[20] The banking sector accounts for 66.3 percent of total financial sector assets,[21] with pension funds (25.7 percent), nonbank financial institutions (5 percent), and insurance (3 percent), making up the remainder.[22] Assets held by the three largest banks amount to 63.8 percent of total banking assets in December 2024, up from 52.3 percent in the year before—reflecting high market concentration in Kosovo's banking sector.[23] Beyond the banking sector, external financing sources—including FDI, remittances, and development finance institutions such as International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD)—play an important complementary role. Remittances— consistently around 15–17 percent of GDP[24] and among the highest in the Western Balkans—provide a stable source of household income and support deposit mobilization but are predominantly directed toward consumption and real estate rather than productive investment, underscoring the broader challenge of mobilizing available financial flows toward long-term private sector capital formation.

**The banking sector remains liquid and well-capitalized, continuing to support economic activity amid heightened uncertainty.** Asset quality is a relative strength, with the nonperforming loan (NPL) ratio at 2.0 percent by end-2025, below regional peers. NPL risks are strongly provisioned. The sector's balance sheet is underpinned by continued reliance on domestic deposits and equity, limiting exposure to external funding risks. The capital adequacy ratio was 17.4 percent at end-2025, above the regulatory minimum of 12 percent, though liquidity buffers and capitalization levels lag behind regional peers.

**Nonbank finance and capital markets remain nascent, limiting long-term funding for firms.** Kosovo lacks a formal stock exchange, there is no corporate bond market, and the primary securities market consists largely of government bonds and treasury bills brokered through banks and pension funds, leaving firms with no meaningful alternative to bank financing. Kosovo's first sovereign credit rating of BB- from Fitch, assigned in

April 2024 and affirmed in July 2026, is a positive step that could support future access to international capital markets.

**Access to finance in Kosovo has expanded significantly, yet structural barriers—notably collateral requirements and loan maturity constraints—continue to limit uptake among firms, particularly small and medium enterprises (SMEs).** Credit to private sector (including household and firms) reached 61.3 percent of GDP—above the Western Balkans average of 46.6 percent (table 1.2)—yet more than a fifth of firms, particularly SMEs, still report access to finance as a major or very severe constraint according to the 2025 World Bank Enterprise Survey. This gap reflects both financing patterns and underlying structural barriers. The share of firms relying on internal funding decreased from 68.1 percent in 2019 to 55.4 percent in 2025, compared to 77.3 percent in the Western Balkans.[25] The share of investment financed through bank loans increased to 32.7 percent—about three times the 2019 level of 10.7 percent.[26] At the same time, access to external financing remains constrained by structural barriers. Collateral requirements

Table 1.2

## Access to Domestic Financing in Kosovo Reflects a Bank-Centric Financial Sector

| | Kosovo | | WB6 median* | UMICs median |
|---|---|---|---|---|
| | Most recent | Five-year average | | |
| **Domestic credit to the private sector** (% of GDP) | 61.3 | 54.3 | 51.9 | 39.6 |
| **Bank penetration** (assets, % of GDP) | 55.9 | 50.0 | 48.3 | 38.9 |
| **Capital adequacy ratio** (% of RWA) | 17.4 | 16.6 | 20.5 | 18.9 |
| **NPLs** (% of loans) | 2.0 | 2.1 | 2.3 | 2.9 |
| **Liquid assets (broad) to short-term liabilities** (%) | 34.0 | 35.0 | 37 | n.a. |
| **Provisioning rate for NPLs** (%) | 68.8 | 71.1 | 49.8 | 72.7 |
| **Foreign currency loans** (% of total loans) | 0.0 | 0.2 | 20.7 | 22.9 |
| **Government debt** (% of assets) | 3.1 | 4.7 | 7.0 | 11.8 |
| **State-controlled banks** (% of assets) | 0 | 0 | n.a. | n.a. |
| **Foreign-owned banks** (% of assets) | 83.6 | 85.1 | n.a. | n.a. |

*Source:* IFC FinAdd Tool; CBK (2026); Fitch BMI; Haver Analytics.
*Note:* WB6 = Western Balkans Six; UMICs = upper-middle-income countries; RWA = risk-weighted assets; NPLs = nonperforming loans; n.a. = not applicable.

often exceed 200 percent of loan value—well above the Europe and Central Asia average of 61.8 percent.[27] The maturity structure is skewed towards short-term tenors: approximately 70 percent of private sector credit consists of short-term loans (up to three years), and only 13.4 percent extends beyond five years,[28] constraining firms' ability to undertake longer-term investments in physical capital, technology, and productivity-enhancing activities. Recent reforms have nevertheless begun to ease these constraints, notably through reduced collateral requirements and extended loan maturities for SME lending under the Kosovo Credit Guarantee Fund.

## 1.4 Business Environment and Institutional Constraints

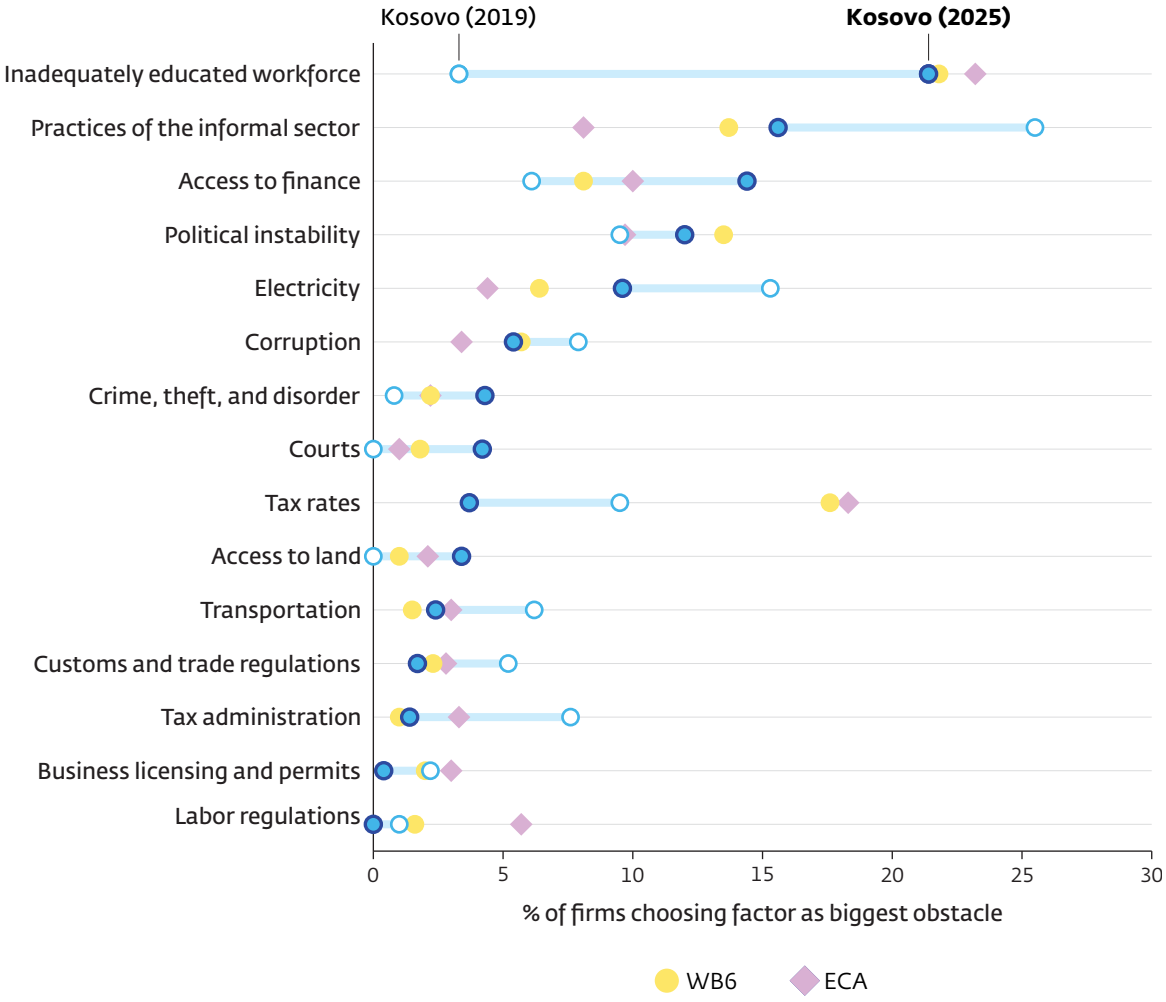
**Institutional and structural barriers discourage private investment in Kosovo.** Firms identify an inadequately educated workforce (21.4 percent), informal sector practices (15.6 percent), and access to finance (14.4 percent) as the main obstacles (figure 1.6).[29] Political instability is a growing concern, cited by 12 percent of firms in 2025, up from 9.5 percent in 2019 (ibid.). Although infrastructure reliability has improved overall—only 1.4 percent of firms cite transport as the biggest obstacle, below the Europe and Central Asia average—electricity-related issues deter private investors (figure 1.6).

**Unreliable electricity and structural energy deficits are major cross-cutting constraints across sectors for private firms.** Although the share of firms identifying electricity as a major obstacle in the World Bank Enterprise Survey (WBES) declined from 15.3 percent in 2019 to 9.6 percent in 2025, it remains more than twice the Europe and Central Asia average (figure 1.6).[30] Nearly half of Kosovar firms (49.7 percent) experience electrical outages averaging 4 per month—unchanged from 2019—and 62 percent own or share a generator, up from 39.5 percent in 2019.[31] Connection delays have worsened, with median times rising from 6 to 60 days over the same period. Underlying these reliability failures are deep structural constraints: Kosovo's two aging coal-fired power plants are prone to frequent disruptions, while outdated grid infrastructure results in high distribution losses (15.6 percent of total distribution demand, including nontechnical losses, as of 2024, albeit down from 25.9 percent in 2019).[32] These inefficiencies contribute to poor energy and environmental performance: although on a declining trend, in 2023, energy intensity (PPP-adjusted) was nearly twice the EU average and 30 percent above the Western Balkan average. Carbon dioxide emissions per unit of real GDP are three times as high as in the EU and almost 40 percent above the Western Balkan Six (WB6) average.[33]

**Despite recent progress, Kosovo's large informal sector and governance challenges continue to deter investors.** Kosovo's government has made notable efforts to improve governance and public service delivery in recent years. However, weaknesses in rule of

Figure 1.6

## Inadequately Educated Workforce, Informality, and Access to Finance Are the Biggest Obstacles for Firms in Kosovo



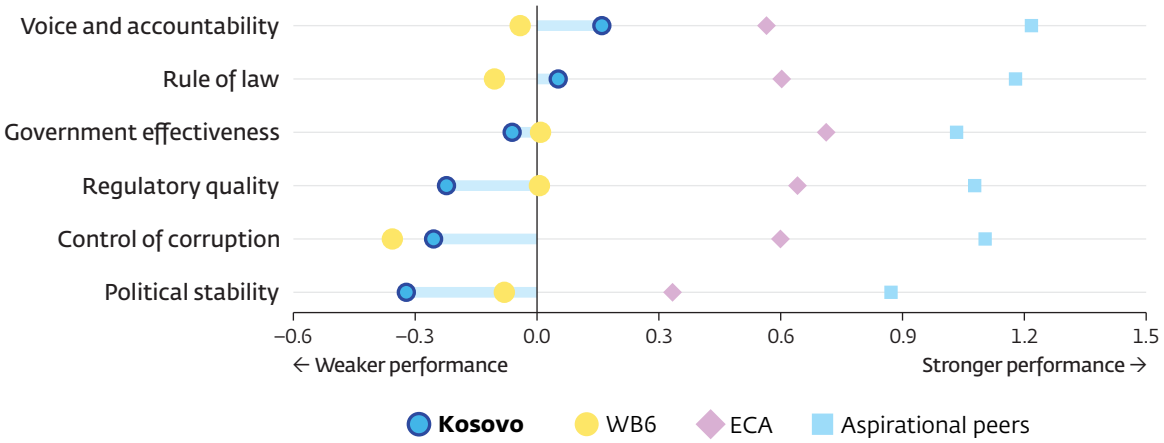

*Source:* World Bank Enterprise Surveys.

law, limited administrative capacity and excessive red tape, unpredictable regulations, and short political cycles continue to undermine investor confidence and raise the cost of doing business (figure 1.7).[34] In a context of recent delays in government formation, reforms to address constraints for private investors are inherently difficult; and the consistent, predictable and impartial implementation of laws remains a challenge. While Kosovo performs broadly in line with structural and regional peers on governance indicators, it lags EU countries and aspirational peers (figure 1.7). The informal sector—estimated at around one third of GDP[35]—is cited as the second most important obstacle by private firms in the 2025 World Bank Enterprise Survey (15.6 percent of firms), above WB6 and ECA averages (figure 1.6), yet down from 25.5 percent in 2019. Stakeholder consultations confirm that

Figure 1.7

## Kosovo's Governance Performance Is in Line with WB6 Comparators but Lags ECA and Aspirational Peers

Governance indicators, 2024




*Source:* Worldwide Governance Indicators.
*Note:* Values range from −2.5 (weaker performance) to +2.5 (stronger performance). Following the latest World Bank's Kosovo Country Economic Memorandum, aspirational peers comprise Czech Republic, Estonia, Latvia, Lithuania, Slovenia and Uruguay.

informality distorts competition and reduces tax revenues needed to finance public goods that are critical to investors. Given the prevalence of informal activity and predominance of micro and small firms, corporate governance and transparency remain relatively weak in many firms.

**An incomplete land tenure system, lack of UN membership, and geopolitical complexities contribute to perceived risk premia that impact investor perceptions and discourage greenfield FDI.** The 1999 war, after which Kosovo emerged as an independent nation, also led to the loss and displacement of cadastral records, resulting in enduring gaps and inconsistencies in property documentation. Despite recent progress, including the adoption of a new Law on Cadastre, property rights remain insufficiently formalized—fewer than 30 percent of properties were registered as of 2021[36] and an estimated 40 percent of properties are registered to deceased owners.[37] Inheritance disputes, unclear property boundaries, and informal construction without proper documentation continue to hinder land transactions, limit the use of property as collateral and constrain investment planning. Kosovo's lack of UN membership constrains participation in certain multilateral institutions and may contribute to de facto nontariff barriers.[38] In addition, the prolonged EU-facilitated process for normalization of relations between Kosovo and Serbia adds uncertainty to the

operating environment (e.g., transport and border processing), potentially limiting interest by investors targeting the broader Western Balkans market as a whole.

## 1.5 Labor Market and Skills

**An inadequately educated workforce has emerged as the most severe business constraint, cited by 21.4 percent of the firms, sharply up from 3.3 percent in 2019, and broadly in line with the WB6 average of 21.8 percent (figure 1.6).** While registered unemployment has been on a declining path,[39] firms report difficulties in filling core technical occupations, with skills mismatches and structural inactivity collectively shrinking the effective labor pool. Among firms attempting to hire, 75 percent cannot fill higher-skills positions and 60 percent of firms cannot fill medium- to lower-skills roles.[40] Similarly, a recent survey of 360 manufacturing firms finds that 37 percent of firms struggled to recruit employees because candidates lacked the required skills.[41] These constraints are exacerbated by weaknesses in Kosovo's education and vocational training (VET) system, including misaligned curricula, weak quality assurance and sector governance.[42] The growing importance of skills constraints likely reflects increased emigration, facilitated by visa liberalization[43] and strong labor demand in Western Europe, alongside rising demand for more specialized skills as Kosovo's economy becomes increasingly sophisticated. The macroeconomic consequences are visible: real wages increased by 9.5 percent in 2025—following a 13 percent increase in 2024—outpacing productivity growth and weakening cost competitiveness.[44]

**Emigration and low labor force participation rates further constrain the skilled labor pool.** Retaining workers remains a persistent challenge, as many seek opportunities and higher wages abroad, particularly in Europe's more advanced economies. Around one-third of people born in Kosovo live abroad,[45] with more than 338,000 emigrating between 2012 and 2022, out of a total resident population of 1.6 million.[46] Low participation rates, especially among women, exacerbate these pressures: In 2024, the female labor participation rate reached 25.9 percent, up from 21.1 percent in 2019[47]—an encouraging trend, but still far below the rate of 60.6 percent for men and well below regional peers. The combined effects of skills misalignment, emigration, weak vocational education and training (VET) systems, and low workforce participation lead to unfilled vacancies and skills mismatch, limiting firms' ability to operate at full capacity and scale.

Table 1.3

# Employment Indicators for Kosovo and Selected Comparators

| | Kosovo | ECA | UMICs | Regional and structural comparators* | Aspirational comparators* |
|---|---|---|---|---|---|
| **Labor force supply** | | | | | |
| **Population ages 15–64** (as % of total population) | 69.2 | 64.5 | 68.5 | 64.9 | 63.7 |
| **Employment to population ratio, 15+, total** (%) | 33.8 | 54.9 | 59 | 58.1 | 58.6 |
| **Employment to population ratio, 15+, female** (%) | 18.4 | 49.8 | 47.5 | 50.5 | 54.3 |
| **Share of youth not in education, employment, or training** (% of youth population) | 30 | 12.6 | 16.8 | 18.1 | 9.4 |
| **Learning-adjusted years of school** | 7.9 | 10 | 7.9 | 8.2 | 11.2 |
| **Labor market conditions** | | | | | |
| **Unemployment, total** (% of total labor force) | 19.3 | 5.4 | 5.6 | 8.3 | 5.6 |
| **Share of firms identifying an inadequately educated workforce as a major or very severe constraint** (%) | 21.4 | 9.7 | 11 | 23.2 | 25.1 |
| **Employment by sector** (% of total employment) | | | | | |
| **Industry** | 27 | 23.7 | 27.8 | 22.7 | 28.1 |
| **Agriculture** | 2.8 | 6.7 | 19.6 | 26.4 | 4.1 |
| **Services** | 70.2 | 69.7 | 52.6 | 50.9 | 67.8 |

*Sources:* Approach follows that used in the World Bank Group Growth and Jobs Reports and includes data from World Development Indicators, 2025 or latest data; International Labour Organization 2025 data; World Bank Enterprise Surveys, latest available surveys, Kosovo from 2025.
*Comparators from the 2021 CEM.

## 1.6 State Footprint and Market Structure

**While the state is not especially large, it has a significant footprint across Kosovo's network industries, dominating energy, telecommunications, and mining.** In energy, electricity distribution was successfully privatized in 2013 with IFC support. However, the wholesale electricity market remains highly concentrated, with a Herfindahl-Hirschman Index of 9,115 on a scale from 0 to 10,000. Delayed liberalization of retail tariffs also limits the scope for private participation, including the ability to trade solar and wind electricity on Kosovo's power exchange or through virtual power purchase agreements (PPAs) (see chapter 3 on utility-scale solar photovoltaic and wind electricity generation).[48] In telecommunications, state-owned Kosovo Telecom holds approximately 59 percent of mobile subscribers, reflecting a market structure that limits the development of competitive dynamics and has yet to be comprehensively addressed by the regulator.[49] In mining, the Trepça complex occupies a significant position in the market, although its operational and commercial performance does not reflect fully competitive conditions. With 69 percent of state-owned enterprises (SOEs) concentrated in climate-vulnerable sectors—the second highest share in the Western Balkans—strengthening competitive neutrality is a systemic priority for unlocking private investment.[50]

**Taken together, the business environment issues described in this section point to a set of common constraints that cut across sectors and shape the overall risk and cost of private investment.** While these constraints affect sectors in different ways, they reflect recurring weaknesses in the enabling environment rather than sector-specific issues alone. Box 1.2 summarizes the main cross-cutting constraints and the corresponding reform priorities that emerge across the three selected sectors.

Box 1.2

## Cross-Cutting Constraints and Reform Priorities across Selected Sectors

Electricity access and reliability. Unreliable electricity supply raises costs and operational risk across the economy. For business services, outages can disrupt always-on service delivery and increase the risk of service-level breaches; for manufacturing, they raise production costs, delay output, and require costly backup systems; and for the wider investment climate, structural deficits in generation and grid bottlenecks undermine investor confidence. Cross-cutting reform priorities include expanding reliable generation capacity, improving system flexibility and balancing capacity, easing key network bottlenecks, and fully implementing quality-of-service rules for commercial and industrial users.

Limited access to finance. Access to finance constrains firms in different ways across sectors. Asset-light business services firms struggle to borrow against intangible assets and future receivables, while manufacturers face shortages of working capital and limited access to longer-term investment finance. More broadly, collateral-heavy lending practices and weak alternatives to bank finance limit the ability of firms to scale. Reform priorities include improving the use of receivables and intangible assets as collateral, strengthening guarantee and pledge systems, clarifying factoring and e-invoicing frameworks, and expanding instruments that can support longer-term productive investment.

Skills shortages and mismatches. Skills constraints are among the most frequently cited barriers to private investment in Kosovo. In business services, firms report acute shortages in digital and technical skills; in manufacturing, firms face deficits in practical technical occupations and work-based learning. These pressures are compounded by emigration and weak alignment between training provision and employer needs. Cross-cutting recommendations center on closer employer involvement in curriculum design, faster approval and updating of occupational standards, stronger vocational and technical education pathways, and more systematic mechanisms for anticipating sector skills demand.

Access to land and permitting. Difficulties in accessing land and navigating permitting processes affect both renewable energy and manufacturing investment. In renewables, outdated cadastral information, short public land leases, and complex municipal and expropriation procedures delay project development. In manufacturing, unclear land-use classifications, opaque land markets, and lengthy construction permitting raise the cost and uncertainty of expansion. Reform priorities include streamlining land administration and permitting, clarifying land-use categories, shortening approval timelines, improving lease frameworks, and reducing duplication across public agencies.

# 2
# Sector Selection

This CPSD takes an investor perspective to identify three sectors of Kosovo's economy where private investment can be boosted and jobs created by taking concrete policy action to remove impediments.

**The CPSD identifies sectors with potential to attract private investment and generate development impact (including job creation) provided that concrete policy reforms are undertaken in the near term.** This CPSD focuses on the following three sectors in Kosovo where near-term policy actions could unlock commercially viable investment: (i) utility-scale solar and wind electricity generation, (ii) business services, and (iii) manufacturing of building components. The CPSD contains a set of actionable policy recommendations designed for near-term implementation with the goal of stimulating private investment and creating quality jobs in the medium term.

**The sectors were selected through a structured process that integrated desk research, quantitative analysis, sector scanning, internal consultations with World Bank Group experts, and engagement with public and private stakeholders.** The approach was guided by three criteria:

1. **Private investment potential.** Evidence that the sector can attract significant private capital—domestic and foreign—if constraints are addressed.
2. **Development impact.** Potential to generate more and better jobs (especially for youth and women), raise productivity, support diversification, and contribute to climate and environmental objectives (including reduced emissions and improved energy security).
3. **Feasibility of reform.** The likelihood that the government of Kosovo can implement recommended policy actions in the near term.

**The quantitative analysis employed indicators measuring comparative advantages, regional demand projections, export gaps, value-added potential, employment potential, and production proximity.** The analysis was complemented by consultations with World Bank Group experts and country stakeholders to determine the potential for the CPSD to add value. Value added was determined by the ability of the CPSD to identify constraints that were discouraging private investment in the respective sectors and which could be feasibly alleviated through concrete and targeted policy action in the near term (table 2.1). All three selected sectors combine private investment potential and development impact with a realistic prospect of policy action in the near term. All three sectors are economic enablers, and beneficiaries, of deeper international integration with the European economy, and there are clear interlinkages between the three sectors in Kosovo's economy.

1. **Utility-scale solar and wind electricity generation**
   Kosovo's power system is heavily reliant on aging coal plants (approximately 90 percent of electricity generation) whose unreliability poses risks to the country's energy security. Kosovo has natural endowments that are supportive of utility-scale solar and wind development and has committed to increasing renewables from 22.8 percent of installed electricity generation capacity (2024) to 62.6 percent by 2031, primarily by mobilizing private capital through competitive auctions. This creates a significant potential for private investment in solar and wind electricity generation. Well-designed auctions and bankable power purchase agreements could attract investors, improve energy security, reduce emissions, and lower exposure to the EU's Carbon Border Adjustment Mechanism. More reliable, cleaner power would benefit firms across sectors, thereby supporting economic growth and job creation.

2. **Business services**
   Business services have emerged as Kosovo's most dynamic export segment, with active firms nearly doubling since 2020 and exports reaching €402 million in 2025. Kosovo ranks first among the Western Balkans on IT competitiveness and offers competitive advantages: a young, multilingual, low-cost workforce, favorable time zone positioning, and proximity to EU markets. The sector offers high investment potential and development impact through formal, higher-wage jobs for youth and women with skills upgrading opportunities.

3. **Manufacturing of building components**
   Manufacturing of building components builds on Kosovo's active construction sector and proximity to the EU market. Domestic demand is strong, driven by a construction boom and diaspora-financed projects, while duty-free access to the EU and flexible, small-batch production capabilities create opportunities for nearshoring and integration into European value chains. The sector can support the green transition by supplying energy-efficient building components and reducing reliance on imported materials.

**Sector selection is not intended to be exhaustive.** Entrepreneurs may identify further profitable opportunities in other sectors. The focus in this CPSD is on sectors where an identified constraint to private investment can feasibly be alleviated by public policy actions. The recommended actions are not necessarily sufficient on their own. Rather, these actions are highlighted as concrete and observable steps that would represent meaningful progress along the results chain from action to impact, and that can be taken in the next few years. The ultimate impact on investment and job creation would be enhanced by complementary measures and capacity building that might extend beyond such a timeframe.

Table 2.1

# Summary of Sector Investment Potential and Development Impact

| Subsector* | Investment potential (assuming reforms are undertaken) | Feasibility of implementing reforms | Contribution to job creation | Contribution to other development objectives |
|---|---|---|---|---|
| Utility-scale solar and wind electricity generation | HIGH | HIGH | MEDIUM | HIGH |
| Business services | HIGH | HIGH | HIGH | MEDIUM |
| Manufacturing of building components | HIGH | HIGH | HIGH | MEDIUM |

*The CPSD methodology selects specific subsectors rather than broad economic sectors. Sectors such as manufacturing, agriculture, or services are not analyzed in their entirety; instead, specific subsectors are identified—for instance, building components manufacturing rather than manufacturing as a whole. This diagnostic is not a comprehensive sector development strategy; other subsectors—e.g., several manufacturing value chains identified as priorities under Kosovo's Strategy for Industry Development and Business Support 2030 (SIDBS 2030)—may warrant separate analytical work.

# 3 Utility-Scale Solar and Wind Electricity Generation

**AT A GLANCE**

- Kosovo's energy transition creates major opportunities for private investment. Aging coal-fired power plants generate approximately 90 percent of electricity, contributing to emissions, raising the carbon content and cost of exports to the EU, and posing energy security risks because of their unreliability. To address these challenges, Kosovo plans to increase renewables from 22.8 percent of installed capacity in 2024 to 62.6 percent by 2031, primarily by mobilizing private investment through competitive auctions.
- However, offtake, land, and system constraints continue to deter investment. Key barriers include uncertainty over offtakers, complex municipal planning requirements, short tenure of public land leases, complex public land lease and land expropriation procedures, and high imbalance costs linked to limited system flexibility.
- Targeted reforms can unlock private investment. Priorities include a multiyear renewable energy auction schedule; a regulatory framework for virtual PPAs; liquidity support for KOSTT; simpler municipal planning and public land lease procedures; longer public land leases; easements or rights-of-way for transmission lines; a regulatory framework and competitive auctions for battery energy storage systems (BESS) and a 15-minute market time unit on ALPEX.
- Reforms could enable US$1 billion in private investment in solar, wind, and BESS by 2035, create 500 direct and 7,800 indirect more and better-paid jobs, and reduce annual carbon dioxide emissions by 24 percent.

Strengthening energy security is a core challenge for Kosovo in the years ahead, and given the scale of investment needs, will require large-scale private participation.

## 3.1 Sector Context and Potential for Private Investment

**Kosovo's aging coal-fired thermal power plants (TPPs) raise concerns related to public health, the environment, and energy security and may limit export opportunities to the EU.** They generate around 90 percent of electricity (2024),[51] causing significant air pollution and carbon dioxide emissions. Their carbon intensity reduces the competitiveness of Kosovar exports to the EU—Kosovo's primary trading partner—as the EU's Carbon Border Adjustment Mechanism (CBAM) (fully operational since January 2026) penalizes carbon-intensive imports.[52] At the same time, the TPPs' unreliability and insufficient domestic generation capacity leave Kosovo heavily dependent on expensive electricity imports at volatile prices, especially during costly peak hours and in winter when seasonal demand is up to 80 percent higher than in summer.[53] In 2024, electricity imports met over 20 percent of demand, at prices six times higher than power purchased from the state-owned utility Korporata Energjetike e Kosovës (KEK) and three times higher than electricity from other domestic generators.[54] Electricity import dependence, coupled with insufficient cross-border interconnection capacity, leads to supply shortfalls and outages during periods of peak demand—a significant constraint for private companies (see chapter 1).[55]

**Following Kosovo's retail electricity market liberalization for medium-sized industrial consumers in June 2025, the cost of electricity increased substantially.** The reform moved firms with over 50 employees or annual turnover exceeding €10 million from regulated, below-cost tariffs to prices on the open market.[56] Initially, electricity bills reportedly rose by between 70 and 300 percent,[57] but more than a year on, the initial spikes have faded and prices have stabilized, though they remain above formerly regulated tariffs. Liberalization is certainly critical to improving efficiency, facilitating regional integration, supporting renewable energy investment, reducing fiscal pressures and enabling public investments in electricity infrastructure. However, the scale of the price increases reflects insufficient domestic electricity generation capacity, limited ability of suppliers to secure long-term contracts at favorable prices, reliance on electricity imports during peak hours, TPP outages in winter months when prices are highest, and inherent volatility of a relatively small and illiquid Albanian Power Exchange (ALPEX).

**Kosovo has set very ambitious renewable energy and decarbonization targets.** In the Sofia Declaration on the Green Agenda for the Western Balkans, Kosovo committed to a carbon-neutral economy by 2050,[58] an objective reaffirmed in its Energy Strategy 2022–31.[59]

To meet this goal, the country aims to increase renewable electricity generation capacity from 283.6 MW in 2024 (22.8 percent of total installed electricity generation capacity) to 1,600 MW (62.6 percent of total) by 2031,[60] with targets of 600 MW each for new wind and solar photovoltaic (PV) capacity, in addition to at least 100 MW from prosumers.[61]

**Kosovo's natural endowments are supportive of utility-scale solar and wind development.** Although current solar and wind electricity generation remains low—just 151.2 MW of installed capacity or 12.2 percent of total in 2024[62]—successful utility-scale renewable projects in the region demonstrate the sector's potential profitability. A 2020 World Bank study estimates Kosovo's technical and realizable solar PV potential at 3,600 MW and Kosovo's most probable technical wind potential at 1,781 MW, with additional on-the-ground barriers potentially reducing realizable wind capacity to around 1,200 MW.[63] While opportunities exist in both wind and solar power, Kosovo's wind potential aligns better with periods of highest demand, as it peaks in winter.[64]

**Kosovo aims to meet its ambitious renewable energy target and decarbonization commitments primarily through the mobilization of private investment via competitive auctions.** Achieving economy-wide net zero emissions by 2050 will require an estimated US$5.5 billion in investment through 2050—the equivalent of 2.9 percent of its GDP annually on average.[65] Private participation is required to meet these investment needs in a context of constrained public finances. It can also drive improvements in operational and cost efficiency in a sector currently dominated by the state-owned KEK, which owns the country's two coal-fired TPPs and accounts for 90.5 percent of electricity generation (2024).[66] Kosovo's diaspora could be a key source of private capital for investment in solar and wind electricity generation, as demonstrated by the country's first solar auction, which was won by a diaspora investor.

**However, solar and wind energy investment faces significant constraints that hinder project implementation and can deter reputable international investors.** A significant number of private utility-scale solar and wind projects are at an advanced stage of the permitting and licensing process but have not reached financial close and remain stalled at the implementation stage, primarily due to uncertainty over offtakers for the electricity they produce—the single most critical constraint for renewable investors in Kosovo. The scale of this bottleneck is reflected in a connection queue exceeding 900 MW (equivalent to 72.6 percent of installed generation capacity)[67] and the issuance of construction conditions[68] for solar and wind projects totaling 1,100 MW of generation capacity over the last 14 months (as of January 2026) (equivalent to 88.7 percent of installed generation capacity). None of these projects have started construction yet. This uncertainty, combined with the novelty of Kosovo's auction mechanism and broader regulatory constraints, has also limited the interest of established international developers. This is exemplified by

Kosovo's first solar auction which was awarded to a developer with no track record in utility-scale solar, and the project has made limited material progress to date.[69]

**Uncertainty over offtakers constrains investors' access to financing and stems from the slow implementation of recently introduced competitive solar and wind auctions.** These auctions replaced the previous support scheme based on feed-in tariffs (FiTs) and were intended to optimize cost and operational efficiency. A 100 MW solar PV auction was successfully completed in 2024, and a second auction, for 100 MW of wind capacity, is underway (as of July 2026).[70] This represents progress toward the eight solar photovoltaic (PV), wind, and battery-storage auctions planned for 2023–25, but falls short of the 2025 target of 630 MW.[71] At this pace, Kosovo risks missing its 2031 renewable targets. Delays also undermine project bankability and deter investors, as preset auction ceiling prices may no longer be cost-reflective by the time tenders conclude and construction begins, given volatility in solar and wind equipment costs. Delays reflect a combination of factors: the novelty of the auction mechanism and its still nascent regulatory framework, still evolving capacity and expertise in the management of solar auctions within the Ministry of Economy (MoE)—the entity responsible for auctions, difficult access to land for auction sites, and weak interest from reputable first-tier developers in the initial round of the first solar auction,[72] which ultimately required relaxation of selection criteria to eventually attract more reputable investors.

**Compounding uncertainty over offtakers, electricity sales on Kosovo's power exchange, ALPEX, are not a compelling option for independent power producers (IPPs) as liquidity is insufficient.**[73] Kosovo's day-ahead market on ALPEX was launched in January 2024 followed by the introduction of cross-border intraday trading with Albania in December 2024. While 11.8 percent of Kosovo's final electricity consumption was traded on ALPEX in 2024—above the Agency for Cooperation of Energy Regulators (ACER)'s 10 percent liquidity threshold and in line with Albania—this remains a relatively small amount given the size of Kosovo's power system.[74] Furthermore, market participation remains limited with only 16 market participants in Kosovo and 27 in Albania as of March 2026[75] compared to 767 market participants on average in EU countries.[76] Peak-time congestion[77] hinders full price convergence and integration with Albania's more liquid market.[78] The bulk supply agreement under which the state-owned electricity company KEK supplies most electricity to the distribution company Kompania për Furnizim me Energji Elektrike e Kosovës (KESCO) at below-cost prices to supply customers at regulated prices is an obstacle to competition and greater liquidity. Building a more liquid market requires accelerating retail price liberalization across more consumer segments[79] (i.e., commercial and industrial consumers connected to the medium-voltage grid), and improving interconnection with Albania.

**Selling electricity on more liquid regional exchanges or through PPAs with electricity suppliers or industrial consumers is not a viable option either.** Access to regional exchanges entails high transport charges, while summer prices are depressed by strong solar output and constraints in system flexibility, transmission, and storage.[80] PPAs with electricity suppliers—most importantly KESCO and Kosovo Electricity Distribution and Services (KEDS)—are constrained by high payment arrears, exposure to electricity price volatility, and thin margins in regulated markets, all of which leave suppliers with insufficient creditworthiness to satisfy lender requirements for project financing. Moreover, these suppliers typically offer only short-tenor corporate PPAs of one to two years, or up to five years with BESS, which do not support long-term financing and expose renewable developers to roll-over risks. Local industrial consumers are too small to absorb utility-scale renewable generation.

**Kosovo has limited domestic balancing capacity and reserves[81] to cover periods of low solar and wind electricity generation.** The country's aging lignite-fired TPPs have low flexibility to compensate for the rapid output fluctuations that characterize variable renewable energy (VRE) generation. Kosovo currently sources flexibility through a control block[82] (joint balancing area) with Albania.[83] However, limits in the capacity of power lines with Albania and North Macedonia restrict imports during peak hours, winter months and TPP outages. Cross-border capacity with Serbia is unavailable due to political tensions.[84]

**The limited flexibility of Kosovo's power system to compensate for fluctuations in VRE translates into high balancing costs for investors and raises IPPs' cost of using the transmission grid.** To meet balancing requirements under public support schemes (FiTs and contract-for-differences [CfDs] awarded through renewable auctions),[85] IPPs benefiting from these schemes must purchase electricity at volatile prices, as few domestic balancing sources are available. Volatile import prices have also raised the TSO's (Kosova Operatori i Sistemit, Transmisionit dhe Tregut, KOSTT) system-wide balancing costs, which are passed through to consumers and IPPs—including solar and wind plants—via higher fees for using the transmission grid—so-called transmission use of system (TUOS) tariffs.[86] Tariffs for IPPs rose by close to 50 percent in 2024 and nearly doubled again in 2025,[87] driven by high balancing costs and the rising cost of imported electricity to cover transmission losses amid growing electricity demand.

**To increase system flexibility, lower reserve needs, and ease cross-border congestion, Kosovo is advancing regional market integration and battery energy storage deployment.** In the absence of gas infrastructure and access to regional pipelines, battery storage is the primary near-term solution for expanding reserve capacity. Two Millennium Challenge Corporation (MCC)-financed battery systems, with a combined capacity of 170 MW, 2 hours are currently under development.[88] Kosovo is also advancing regional market integration as market coupling with more countries allows balancing across a larger area

(where weather-related shocks are more likely to offset one another) and optimizes cross-border capacity allocation, thereby reducing congestion. Kosovo is cooperating with Greece, North Macedonia, and Albania under the South-East Europe Market Coupling initiative—with market coupling to Greece and North Macedonia expected by end-2027—and has joined the Italian Border Working Table to couple with EU markets via Italy.[89] Two new 400 kV interconnectors—Tetovo–Prizren (North Macedonia) and a second line with Albania—are at feasibility stage and expected to be operational by 2029/30. This would roughly double Kosovo's cross-border capacity and reduce congestion.[90]

**Demand response, flexible gas-fired generation, and technological upgrades could further enhance system flexibility.** As of now, rather than connecting to regional gas pipelines and replacing existing coal-fired TPPs with cleaner, more flexible gas-fired capacity, Kosovo has opted to refurbish those plants and is exploring coal gasification.[91] A medium-term connection to regional gas networks could open the way for competitive auctions for flexible gas-fired capacity, which could significantly improve system flexibility. On the demand side, upgrading and digitalizing the distribution network and metering infrastructure could unlock demand response, which also holds considerable potential to reduce reserve needs. KOSTT's ongoing Supervisory Control and Data Acquisition (SCADA) upgrade (due for completion by 2028) will improve VRE dispatch. Producing high-quality solar and wind generation forecasts at KOSTT could further improve dispatch operations as aggregate portfolio-level forecasting is significantly more accurate than the sum of individual plants' forecasts, given that random errors across sites tend to cancel out.

**Infrastructure constraints—both grid and road—affect project feasibility in certain regions and transmission corridors.** Estimates indicate that Kosovo's transmission system could accommodate Kosovo's Energy Strategy objectives of VRE without major upgrades, but grid connection is limited by local network capacity in specific locations—especially in high-solar regions like Dukagjin—requiring grid reinforcement.[92] Regarding the distribution network, available evidence indicates that it could absorb up to 300 MW of renewables without significant reinforcement.[93] In mountainous areas where wind potential is greatest, inadequate road infrastructure makes the transport of heavy turbine components difficult and adds to project costs, potentially deterring investment in the most resource-rich sites.[94]

**Kosovo's outdated cadaster and complex land expropriation procedures hinder access to land for utility-scale solar and wind development.** The large number of unregistered buildings in Kosovo (see chapter 1) creates mismatches between actual land use and official classifications in the cadaster. These mismatches elevate the risk of social and environmental dispute, for both developers and lenders, resulting in more stringent lender requirements, for example, higher equity contributions. Inconsistent land classifications across adjacent parcels, reportedly linked to owners' ethnicity and tax payments,

further complicate land identification and acquisition for investors. Another challenge for investors is the lack of flexibility of land expropriation procedures for transmission lines that cross parcels of different owners. Securing land for the construction of transmission lines to connect their plants to the grid is the responsibility of solar and wind developers under Kosovo's transmission connection methodology. When the construction of these lines following expropriation reveals the need for changes in the size or location of the small parcels for transmission towers—due to soil conditions or waterways, for example—procedures must restart from scratch, doubling timelines from the standard 12–18 months to 24–36 months.

**The 2023 Law on Public Property further complicates access to land by introducing additional administrative steps for public land leases and capping their duration at 15 years without parliamentary approval (Article 17).**[95] This limit reduces the bankability of solar and wind projects which typically have 20–30-year lifespans. It also conflicts with the Law on the Promotion of the Use of Renewable Energy Sources, which allows 40-year leases for renewable auctions (Article 22).[96] To address this challenge, an amendment to the Law on Public Property, which extends the maximum duration of public land leases, is already under preparation. The new public land lease allocation process introduced by the Law on Public Property involves the Forestry Agency (FA), the newly established Office for Public Property Administration (OPPA) and other public institutions whereas in the past, land leases were awarded directly through the FA. Certain procedures, such as land measuring and verification, are now performed twice, first by the FA and subsequently by the OPPA. Compounding these challenges, the Law on Public Property introduces an auction process for most public land leases, potentially rendering access to public land for renewable auctions through direct agreement difficult.

**Complex municipal planning procedures can create delays for investors of up to eight years.** The Law on Spatial Planning and its secondary regulations require solar and wind plants to be included in municipal development plans and zonal maps, which are updated only every eight years, resulting in long wait periods for investors.[97] Some municipalities have begun to address this by designating dedicated renewable energy zones in their development plans; however, projects falling outside these zones remain subject to lengthy inclusion procedures. Permitting processes and forms are not harmonized across municipalities, reflecting Kosovo's high degree of municipal autonomy.[98] In some municipalities, investors are required to obtain separate permits for grid connection lines, adding further complexity to the process. Compounding these challenges, municipal development plans are not publicly available online, limiting investors' ability to assess land use requirements at the outset.

**Recently, frequent political cycles and narrow public-private dialogue have added a further layer of uncertainty for investors in renewable energy.** The permitting process

is spread across multiple entities with insufficiently coordinated mandates. The Ministry of Economy (MoE) implements renewable auctions, but access to key inputs such as public land or grid connection rights falls under the responsibility of other agencies. Coordination between central authorities and municipalities, which are responsible for integrating renewable projects in municipal development plans and zonal maps, is not systematic. These challenges are compounded by the recent delays in government formation and insufficient political continuity, which may slow reform implementation. Investor uncertainty is further heightened by limited transparency and information on procedures and data (e.g., data on grid congestion and capacity throughout the network), and frequent changes in regulations and fees (e.g., changing charges for using the transmission grid or new charges to participate in renewable auctions).[99] Limited public-private dialogue leaves investors with few formal channels to flag these concerns.

**Concerns about KOSTT's ability to meet long-term payment obligations reduce the bankability of government-backed PPAs under renewable auctions.** While the TSO recorded net profits of €18.2 million in 2024, it suffered significant losses in prior years—€26.6 million in 2021 and €17.1 million in 2023, with only a marginal profit of €0.8 million in 2022.[100] These fluctuations stem primarily from rising costs to cover transmission losses amid growing electricity consumption, and volatile balancing costs tied to European spot market prices, particularly during peak demand, in winter months, and when TPP outages occur. Because allowed revenues and transmission tariffs are regulated, KOSTT cannot fully pass these costs on to consumers and is subject to significant fiscal pressures. Unpaid electricity consumption in four municipalities in Northern Kosovo with high shares of ethnic Serbs was one of the main drivers of losses in the past, although this issue has been resolved since 2024, following the transfer of supply to Elektroserver.[101] Taken together, these factors create substantial uncertainty around KOSTT's financial position, weakening its viability as a PPA offtaker.

**Recent regulatory reforms introducing liquidity guarantees for Kosovo's Renewable Energy Support Fund and a curtailment methodology could improve bankability for investors and reduce project risk.** The 2025 Rule on the Renewable Energy Support Mechanism enables liquidity guarantees for the Renewable Energy Support Fund. This fund is managed by KOSTT (the offtaker for PPAs) to finance renewable energy support schemes including feed-in tariffs, auction-based CfDs and tariffs, and balancing support for renewable producers. Such guarantees could reduce offtaker risk related to concerns about KOSTT's ability to meet long-term payment obligations.[102] However, the practical modalities, including the provider and contractual terms, remain to be determined. Kosovo is also working on filling other gaps in renewable energy legislation, including a curtailment methodology which was approved by the Energy Regulatory Office (ERO) in April 2026.[103]

**The adoption of an enabling framework for EU-recognized guarantees of origin (GOs) is an important step toward virtual PPAs with EU-based corporate buyers.**[104] In July 2024, Kosovo's ERO established an electronic registry for guarantees of origin (GOs)[105] and in April 2026, the agency adopted a regulatory framework for GOs.[106] To ensure that its GOs are recognized across Europe, Kosovo joined the Association of Issuing Bodies (AIB) in November 2025,[107] and applied for membership in the Electricity Scheme Group, which is required for the recognition of Kosovo's electricity GOs on European markets. In the Western Balkan region, Serbia is already a member of the Electricity Scheme Group and Albania and Montenegro have applied for membership, while North Macedonia and Bosnia and Herzegovina have AIB observer status.[108] However, EU recognition of Kosovo's GOs still depends on both full Electricity Scheme Group membership and changes to EU rules, as EU Directive 2018/2001/EU currently prevents member states from recognizing GOs from Energy Community Contracting Parties. In April 2025, the European Commission announced its intention to allow recognition of Energy Community GOs in the EU at the Ministerial Council in December 2026.[109] GOs are critical for virtual PPAs, as corporate buyers rely on them to claim renewable electricity consumption under EU rules.[110]

## 3.2 Constraints to Private Investment and Recommendations

**CONSTRAINT 1. The single most significant constraint for investors in renewable electricity generation in Kosovo is uncertainty over offtakers for the electricity they produce.** Delays in the rollout of solar and wind auctions have constrained the availability of government-backed power purchase agreements (PPAs), the most bankable off-take option. Selling electricity on ALPEX is challenging as it remains illiquid and accessing more liquid regional exchanges entails high transport charges. PPAs with electricity suppliers and local industrial consumers are not viable options either.

**RECOMMENDATION 1A. Adopt, publish and adhere to a multiyear auction schedule, including site-agnostic auctions[111] with larger capacity targeting multiple investors, underpinned by a legal requirement for MoE.** This would increase predictability for investors and attract more bidders by improving odds of success. Site-agnostic auctions that allow investors to choose project sites would leverage Kosovo's significant pipeline of solar and wind projects that currently lack offtakers and shift the responsibility for securing land from MoE to investors. In the long run, Kosovo could shift toward more site-specific auctions, which could strengthen competition in a context of limited high-quality solar and wind sites, where competition for scarce viable locations may otherwise constrain bidder participation. A legal requirement for MoE to publish an annual rolling auction calendar would increase the probability of timely auction implementation. As of July 2026, MoE was already in the process of preparing a renewable energy auction pipeline for 2026–28.

**RECOMMENDATION 1B. Define virtual corporate PPAs[112] in Kosovo's regulatory framework as financial instruments that are subject to supervision and investor protection and apply derivative market obligations, in line with EU financial and energy market rules.** This would enable solar and wind plants in Kosovo to sell electricity to large corporate buyers in the EU and diversify off-take options beyond auctions, which lack a track record, require long preparation periods, and may constrain fiscal space as volumes increase. Alignment with EU rules requires defining virtual PPAs as financial instruments and subjecting entities engaging in such contracts to authorization, supervision, and investor protection rules, in line with EU Directive 2014/65/EU (Markets in Financial Instruments Directive, MiFID).[113] It also entails applying core derivative obligations, including mandatory reporting of contracts to trade repositories, risk-mitigation measures for over-the-counter contracts, and the application of counterparty classification and clearing obligations where thresholds are met, in line with EU regulation No 648/2012 (European Market Infrastructure Regulation, EMIR).[114] Making virtual PPAs more attractive to EU buyers over the medium term will also require reducing the price differential between ALPEX and EU markets, which generates cross-border risk for EU corporates, by deepening ALPEX's liquidity and strengthening Kosovo's cross-border interconnection with neighboring countries.

**CONSTRAINT 2. Concerns about the ability of KOSTT—the government-designated offtaker—to meet long-term payment obligations reduce the bankability of government-backed PPAs under renewable auctions.** While recent regulatory reforms have opened the door to liquidity guarantees for Kosovo's Renewable Energy Support Fund, which could improve PPA bankability and reduce project risk, practical modalities—including the provider and contractual terms—are undefined.

**RECOMMENDATION 2. Define the operational modalities of the liquidity guarantee mechanism for Kosovo's Renewable Energy Support Fund (introduced by the 2025 Rule on the Renewable Energy Support Mechanism), including the guarantee provider and contractual terms.** Options include commercial bank guarantees or international financial institution (IFI) guarantees.

**CONSTRAINT 3. The legal requirement to include solar and wind projects in municipal development plans and zonal maps can delay project development by up to eight years.** This is further complicated by the fact that permitting processes and forms are not harmonized across municipalities and municipal development plans are not publicly available online.

**RECOMMENDATION 3. Replace the requirement to include solar and wind projects in municipal development plans and zonal maps with an authorization from the municipal administration (harmonized across municipalities) confirming that**

**projects do not conflict with these documents.** The ongoing amendment to the Law on Spatial Planning offers an opportunity to implement this change.

**CONSTRAINT 4. Too short (15-year) public land leases undermine the commercial viability of renewable energy projects.** The 2023 Law on Public Property limits public land leases to 15 years without parliamentary approval, creating political risk and reducing the bankability of solar and wind projects as they have average lifespans of 20–30 years. This limit also conflicts with the Law on the Promotion of the Use of Renewable Energy Sources, which allows 40-year leases for auctions.

**RECOMMENDATION 4. Amend the Law on Public Property to allow for public land leases of 30 to 40 years in line with the Law on the Promotion of the Use of Renewable Energy Sources.** The preparation of an amendment to the Law on Public Property to extend the duration of land leases is already underway.

**CONSTRAINT 5. The Law on Public Property introduces additional administrative steps for the allocation of public land leases.** These processes involve multiple public agencies and create inefficiencies as certain procedures such as land verification and measuring are performed twice, by the OPPA and the Forestry Agency (FA). A new auction process for most public land leases could render access to public land for renewable auctions difficult.

**RECOMMENDATION 5. Clarify responsibilities of the FA and the OPPA to streamline procedures and avoid overlap, and specify that solar and wind projects that are awarded through renewable auctions may obtain public land leases through direct agreement rather than through a separate auction process organized by the OPPA.** This requires reforming the Law on Public Property to align it with the Law on the Promotion of the Use of Renewable Energy Sources and the Law on Forestry.

**CONSTRAINT 6. Land expropriation procedures for transmission lines that cross land plots with different owners lack flexibility to adjust the size or location of parcels for towers once the process has begun.** When the construction of these lines following expropriation reveals the need for changes in the size or location of parcels for towers, procedures must restart from scratch, doubling timelines from the standard 12–18 months.

**RECOMMENDATION 6. Award land for transmission lines through permanent or temporary easements or rights-of-way that can be adjusted flexibly rather than through expropriation.** Because easements or rights-of-way grant developers use of land for a specific purpose without transferring ownership, they can be obtained, amended or adjusted faster and more flexibly. To ensure such flexibility, Kosovo could allow reissuance

and minor amendments to existing easements or rights-of-way at the holder's request when corridor size or location changes slightly. Easements and rights-of-way are standard for linear infrastructure such as transmission lines in many countries, including the United States, Latvia, and Poland.[115] In the Western Balkan region, Albania's electricity law allows both expropriation and easements for transmission infrastructure.[116]

**CONSTRAINT 7. Insufficient power system flexibility and balancing resources result in high imbalance costs for investors.** With very few domestic balancing sources available, investors must purchase electricity at volatile prices to meet balancing requirements. The cost of these imports can spike significantly during TPP outages or peak hours as a result of cross-border capacity limits that cause congestion when demand for imports is high.

**RECOMMENDATION 7A. Adopt the draft Law on Electricity (which includes BESS provisions) and develop supporting secondary legislation on BESS.** While BESS provisions have been incorporated into a new draft Law on Electricity, this draft has not yet been adopted. Secondary regulations on BESS do not exist yet.[117] Clear rules—covering licensing, ownership, interconnection, market access and provisions to avoid double charging of network fees and to allow revenue-stacking from multiple services—are a prerequisite for BESS investment. Investment in BESS, in turn, would enhance power system flexibility, thereby reducing investors' balancing costs. While large-scale BESS do not exist yet in the Western Balkan region, Serbia has already adopted a dedicated regulatory framework for BESS, and balancing markets through its 2025 updated Electricity Market Code.[118]

**RECOMMENDATION 7B. Procure BESS competitively through auctions with long-term PPAs.** These auctions should be technology-neutral and performance-based and offer long-term off-take agreements. They could be organized separately or combined with solar or wind capacity. Combined with a clear regulatory framework for BESS, such auctions could jump-start investment in storage. While competitive utility-scale battery-storage auctions have not yet been implemented in the Western Balkans 6 countries, Bulgaria, Greece and Italy offer relevant success stories.[119]

**RECOMMENDATION 7C. Shift to a 15-minute market time unit (MTU) on Kosovo's electricity markets (ALPEX) from the current hourly MTU.** Shorter intervals for the calculation of electricity prices would increase the accuracy of scheduled generation from weather-dependent solar and wind electricity, which is subject to significant output fluctuations within minutes because of weather changes. This would reduce solar and wind producers' imbalances while at the same time helping KOSTT better forecast and balance electricity supply and demand, thereby enhancing grid reliability and the stability of the electricity supply. Shifting to a 15-minute MTU would also align Kosovo with the EU's shift to 15-minute trading intervals on its integrated electricity exchange, the Single

Day-Ahead Coupling.[120] Albania already started testing a 15-minute MTU on ALPEX. Successful implementation in Kosovo requires completing the ongoing SCADA upgrades to enable the necessary measurement frequency and granularity of data on electricity generation and load throughout the network.

## 3.3 Risks to Be Managed

**Utility-scale solar and wind projects carry environmental and social risks.** These include land-use conflicts and biodiversity impacts, including habitat loss, bird and bat mortality and changes in vegetation. Landscape alteration and visual impacts can negatively affect tourism and local communities. Other social risks relate to noise from wind turbines and disputes over expropriation of land for the construction of transmission lines and compensation of owners. All of these concerns have been associated with existing wind projects in Kosovo.[121] These risks are exacerbated by Kosovo's small size, the limited number of high-quality sites, and institutional capacity constraints. Retail electricity market liberalization—a necessary reform to increase ALPEX's liquidity and enable solar and wind sales on the free market and through virtual PPAs—constitutes a further risk factor as it will have important distributional impacts, particularly on low-income households. In the short to medium term, however, liberalization is expected to focus primarily on commercial and industrial consumers connected to the medium-voltage grid.

## 3.4 Impact

**The proposed reforms could unlock significant investment in solar and wind electricity generation, create direct and indirect jobs and reduce carbon dioxide emissions and air pollution.** If Kosovo meets its targets of 600 MW each for utility-scale solar and wind capacity, private investment in utility-scale solar PV, wind and BESS could reach US$1 billion by 2035. This investment could generate approximately 500 direct full-time more and better-paid jobs for up to 25 years in operations and maintenance and 7,800 indirect more and better-paid jobs through increased economic activity as a result of reduced electricity outages and higher exports to the EU due to a reduction in the carbon content of Kosovo's exports. It could also generate temporary direct jobs in construction equivalent to 24,900 full-time person-job years. The combined 8,300 additional permanent direct and indirect more and better-paid jobs are equivalent to 1.6 percent of employment in Kosovo as of 2024. The increase in clean energy generation could avoid an estimated 34 million metric tons (MT) of carbon dioxide emissions by 2055—equivalent, on average, to about 1.3 million metric tons annually, or 24 percent of Kosovo's 2023 annual carbon dioxide emissions— using the emission factor of electricity generation of Kosovo.

Table 3.1

# Policy Recommendations to Remove Impediments to Private Investment in Utility-Scale Solar and Wind Electricity Generation

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **1. Investors in renewable electricity generation face uncertainty over off takers for the electricity they produce.** | **1a.** Adopt, publish and adhere to a multiyear auction schedule, including site-agnostic auctions with larger capacity targeting multiple investors, underpinned by a legal requirement for the Ministry of Economy. | ***Lead:*** MoE |
| | **1b.** Define virtual corporate PPAs in Kosovo's regulatory framework as financial instruments that are subject to supervision and investor protection and apply derivative market obligations, in line with EU financial and energy market rules. | ***Lead:*** ERO<br>***Coordination:*** MoE, Ministry of Finance, Central Bank of the Republic of Kosovo (CBK) |
| **2. Concerns about the ability of the Kosovo Transmission, System and Market Operator (KOSTT), the government-designated offtaker, to meet long-term payment obligations reduce the bankability of government-backed PPAs under renewable auctions.** | **2.** Define the operational modalities of the liquidity guarantee mechanism for Kosovo's Renewable Energy Support Fund (introduced by the 2025 Rule on the Renewable Energy Support Mechanism), including the guarantee provider and contractual terms. | ***Lead:*** KOSTT |
| **3. The legal requirement to include solar and wind projects in municipal development plans and zonal maps can delay project development by up to eight years.** | **3.** Replace the requirement to include solar and wind projects in municipal development plans and zonal maps with an authorization from the municipal administration (harmonized across municipalities) confirming that projects do not conflict with these documents. | ***Lead:*** Ministry of Environment and Spatial Planning (MESP)<br>***Coordination:*** Ministry of Local Government Administration, Municipalities |

*(Table continues next page)*

Table 3.1

# Policy Recommendations to Remove Impediments to Private Investment in Utility-Scale Solar and Wind Electricity Generation *(continued)*

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **4. Too short (15-year) public land leases undermine the commercial viability of renewable energy projects.** | **4.** Amend the Law on Public Property to allow public land leases of 30 to 40 years, in line with the Law on the Promotion of the Use of Renewable Energy Sources. | ***Lead:*** Prime Minister's Office<br>***Coordination:*** Assembly of Kosovo |
| **5. The Law on Public Property introduces additional administrative steps for the allocation of public land leases.** | **5.** Clarify responsibilities of the Forestry Agency and the Office for Public Property Administration (OPPA) to streamline procedures and avoid overlap and specify that solar and wind projects that are awarded through renewable auctions may obtain public land leases through direct agreement rather than through a separate auction process organized by the OPPA. | ***Lead:*** Prime Minister's Office<br>***Coordination:*** Assembly of Kosovo |
| **6. Land expropriation procedures for transmission lines that cross land plots with different owners lack flexibility to adjust the size or location of parcels for towers once the process has begun.** | **6.** Award land for transmission lines through permanent or temporary easements or rights of way that can be adjusted flexibly rather than through expropriation. | ***Lead:*** MESP |
| **7. Insufficient power system flexibility and balancing resources result in high imbalance costs for investors.** | **7a.** Adopt the draft Law on Electricity (which includes battery energy storage systems [BESS] provisions) and develop supporting secondary legislation on BESS. | ***Leads:*** ERO, MoE |
| | **7b.** Procure BESS competitively through auctions with long-term PPAs. | ***Lead:*** MoE |
| | **7c.** Shift to a 15-minute market time unit (MTU) on Kosovo's electricity markets (Albanian Power Exchange) from the current hourly MTU. | ***Leads:*** KOSTT, ALPEX |

# 4
# Business Services

## AT A GLANCE

- Kosovo's business services sector has the potential to become a dynamic export engine and source of well-paid jobs. A young, multilingual, and increasingly skilled workforce, strong cost competitiveness and diaspora-rooted German-language support this potential. Kosovo leads the Western Balkans Six on IT competitiveness Index and ranks third-place globally in the Offshore Business Process Outsourcing (BPO) Confidence Index.
- Despite strong potential, Kosovo's business services sector faces hurdles in scaling up and attracting greater private investment. These include: (1) ambiguity in labor rules for flexible and remote work; (2) misalignment with the European Union's General Data Protection Regulation (GDPR) and weak cybersecurity governance; (3) limited access to finance for asset-light firms due to collateral practices; (4) limited recognition of e-signatures; (5) persistent skills mismatches, exacerbated by persistent emigration; and (6) electricity reliability risks in a sector that requires continuous client connectivity.
- Targeted reforms can unlock private investment and spur export growth in the business services sector. Priorities include: (1) providing administrative guidance on flexible/remote work; (2) binding GDPR-aligned guidance with model contracts and the operationalization of the national cybersecurity agency; (3) adopting a holistic approach to improve access to finance for asset-light business services firms by enabling the use of intangible assets; (4) enabling legal recognition of e-signatures for private commercial contracts; (5) requiring employer representatives to co-sign competency frameworks for all new VET qualifications, while accelerating the approval of pending ICT occupational standards; and (6) ensuring the effective implementation of the Rule of Quality of Electricity.
- Reforms could attract between US$68 million–US$177 million in net incremental investment by 2031 and generate approximately 32,000–46,000 more and better-paid jobs.

The business services sector presents substantial opportunities to generate better-paid jobs for young Kosovars, including women, provided that barriers holding back investment are addressed.

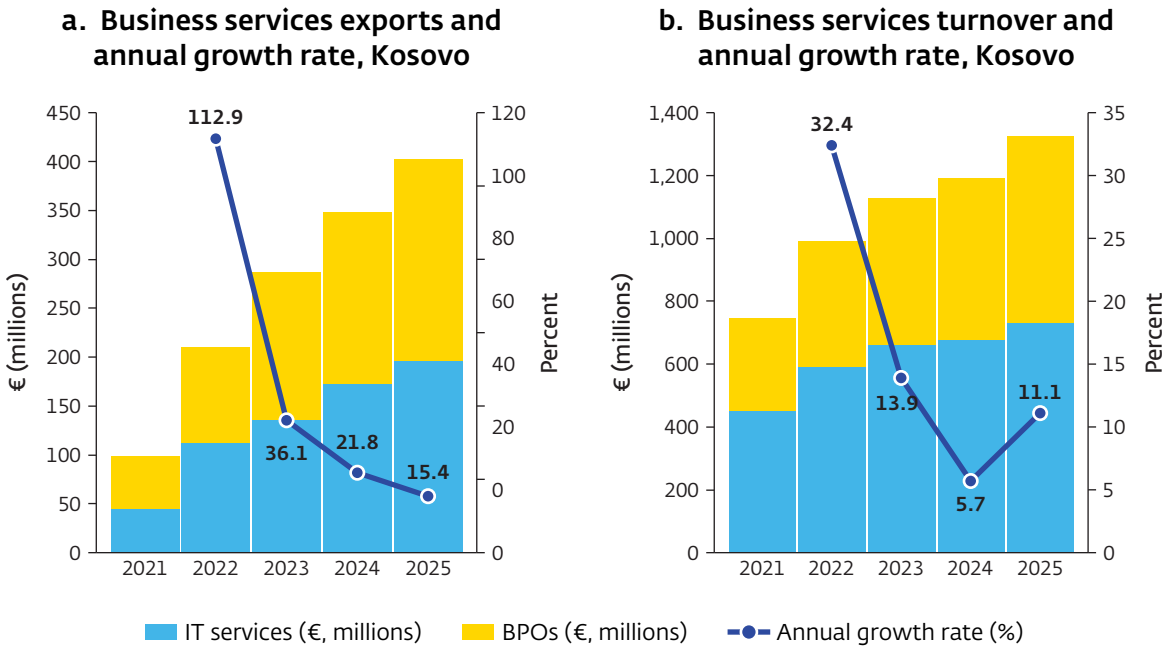
## 4.1 Sector Context and Potential for Private Investment

**Kosovo's business services sector is emerging as a dynamic engine for export-led growth and a foundational pillar of the country's broader digital economy.** In this report, the sector is defined as market-oriented, digitally enabled services delivered to domestic and international clients, supported by technology-driven processes and cross-border delivery models. As a dynamic and export-oriented subsector of ICT, it spans a wide range of activities aimed at supporting, enhancing, and optimizing businesses through technology. It encompasses two interlinked and complementary segments: information technology (IT) services and business process outsourcing (BPO). IT services include software development, web and application design, e-commerce platforms, IT consulting, digital marketing and a growing portfolio of AI-enabled digital solutions and data analytics. BPO comprises remotely delivered back-office and customer-facing functions such as customer support, technical helpdesk services, finance and accounting, human resource administration, and data processing, offering relatively low barriers to entry, scalability, and significant employment potential, particularly for young workers.[122] Both segments are progressively shifting from lower-value, project-based activities toward higher-value-added segments, including proprietary product development, advanced software solutions, and other innovation-driven services.

**Kosovo's business services sector has expanded rapidly over the past decade, driven by rising European demand for outsourcing and digital services,[123] continued digitalization, and cost and quality advantages.** The share of export revenues from business services in GDP is steadily increasing, with total exports reaching approximately €402.2 million in 2025 (of those €195.9 million for IT services, €206.4 million for BPOs), up from €98.7 million in 2021, representing an average annual growth rate of 46.6 percent (figure 4.1). Core export markets include the DACH countries of Austria, Germany, and Switzerland, followed by the United States, Canada, and other Balkan countries.[124] Between 2021 and 2025, total business services sector turnover nearly doubled from €747.8 million (€30,800 per employee) to €1.3 billion (€36,823 per employee).[125] Entrepreneurial activity in the sector is vibrant, with the number of active firms growing by 90 percent since 2019, driven by deepening integration into European supply chains. In 2023, there were 3,951 active ICT companies, including IT services and BPOs, up from 2,071 in 2019, signaling sustained expansion, albeit with a predominance of microfirms.

Figure 4.1

## Business Services Exports and Turnover Have Grown Substantially Since 2021



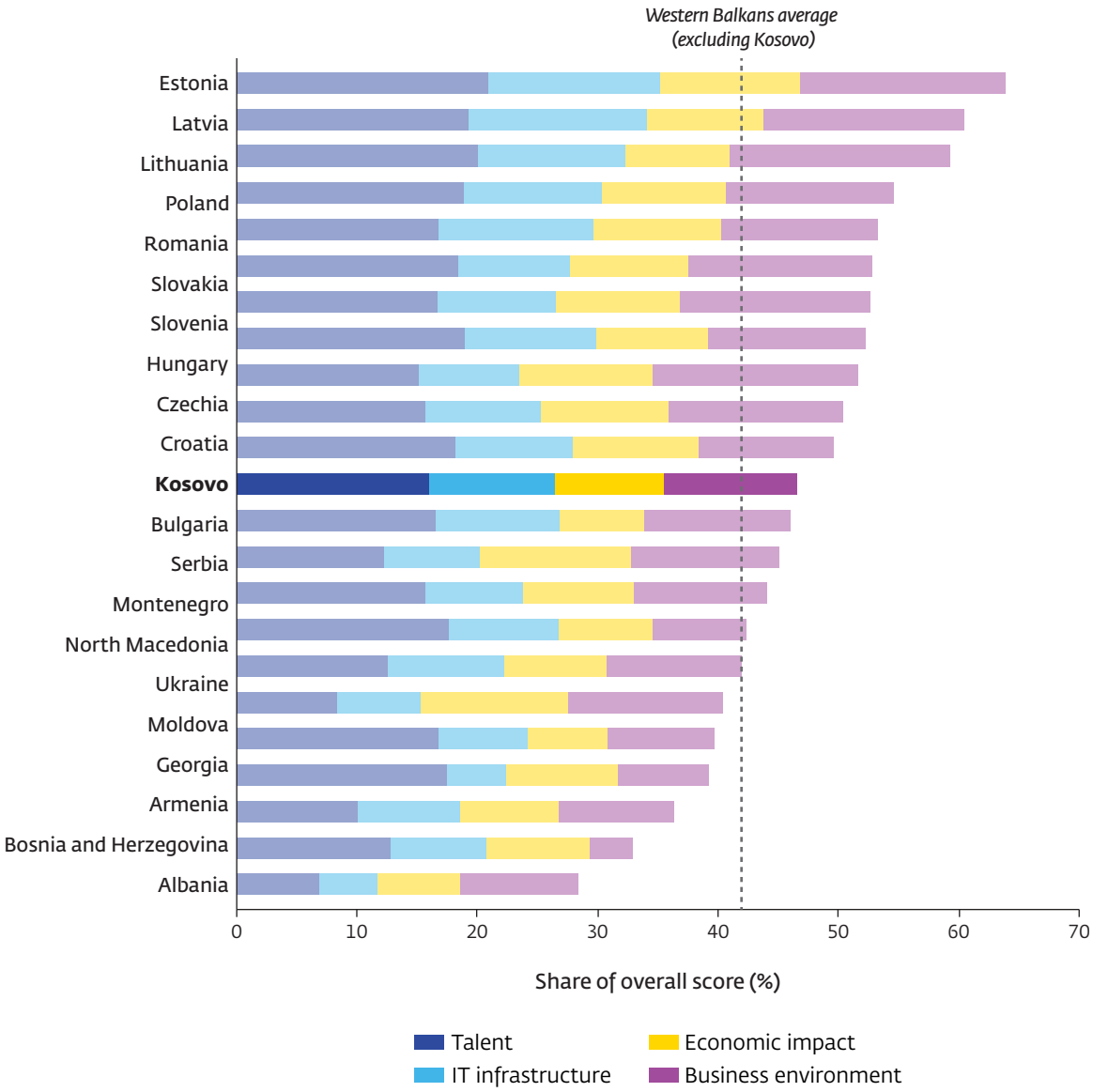

*Source*: Data4x, https://digjitale.data4x.com/prezantim.

**The sector, employing a young workforce and offering comparatively high wages, is a strong catalyst for the creation of better-paid jobs.** In 2025, the sector employed 32,554 employees, up from 25,237 in 2021.[126] In 2025, nearly 59 percent of employees in the ICT sector were under age 35 and 36 percent were women.[127] Rising tertiary education attainment (30.6 percent of the population ages 30–34 in 2024 up from 9.3 percent in 2009[128]), together with widespread digital literacy, provide a strong foundation for sector expansion. Kosovo leads the region in IT talent availability, with 648 ICT students and graduates per 100,000 population ages 15–64, ahead of Albania (101) and North Macedonia (53).[129] Mean gross monthly salaries in the sector were almost double the national private sector average in 2024.[130]

**Kosovo ranks first among Western Balkan countries on composite IT competitiveness and scores highly in offshore BPO confidence rankings.**[131] Structural advantages underpin this competitiveness: one of the youngest populations in Europe, broad proficiency in English and German, competitive labor costs and rising productivity sustaining a favorable balance of cost and quality for export-oriented IT services.[132] Cost competitiveness remains a core differentiator versus regional and aspirational peers such as Poland and Romania. Kosovo's composite cost-factor places it ahead of regional

Figure 4.2

# Kosovo Leads the WB6 in the 2024 IT Competitiveness Index

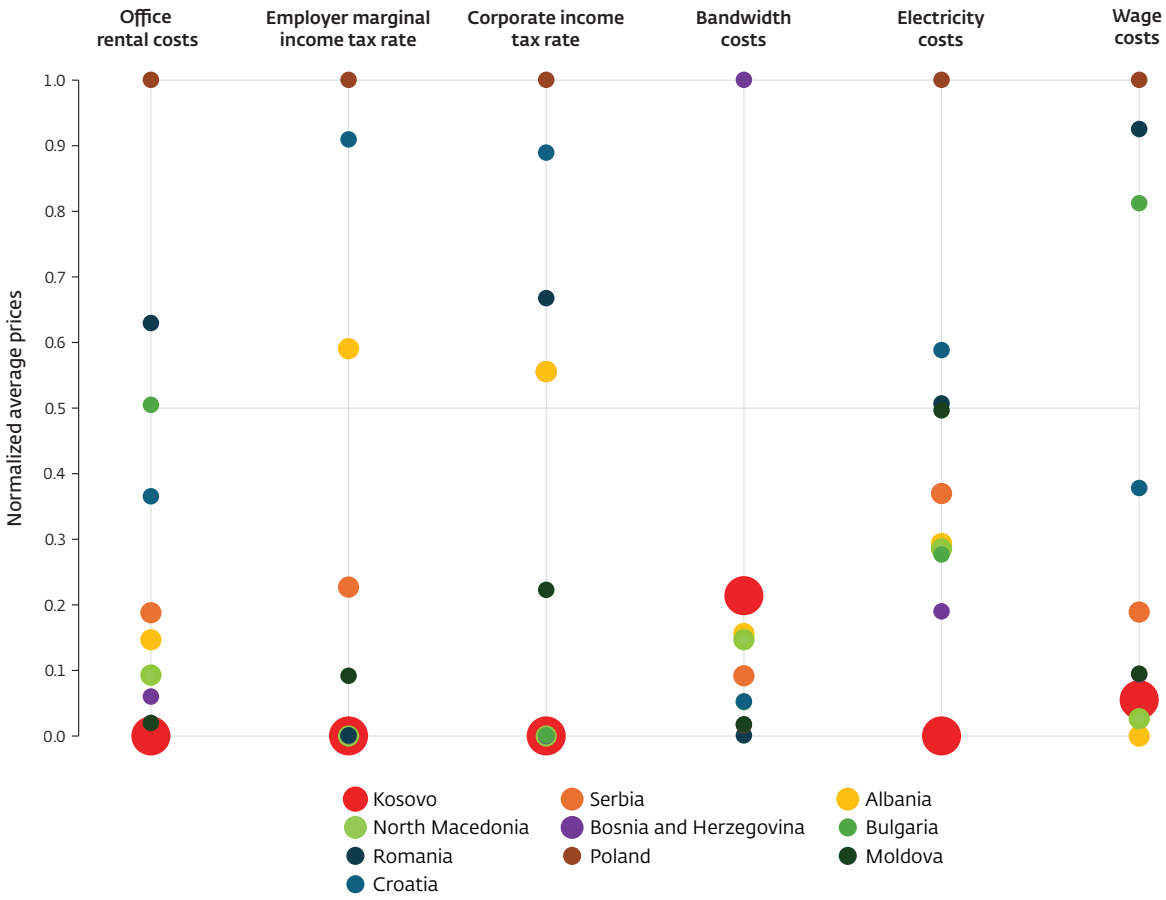



*Source:* Emerging Europe, *Future of IT Report: The Ultimate Guide for IT Buyers, Investors, and Analysts 2024* (2024), https://d11n7da8rpqbjy.cloudfront.net/emergingeurope/30984958_1723037112809Future_Of_IT_2024_spreads.pdf.
*Note:* WB6 = Western Balkans Six, comprising Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. The talent category evaluates the availability, quality, and expertise of the IT talent pool in each country and contributes 40 percent of the overall score. IT infrastructure (20 percent of the overall score) measures the strength of the country's technological infrastructure, such as internet connectivity, data centers, and other critical tech resources. Economic impact (20 percent of overall score) assesses the economic footprint of the IT sector, including metrics like export growth, sector value addition, and cost competitiveness. It evaluates how much the IT sector contributes to the broader economy. Business environment (20 percent of overall score) measures the overall conditions for doing business in the IT sector, including factors like industry development support, economic competitiveness, and intellectual property protection.

comparators in several key operating cost categories (figure 4.3). Despite tariff increases in recent years, electricity prices for businesses remain well below the EU average. The tax environment further supports competitiveness, with a 10 percent corporate income tax and zero customs duties on ICT equipment since 2014. ICT wages, while high compared to the national average, are still below Central European hubs, an advantage particularly

Figure 4.3

## Kosovo Cost Competitiveness in the Sector Is Promising




*Sources:* Prime office rental data are compiled from market reports published by leading international real estate advisory firms, including CBRE, JLL, Colliers, and Cushman & Wakefield. Corporate income tax rates and marginal personal income tax rates are from PwC, Worldwide Tax Summaries database. Statutory rates are used to ensure cross-country comparability. Bandwidth cost data are sourced from Best Broadband Deals. Electricity prices are sourced from Eurostat (data set: Electricity Prices for Non-Household Consumers, nrg_pc_205) and, for Kosovo, from the Energy Regulatory Office. ICT wage data for Western Balkan economies are sourced from Data4x platform. For comparator economies, wage estimates are based on multiple sources: for Poland, Statistics Poland, Sowelo Consulting, and Nortal; for Romania, the National Institute of Statistics Romania, Paylab, and Nortal; for Bulgaria, the National Statistical Institute of Bulgaria, Paylab, and Nortal; and for Moldova, the National Bureau of Statistics of Moldova and the Invest Moldova Agency. Midpoint values are used where ranges are reported to ensure cross-country comparability.
*Note:* The figure compares Kosovo against regional peers across six cost dimensions: rent, employer income tax, corporate income tax, bandwidth, electricity, and wages. Average prices are normalized using re-scaling (0 to 1). A score of 0 indicates the lowest cost in the sample; a score of 1 the highest. The size of the circles is purely for visualization purposes and should not be interpreted analytically.

relevant for DACH clients. However, a cost-led model carries growing risks as wage gaps narrow. Between 2012 and 2020, average ICT wages in the Western Balkans grew by 5–10 percent annually, compared with the less than 1 percent in the EU,[133] driven by strong demand and persisting hiring constraints. To sustain competitiveness Kosovo will require shifting from a "low-cost" to a "higher-value" model, ensuring wage growth is matched by productivity gains, through greater adoption of advanced technologies (including AI) and deeper domain specialization.[134] Without this transition, rising labor costs could weaken Kosovo's ability to attract and retain the export contracts driving sector growth.

**The sector's technological profile is increasingly AI-driven.** In the 2023–24 IT Barometer,[135] technology-focused firms most frequently identified software development (74 percent), web development (55 percent), and IT consulting and support (42 percent) as core services.[136] AI adoption is widespread: 92 percent of technology-oriented firms report using AI tools, such as ChatGPT or GitHub Copilot, in their services or operations, with 69 percent doing so frequently. This is a significant shift from the 2021–22 IT Barometer, where the use of AI in product and service development was 18 percent, mainly for larger, export-oriented companies.[137] For Kosovo's IT firms, AI tools are compressing delivery timelines, reducing per-unit costs, and enabling smaller teams to compete for contracts that would previously have required greater scale. Used well, these tools can raise productivity and strengthen Kosovo's value proposition to European clients.

**Nonetheless, the share of firms offering AI integration, automation consulting, and data analytics as services to clients is low and concentrated among larger, export-oriented companies.** At the same time, AI is reducing the value of labor-cost arbitrage in offshore BPO, particularly in customer support, routine data processing, and standardized back-office functions. As a result, sustaining growth will require a shift toward higher-value, AI-complementary services. Kosovo's relatively strong software development base provides a foundation for expanding into areas such as AI integration, AI-enabled product development, and automation consulting for European clients. These activities are less susceptible to automation and better leverage Kosovo's technical talent, proximity to EU markets, and competitive cost structure, but scaling these opportunities will require continued investment in skills and firm capabilities.

**Despite impressive growth, the sector's structure limits its ability to compete for the largest international contracts.** More than 85 percent of firms in the sector employ fewer than 20 staff, two-thirds have just 1–9 employees and only 1 percent have more than 250 employees.[138] Limited scale constrains capacity, hampers the ability to absorb high-volume contracts, and weakens bargaining power with major international clients who typically require demonstrable scale and operational resilience.

**Certification levels, while improving, remain relatively low.** According to the 2024 IT Barometer, two-thirds of firms (67 percent) report holding no formal quality or information security certifications (e.g., International Organization for Standardization (ISO), International Financial Reporting Standards (IFRS), EU GDPR).[139] Among certified firms, ISO 27001 (Information Security Management) is the most common, at 22 percent, followed by ISO 9001 (Quality Management Systems) at 18 percent. Service management standards and frameworks are less widespread, with 9 percent of firms reporting ISO 20000 and 3 percent reporting Information Technology Infrastructure Library (ITIL). Firms with established quality and information security standards, notably ISO 9001 and ISO 27001, demonstrate stronger organizational capacity and compliance with global client requirements. They are also more export-oriented, with over 80 percent of certified firms active in international markets.[140]

**Unlocking Kosovo's business services potential requires addressing increasingly acute labor shortages which are constraining sector growth.** The 2025 WBES found that 39.6 percent of firms in Kosovo (including 38 percent of services firms) cite an inadequately educated workforce as a "major or very severe" constraint, compared with 26.4 percent in the ECA region. In the business services subsector, 80 percent of firms, especially larger exporters, reported increasing difficulties in finding skilled staff.[141] Shortages are most severe in higher-value segments such as AI-enabled services, data analytics, and cloud infrastructure. According to the IT Barometer 2023–24, the hardest skills to find for ICT services firms are programming (53 percent), data science and AI (30 percent), and cybersecurity (21 percent). In response, 73 percent of firms invested in training in 2023–24, but 35 percent spent less than €1,000 in total, reflecting the limited capacity for training in a sector dominated by microenterprises.[142]

**High emigration exacerbates talent gaps and undermines incentives to invest in workforce development.** One-third of Kosovars live abroad; over 338,000 citizens emigrated between 2012 and 2022, with over 41,553 emigrating in 2022 alone.[143] Business services firms are disproportionately affected by emigration. Their educated, digitally literate, multilingual workforce is highly portable and actively sought by EU employers, with skills that transfer easily across borders. As a result, 43 percent of ICT firms report emigration as the primary reason employees leave.[144]

**Outdated labor legislation and regulatory ambiguity on working hours and remote work arrangements significantly constrain business services firms' ability to scale and compete internationally.** Kosovo's Labor Law (No. 03/L-212), enacted in 2010, was drafted for traditional on-site employment and contains no provisions for multitime-zone operations, split shifts, and hybrid work arrangements—all standard in the modern business services industry. For firms serving international clients, this creates a gray legal zone, as international contracts typically incorporate specific provisions on working

hours, overtime compensation, and remote access protocols. The regulatory ambiguity is compounded by inconsistent enforcement: in the absence of implementing regulations, the Labor Inspectorate applies inconsistent interpretations of overtime thresholds during inspections, often penalizing firms for flexible arrangements that align with global BPO industry standards. The lack of a clear and standardized inspection framework increases compliance costs and discourages smaller firms from adopting the flexible work models needed to compete for high-volume international mandates. For firms operating on EU or US client schedules, this creates recurring compliance exposure: contracts requiring night shift or weekend coverage cannot be structured with full legal certainty.

**Gaps in the implementation of digital legislation create substantial barriers to scalability and investor confidence across Kosovo's business services sector.** While Kosovo made progress in aligning with the EU Payment Services Directive in 2024, significant gaps remain in data protection, cross-border service delivery, and electronic trust services. Law No. 08/L-022 on Electronic Identification and Trust Services establishes the legal basis for qualified electronic signatures in Kosovo, but its implementing regulations have not been extended to confirm equivalence for private commercial contracts,[145] specifically nondisclosure agreements (NDAs), services agreements and subcontracting arrangements with international counterparties.[146] The lack of a fully operational framework for electronic identification and authentication of legal entities, combined with limited uptake of qualified e-signature and e-seal services, constrains secure online transactions, client onboarding, and cross-border contracting. These implementation gaps raise compliance costs and create uncertainty for investors seeking to establish or expand operations.

**Kosovo's data protection framework is formally aligned with the EU's GDPR through Law No.** 06/L-082, but implementation gaps create a particular barrier for firms seeking access to the EU export market. The Agency for Information and Privacy (AIP) has not yet issued binding sector-specific guidance on international data transfer mechanisms, nor has it provided model contract templates for Kosovo-based service providers handling EU client data. This absence of practical guidance hinders firms from signing processing agreements with EU-based clients, particularly in regulated sectors such as financial services and health tech.

**The regulatory gaps are compounded by weak cybersecurity governance and incomplete interoperability of the e-Kosova platform across public institutions.** Kosovo's cybersecurity framework remains fragmented and at an early stage of implementation. Although the 2023 Law on Cybersecurity envisaged the establishment of a dedicated national cybersecurity agency, this institution is not yet operational, and existing functions are dispersed across multiple bodies, including AIP. EU clients in regulated sectors increasingly require service providers to demonstrate robust

cybersecurity safeguards alongside GDPR compliance as a condition for contracting. Without a centralized cybersecurity authority or standardized guidance, firms lack the institutional backing and recognized certification pathways needed to meet these requirements. Incomplete interoperability and uneven adoption of the e-Kosova platform[147] across public institutions further increase transaction costs and administrative burdens for business services firms. Legacy barriers in digital business registration, combined with limited export financing mechanisms, impede scalability and competitiveness. The lack of EU mutual recognition of professional qualifications further limits credentialing and cross-border market access.

**Access to finance is a structural barrier for Kosovo's asset-light business services firms.** The sector relies on intangible assets such as service contracts, intellectual property, software licenses, client relationships, and future export receivables, rather than on fixed plant or real estate. Firms rely predominantly on bank loans and shareholder equity injections, with little access to risk-bearing, growth-oriented instruments, an especially binding constraint for locally owned firms at the growth stage. Current secured transactions laws formally allow intangible assets as collateral but legal and operational gaps severely limit their use in practice. Laws No. 03/L-154 and No. 04/L-136 do not expressly enumerate intangible assets—such as service contracts, software licenses, intellectual property rights, and future export receivables—as recognized collateral categories, creating legal ambiguity that risk-averse banks use to justify rejection. This gap is reinforced by operational and functional limitations in the Pledge Registry, which offers limited support for registering and enforcing security interests over intangible or future assets.[148] Combined with weak market practices and persistent risk perceptions among lenders who continue to rely on immovable collateral, banks rarely accept intangible assets in practice. Consequently, firms that lack physical property must rely on personal guarantees, limiting working capital for hiring, scaling, and competing internationally.[149] The Kosovo Credit Guarantee Fund (KCGF) partially mitigates this gap[150] but it does not resolve the underlying legal deficiency and lending conditions remain among the most collateral-intensive in the region.[151] This reliance on collateral-heavy bank lending, combined with the inability to leverage intangible assets and the absence of equity-based alternatives, disproportionately disadvantages locally owned businesses and hinders sector-wide scaling.

**Beyond traditional banking, Kosovo's ecosystem for alternative financing is nascent and underdeveloped.** An incomplete legal and regulatory framework for factoring constrains receivables-based financing, increasing transaction costs and hindering the development of alternative financing mechanisms. There is no domestic stock exchange, the legal and institutional framework for Alternative Investment Funds (governing venture capital and private equity) is absent, there is no legislation enabling equity crowdfunding, and broader capital-market legislation is still incomplete.

**Unreliable electricity is a critical operational constraint for the business services sector.** Kosovo's electricity system records one of the highest outage frequencies in the Western Balkans: 49.7 percent of firms report regular disruptions, compared with 25.1 percent in the ECA region.[152] For exporters, disruptions can trigger financial penalties, reputational damage, or contract termination. Firms respond by investing in uninterruptible power supply (UPS) systems and backup generators: 63.1 percent of business services firms own or share a generator.[153] Such costs divert resources from investments in talent and technology. At the same time, the renewable energy CPSD reforms proposed in this report (see chapter 3) could help attract significant investment in utility-scale solar and wind capacity, as well as battery storage, which would contribute to stabilizing electricity supply and reducing outages, directly alleviating one of the sector's most binding operational constraints.

**The legacy of conflict, political instability, and lack of full international recognition hurt Kosovo's image as a reliable business destination.**[154] For international buyers, country risk perception is often a decisive filter; Kosovo's nonrecognition by five EU member states and its exclusion from key international institutions creates a perception of political fragility, despite the strong operational track record of firms active in the country. This weighs particularly on sourcing decisions by larger corporates with conservative compliance frameworks. In this context, political continuity is therefore a critical enabling condition: consistent policy direction, stable governance, and sustained commitment to reform are essential to building investor confidence and signaling to international buyers that Kosovo is a reliable, long-term business destination.

**Kosovo's digital identity compounds the problem.** It remains one of the few jurisdictions without a country code top-level domain, forcing firms to use generic domains and reducing visibility and credibility with clients. Limited recognition by major global online platforms and payment providers restrict access to standard digital commerce tools available to regional competitors, narrowing market reach and raising cybersecurity risks linked to the absence of a recognized digital identity.[155]

**The sector has potential to reduce gender disparities in labor force participation.** As of 2024, women's participation stands at approximately 26 percent against 60 percent for men—a gap of 34 percentage points.[156] By contrast, the average gender gap in labor force participation in the other Western Balkans was 16 percentage points in 2024.[157] With relatively low social barriers to female employment and natural compatibility with flexible and remote work arrangements, business services represent a promising pathway into formal employment for women outside the labor force, including from ethnic minority groups.

**Despite its prominent role in the business services sector,[158] Kosovo's large and economically active diaspora remains an underutilized strategic asset.** Many diaspora

members hold advanced technical qualifications, have accumulated managerial experience in Western European firms and professional networks in target export markets.[159] Yet no structured framework exists to attract diaspora professionals as investors, senior managers, or specialized employees.[160] For business services, diaspora engagement has the potential to help fill skill gaps in sales, client relationship management, and high-end technical capabilities.

**Rapid technological change is transforming business services globally, and Kosovo's early-stage transition offers a window for private investment, high-quality job creation and talent retention.** Realizing that potential, however, depends on alleviating constraints that currently cut across the sector: regulatory fragmentation, limited access to finance for asset-light firms, unreliable electricity supply, and persistent technical skills shortages. The sector can also be a catalyst for innovation by developing domestic digital solutions that raise productivity across the economy. As other industries digitalize, domestic demand for IT services is rising, creating growth channels beyond exports. If constraints are addressed, Kosovo could leverage both domestic and international markets to scale its business services sector, deepen integration into European value chains, and attract investment in higher value, innovation-driven activities.

## 4.2 Constraints to Private Investment and Recommendations

**CONSTRAINT 1. Outdated labor legislation and regulatory ambiguity on working hours and remote work arrangements limit scale, weaken competitiveness in international markets, and create compliance risks for exporters.** Kosovo's Labor Law lacks provisions for multitime-zone operations, split shifts, and hybrid arrangements common in BPO. The Labor Inspectorate's inconsistent interpretation of overtime rules during inspections creates compliance uncertainty, increasing costs and discouraging flexible work models needed to compete for international mandates.

**RECOMMENDATION 1A. Issue an Administrative Instruction under Law No.** 03/L-212 specifying overtime calculation methods, maximum weekly overtime limits, and documentation requirements for remote and hybrid work contracts. The instruction should set out clear rules on how overtime is calculated for nonstandard shifts, including split shifts and work performed across different time zones, and define the conditions under which remote work constitutes a valid employment arrangement under Kosovo law.[161]

**RECOMMENDATION 1B. Mandate a standardized inspection checklist to ensure uniform enforcement across the Labor Inspectorate.** The Labor Inspectorate should issue an Administrative Instruction mandating the use of a standardized inspection

checklist for business services firms, ensuring uniform enforcement across municipalities and reducing the compliance burden on internationally oriented employers. The checklist should leverage the newly piloted Electronic Case Management System.

**CONSTRAINT 2. Misalignment between Kosovo's data protection framework and EU GDPR standards and weak cybersecurity governance inhibit access to the EU export market.** The lack of sector-specific guidance on international data transfer mechanisms, including standard contractual clauses (SCCs) or binding corporate rules (BCRs), and the absence of model contract templates hinder firms in Kosovo from signing processing agreements with EU-based clients. For BPO firms in particular, which often process large volumes of personal and sensitive data on behalf of EU clients, GDPR misalignment is a significant barrier to scaling.

**RECOMMENDATION 2A. Adopt and publish implementing regulations on GDPR-compliant data transfer mechanisms applicable to Kosovo-based processors operating in the business services sector.** The AIP should publish one implementing regulation that (i) adopts standard SCCs modelled on the European Commission's current SCC templates and adapted to Kosovo's legal context; and (ii) establishes a BCRs application pathway for larger exporters including eligibility criteria, approval procedures, and AIP's supervisory obligations. Where Kosovo's framework diverges from EU GDPR requirements, the AIP should use the regulation to close those gaps. The AIP should separately publish plain-language implementation guidance to support SMEs with limited in-house legal capacity to close capability gaps. Together, these measures would provide Kosovo-based firms with a recognized, enforceable legal basis for cross-border data transfers, directly addressing one of the most commonly cited barriers to winning contracts with EU clients.

**RECOMMENDATION 2B. Make Kosovo's national cybersecurity agency fully operational.**[162] The Council of Ministers should issue a decision mandating the national cybersecurity agency to achieve operational status within a defined timeframe, including (i) appointing a director, (ii) approving a staffing and budget plan, and (iii) publishing an incident-reporting protocol. The mandate of the agency should cover private sector firms in digitally exposed sectors as well as public institutions.

**CONSTRAINT 3. Asset-light business services firms in Kosovo have limited access to bank financing.** Laws No. 03/L-154 and No. 04/L-136 do not expressly enumerate intangible assets, such as service contracts, software licenses, intellectual property rights, and future export receivables, as recognized collateral categories, creating legal ambiguity that risk-averse banks use to justify rejection. This definitional gap is compounded by three reinforcing weaknesses. First, the Pledge Registry has operational and functional limitations and offers limited support for registering and enforcing security interests over

intangible or future assets. Second, weak market practices and entrenched risk perceptions lead lenders to continue relying on immovable collateral, regardless of what the law formally permits. Third, an incomplete legal and regulatory framework for factoring increases transaction costs and constrains the development of receivables-based financing.

**RECOMMENDATION 3. Unlock financing for asset-light business services firms by enabling the use of intangible assets as collateral through four key actions:**

a. **Expand KCGF guarantee coverage to asset-light business services exporters.** The KCGF Board, with the endorsement of the Ministry of Finance, should formally expand guarantee coverage to include receivables-backed lending and factoring portfolios, explicitly recognizing these as eligible financing structures for asset-light business services exporters. The KCGF's existing startup and diaspora windows should simultaneously be streamlined, through revised eligibility criteria and simplified documentation requirements, to better serve business services firms that lack physical collateral but have demonstrable export contracts or client relationships.

b. **Broaden the coverage of the Electronic Pledge Registry.** Amend the Law on the Registration of the Pledge Registry (Law No. 04/L-13) to update the electronic Pledge Registry operated by the Ministry of Industry, Entrepreneurship and Trade (MIET) to fully support the registration, prioritization, and enforcement of security interests over movable and intangible assets, including receivables, service contracts, software, and intellectual property.

c. **Issue guidance on the valuation of intangible assets** (e.g., receivables, software, and intellectual property), drawing on established international frameworks. Standardized methodologies would reduce the information asymmetries that currently make banks unwilling to price nontraditional collateral and give lenders the practical tools needed to operationalize acceptance. The guidance, issued by the Central Bank of Kosovo (CBK), should (i) reference the European Banking Authority (EBA) eligibility and concentration criteria for receivables (EGL/2017/16), and (ii) require banks to adopt and submit an internal valuation methodology for software and IP aligned at minimum with WIPO valuation guidance or the UK Finance IP-backed lending framework. The CBK should develop this guidance (a regulatory circular) in consultation with the Kosovo Bankers Association and STIKK and can draw on comparable guidance issued by the National Bank of Serbia (2018) and the National Bank of North Macedonia (2020).

d. **Update the regulatory framework for receivables and factoring.** The CBK should issue regulatory guidance clarifying the tax treatment of factoring transactions and the enforceability of receivables assignments in cases of seller or client insolvency, as these two gaps leave the current framework unresolved and directly inflate transaction costs for banks and factoring providers.

**CONSTRAINT 4. The absence of legally recognized electronic signatures for private commercial contracts raises transaction costs for cross-border contracting.** Without clear recognition of qualified electronic signatures for private commercial agreements, Kosovo-based firms are frequently asked to provide "wet" (handwritten) signatures on hard-copy documents. Physical courier exchange adds administrative costs and can delay contract execution. Turnaround times on contract execution run days to weeks longer than for competitors in EU member states or EU candidate countries, such as Romania and Serbia, with operational eIDAS-equivalent frameworks. For high-velocity digital service delivery, where onboarding speed is a competitive differentiator, this is a material disadvantage.

**RECOMMENDATION 4. Adopt an Administrative Instruction under Law No.** 08/L-022 to enable legal recognition of e-signatures for private commercial contracts and to provide a practical compliance guide for firms on electronic Identification, Authentication and Trust Services. This Administrative Instruction should (i) expressly confirm the legal equivalence of qualified e-signatures for private commercial contracts; (ii) designate recognized qualified trust service providers; and (iii) publish a compliance guide enabling firms to adopt eIDAS-compatible workflows for cross-border contracting.

**CONSTRAINT 5. Skills mismatch and weak occupational standards drive ICT labor shortages.** A persistent gap between VET outputs and private sector demand, compounded by the lack of formally approved, industry-validated occupational standards for key ICT roles under the National Qualifications Framework, has led to chronic shortages of mid-level technical talent (e.g., ICT operations, user support, network administration, and systems management) and high onboarding costs.[163] Approval of pending standards has been delayed by fragmented governance and institutional bottlenecks, including the slow establishment of the Council for Vocational Education and Training and Adult Education (CVETAE), and by limitations in the National Qualifications Authority (NQA) staffing and processing capacity.[164]

**RECOMMENDATION 5A. Mandate the employer representative, STIKK, to cosign competency frameworks for all new VET qualifications curricula before accreditation.** Requiring employer cosignature for any new or revisited VET qualifications in the profiles before NQA accreditation is granted would help ensure that competency frameworks reflect current and forward-looking private sector needs rather than being determined solely by academic bodies disconnected from the labor market.[165]

**RECOMMENDATION 5B. Approve the pending ICT occupational standards, including ICT operations, user support, and network and systems technicians (NQF levels 4–5).** The approval of the pending occupational standards by the NQA under the existing legislation would unlock the downstream qualification and accreditation process, allowing

VET providers to develop and deliver certified programs without further legislative change. This approval is the gatekeeper for the entire qualification: without an approved standard, AVETAE has no benchmark to accredit programs and providers and graduates cannot receive NQF-recognized certificates. Approval would remove the current bottleneck, allow VET providers to deliver certified programs without further legislative change, and enable the first cohorts to enter the labor market within 12–18 months.[166]

**CONSTRAINT 6. Unreliable electricity constrains operations in the business services sector, increasing the risk of triggering service-level agreement breaches.** Frequent power outages undermine service-level agreement compliance with international clients where there is an expectation of 24/7 availability among outsourced service providers.

**RECOMMENDATION 6. Operationalize the Rule of Quality of Electricity Service[167] for commercial and industrial electricity subscribers by adopting pending implementation methodologies and annexes required for enforcement.** ERO should adopt three implementing instruments to make the rule enforceable. (1) a compensation methodology[168] for nonsupplied electricity that reflects the mix of regulated and market-based tariffs and sets triggers and claims procedures; (2) binding quality-of-supply standards for commercial and industrial customers (maximum outage frequency and duration by category) with penalties for KESCO noncompliance; and (3) a monitoring and enforcement framework defining KESCO reporting requirements, ERO audit rights, and complaint escalation procedures.

## 4.3 Risks to Be Managed

**Rapid adoption of AI is transforming both the service offerings and skill requirements of the sector.** In Kosovo, this shift is particularly significant given the IT industry's historical reliance on outsourcing and service-based exports, a segment increasingly exposed to automation through AI tools. As global demand for low- and mid-tier outsourced IT services contracts declines, Kosovo's firms risk losing their primary competitive niche without having developed the product, R&D, or high-value advisory capabilities needed to replace it. Without corresponding changes in the education system, the resulting skills mismatch could further deepen, undermining employment outcomes and limiting Kosovo's ability to capture higher-value growth opportunities in the AI era.

## 4.4 Impact

**The proposed reforms could catalyze substantial private investment, accelerate export growth, and generate significant direct and indirect employment in Kosovo's business services sector.** If Kosovo's potential for expanding IT services and BPO operations is realized, private investment in new and expanded firm capacity, digital infrastructure, and talent development could reach between US$548 and US$689 million, of which US$68–177 million would be net incremental investment by 2031. This could generate approximately 4,600–12,900 new direct jobs (of which at least between 1,764 and 4,988 could be for women), building on a sector that already employed over 32,600 people in 2025. These jobs are expected to be relatively high-productivity and above the national average wage level. Additionally, this investment could generate approximately 27,000 to 33,000 indirect more and better jobs, arising from backward linkages to domestic supply chains and business support services, as well as induced employment effects driven by increased worker spending in the local economy.

Table 4.1

# Policy Recommendations to Remove Impediments to Private Investment in Business Services

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **1. Outdated labor legislation and regulatory ambiguity on working hours and remote work arrangements limit scale, weaken competitiveness in international markets, and create compliance risks for exporters.** | **1a.** Issue an administrative instruction under Law No. 03/L-212 on Labor specifying overtime calculation methods, maximum weekly overtime limits, and documentation requirements for remote and hybrid work contracts. | ***Lead:*** Ministry of Labor, Family, and Liberation War Values<br>***Coordination:*** Ministry of Finance |
| | **1b.** Mandate a standardized labor inspection checklist to ensure uniform enforcement across the Labor Inspectorate. | ***Lead:*** Ministry of Labor, Family, and Liberation War Values |
| **2. Misalignment with the EU's General Data Protection Regulation (GDPR) standards and weak cybersecurity governance inhibit access to EU export markets.** | **2a.** Adopt and publish implementing regulations on GDPR-compliant data transfer mechanisms applicable to Kosovo-based processors operating in the business services sector.<br>**2b.** Make Kosovo's national cybersecurity agency fully operational. | ***Lead:*** Ministry of Digitalization and Public Administration, Agency for Information and Privacy |
| **3. Asset-light business services firms have limited access to bank financing.** | **3.** Unlock financing for asset-light business services firms by enabling the use of intangible assets as collateral through four key actions:<br>a. Expand Kosovo Credit Guarantee Fund guarantee coverage to asset-light business services exporters;<br>b. Broaden the coverage of the Electronic Pledge Registry;<br>c. Issue guidance on the valuation of intangible assets, drawing on established international frameworks; and<br>d. Update the regulatory framework for receivables and factoring. | ***Lead:*** Ministry of Industry, Entrepreneurship and Trade; Central Bank of Kosovo<br>***Coordination:*** Ministry of Finance |

*(Table continues next page)*

Table 4.1

# Policy Recommendations to Remove Impediments to Private Investment in Business Services *(continued)*

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **4. The absence of legally recognized electronic signatures for private commercial contracts raises transaction costs for cross-border contracting.** | **4.** Adopt an administrative instruction under Law No. 08/L-022 on Electronic Identification and Trust Services to enable legal recognition of electronic signatures for private commercial contracts and provide a practical compliance guide for firms on electronic identification, authentication, and trust services. | ***Lead:*** Ministry of Digitalization and Public Administration |
| **5. Skills mismatches and weak occupational standards drive information and communication technology (ICT) labor shortages.** | **5a.** Mandate the employer representative, the Kosovo Association of Information and Communication Technology, to co-sign competency frameworks for new vocational education and training qualifications curricula before accreditation.<br><br>**5b.** Approve the pending ICT occupational standards. | ***Lead:*** Ministry of Education and Science<br><br>***Coordination:*** Agency for Vocational Education and Training and Adult Education; National Qualifications Authority |
| **6. Unreliable electricity constrains business services operations, increasing the risk of service-level agreements breaches.** | **6.** Operationalize the Rule of Quality of Electricity Service ERO/No. 17/2019 for commercial and industrial electricity subscribers by adopting the pending implementation methodologies and annexes required for enforcement. | ***Lead:*** Energy Regulatory Office<br><br>***Coordination:*** Ministry of Economy; Kosovo Electricity Distribution and Supply |

# 5 Manufacturing of Building Components

**AT A GLANCE**

- Kosovo's building components manufacturing sector has significant potential for investment and export growth. Growing domestic construction demand, the EU's transition toward energy-efficient buildings, and a proven yet not fully realized export base, provide a strong foundation for expansion into higher-value European markets.
- Energy, land, skills, standards, and financing constraints limit sector growth. Key barriers include unreliable and increasingly costly electricity, inefficient land access and permitting, skills shortages exacerbated by emigration, weak standards enforcement, and limited access to long-term finance and working capital.
- Targeted reforms could strengthen competitiveness and unlock investment. Priorities include modernizing vocational education and training curricula to better reflect industry needs, introducing fast-track permitting for industrial projects, resolving energy infrastructure bottlenecks in industrial parks, and expanding alternative financing instruments, including receivables-based lending.
- Reforms could catalyze US$187 million–US$296 million in private investment and generate 21,000–33,000 more and better-paid jobs over the medium term.

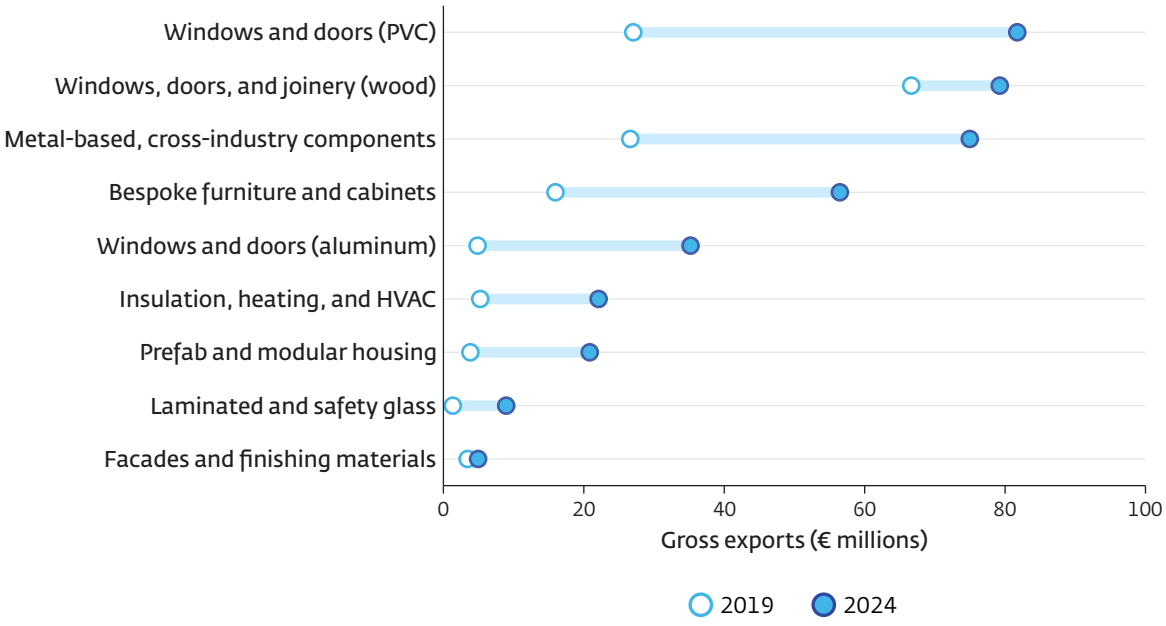
With targeted reforms, the manufacturing of building components sector[169] has the potential to be among Kosovo's most competitive goods export sectors, capitalizing on the domestic construction industry.

## 5.1 Sector Context and Potential for Private Investment

**Kosovo's building components manufacturers are integrated into regional supply chains sourcing key inputs from international markets—including steel, aluminum, plastics, glass, and insulation materials.**[170] They supply windows, doors, furniture, metal-based components, and insulation and HVAC systems to residential and commercial clients in Kosovo, EU, and CEFTA construction markets.[171] Exports have increased across all subsegments (figure 5.1), reflecting manufacturers' growing ability to meet buyer requirements in neighboring and EU markets. The central strategic question for a small economy like Kosovo, where domestic primary processing capacity is limited, is how much value can be added locally. At present, domestic value addition is concentrated in

Figure 5.1

### Remarkable Expansion in Exports Across All Product Subsegments




*Source:* Calculations based on Kosovo Agency of Statistics, https://askdata.rks-gov.net/pxweb/en/ASKdata/.

labor-intensive assembly—and with growing automation, even this contribution is under pressure—making the move into higher-value activities such as design, finishing, and more complex component production a critical objective for deepening Kosovo's economic gains from global value chain (GVC) participation.

**This upgrading agenda is consistent with the broader direction of Kosovo's Strategy for Industry Development and Business Support 2030 (SIDBS 2030).**[172] The SIDBS 2030 seeks to support industrial transformation, technological upgrading, export competitiveness, and greener production across a range of manufacturing value chains. Although this CPSD does not assess that wider industrial agenda comprehensively, it examines the specific constraints and near-term policy actions that could help building components manufacturers move into higher-value activities, strengthen their participation in regional and EU value chains, and respond to evolving market demand.

**Strong domestic demand has been an important foundation for the sector's recent growth.** The ongoing real estate construction boom—fueled by rising remittances and FDI and extending from residential and commercial developments to infrastructure projects, particularly in the metal structures subsegment—has provided manufacturers with a reliable home market.[173] Demand for energy efficiency retrofits is also expected to increase in Kosovo domestically, as enforcement of the Law No. 06/079 and Law No. 08/L-242 on Energy Performance of Buildings[174]—transposed from the EU Energy Performance of Buildings Directive—is likely to strengthen as part of Kosovo's EU accession process.[175]

**The external demand environment is equally supportive and increasingly aligned with Kosovo's domestic regulatory trajectory.** Buildings account for approximately 40 percent of Europe's energy consumption, and about 97 percent of the EU building stock requires efficiency upgrades.[176] The 2021–23 energy price shock accelerated demand for energy-efficient construction and EU's revised Energy Performance of Buildings Directive (EPBD) mandates progressively stricter standards, while the European Climate Pact[177] targets the renovation of 35 million buildings by 2030 (the Renovation Wave). The EU green building materials market is projected to grow at a compound annual growth rate (CAGR) of over 11 percent between 2025 and 2030.[178] Because Kosovo's own energy performance legislation is transposed directly from the EU framework, domestic and external demand pressures are reinforcing rather than separate forces—both pointing in the direction of higher-specification, energy-efficient building components.

**Evolving market demand points to significant investment potential in Kosovo's building components manufacturing sector, underpinned by an existing productive base and demonstrated firm capabilities.** Kosovo already has a base of firms producing for both domestic and export markets, and rapid export growth over the past decade reflects their ability to meet buyer requirements in neighboring and EU markets.

Investment potential varies across the sector. The strongest near-term opportunities are in subsegments where transport costs are relatively low, firm capabilities are established, and demand is rising on the back of energy-efficient construction—notably windows and doors, metal and aluminum structures, and insulation materials.

**Higher-value segments offer sizable longer-term prospects, while growing imports point to scope for domestic substitution.** Prefabricated housing components, laminated and architectural glass, ventilated facade systems, and structural steel pipes could become attractive as firm capabilities deepen. Rapid growth in HVAC equipment imports—at a CAGR of 37.9 percent between 2019–24, more than three times the rate for all building components imports—is a direct manifestation of this energy efficiency demand trend and a further signal of the market space available to domestic manufacturers. Domestic manufacturers are well-placed to capture a significant share of the estimated US$316 million[179] in currently imported building components inputs by leveraging existing underutilized production capacity, improving productivity and aligning with quality standards.

**Yet, despite the sector's considerable potential, building components manufacturing attracts minimal foreign capital.** About 75 percent of FDI in 2025 was directed into real estate activities, while the broader manufacturing sector only accounted for 1.7 percent of total FDI (figure 5.2)—a striking divergence given the sector's export performance and growth trajectory. This underscores the extent to which operational and regulatory constraints continue to deter investors and points to the need for targeted policy action to translate the sector's demonstrated capabilities into sustained investment.

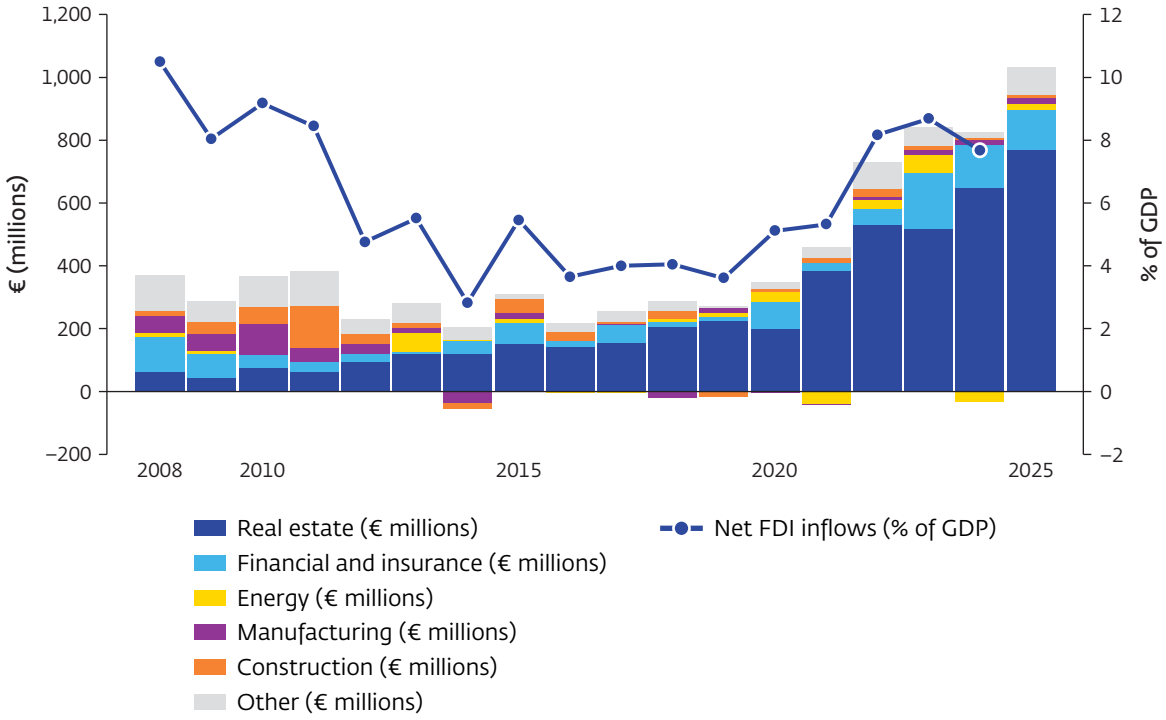
**The sector is fragmented and dominated by small family-owned enterprises, with mixed firm-level readiness.** Over 90 percent of registered manufacturing companies employ fewer than 10 workers.[180] A smaller set of medium-size firms (10–50 workers) operates in aluminum window and door fabrication, joinery, and HVAC assembly, while larger companies with more than 50 employees are rare and concentrated in PVC window production and furniture manufacturing for European and regional markets. While most firms focus on labor-intensive assembly, some firms have higher operational maturity—including adoption of CNC technology, automation, ISO or CE certification, and strong, diaspora-driven export relationships—making them credible candidates for investment partnerships and supply chain integration with European buyers.[181] Several firms also operate private training academies, which signals both skills investment capacity and strong management ambition.

**Kosovo's building components manufacturing sector has historically been competitive on the basis of low input costs, favorable tax rates, flexible production, and strong market access.** Average manufacturing wages[182] and industrial electricity tariffs[183] are below regional and EU levels,[184] providing a meaningful cost advantage (table

Figure 5.2

## FDI Boom Bypasses Manufacturing and Remains Concentrated in Real Estate

FDI inflows, by sector




*Source:* Calculations based on Kosovo Balance of Payments and IMF and World Bank Group GDP estimates.

5.1).[185] Beyond input costs, firms have developed flexible production capabilities—including the ability to accommodate customized, small-batch orders across varying scales and specifications—partly as a result of sustained supply relationships with diaspora-linked construction companies and contractors.[186] Proximity to the EU reduces transport costs and lead times, while the Stabilization and Association Agreement provides Kosovo with duty-free access for most industrial goods. Kosovo's large diaspora networks—with a significant portion of Kosovar employees in the European Union working in the construction sector—support export growth and facilitate export market entry via client relationships in EU or US markets.[187]

**However, the cost structure underpinning Kosovo's building components manufacturing has shifted materially.** Average manufacturing wages rose by 47 percent between 2018 and 2023[188]—a reflection, in part, of improving living standards, but also a significant shift in the cost base for manufacturing firms. Kosovo's electricity market liberalization, progressing in phases aligned with EU directives, is moving large commercial

Table 5.1

## Kosovo's Competitiveness Lies in Wages, Electricity, Tax, and Time to Export

| | **Average monthly net wage** (€) | **Electricity tariff for industry, 2024** (€ per kWh) | **Corporate income tax rate** (%) | **Trading across border score** |
|---|---|---|---|---|
| **Kosovo** | **653** | **0.08** | **10** | **94.2** |
| Albania | 770 | 0.15 | 15 | 96.3 |
| Bosnia and Herzegovina | 810 | 0.11 | 10 | 95.7 |
| Montenegro | 876 | 0.1 | 15 | 91.9 |
| North Macedonia | 739 | 0.12 | 10 | 93.9 |
| Serbia | 830 | 0.18 | 15 | 96.6 |

| | **Time to export** (days) | **Cost to export** (border compliance; US$) | **Share of manufacturing in GDP, 2024** (%) |
|---|---|---|---|
| **Kosovo** | **4** | **105** | **12.62** |
| Albania | 9 | 55 | 6.51 |
| Bosnia and Herzegovina | 5 | 70 | 12.71 |
| Montenegro | 8 | 85 | 3.33 |
| North Macedonia | 9 | 103 | 14.34 |
| Serbia | 4 | 47 | 12.69 |

*Source*: Calculations based on data from Kosovo Agency for Statistics 2025; Instituti i Statistikave 2025; Agency for Statistics of Bosnia and Herzegovina 2025; Statistical Office of Montenegro 2025; State Statistical Office of North Macedonia 2025; Statistical Office of the Republic of Serbia 2025; Eurostat 2025; OECD 2025; World Bank 2019; World Bank 2019, World Bank 2019, and World Bank Group 2025.

users (over €10 million turnover or 50 employees) onto the open market starting in mid-2025, with the regulatory trajectory suggesting further expansion of market-priced categories—potentially pushing energy costs for building component manufacturers above

the current regulated levels.[189] Raw material costs—including steel and fabricated metal products, glass, gypsum, and insulation materials, and polymer materials—remain elevated following post-COVID global commodity inflation, due to sustained energy cost increases, supply chain pressures, and robust construction sector demand.[190] While Kosovo's cost base remains relatively competitive (table 5.1), these converging trends are gradually eroding its traditional advantage—and future competitiveness in the sector will need to rest on a different foundation.[191]

**In the medium term, Kosovo's comparative advantage is likely to derive from a set of structural and relational attributes that cost-competitive producers find harder to replicate at scale.** Geographic proximity enables short lead times and responsiveness to customized orders—particularly for diaspora-linked construction projects. A growing capacity to offer design-integrated solutions and finishing capabilities tailored to specific buyer specifications adds a further differentiation. And as regulatory alignment with the EU deepens, product certification will open access to quality-sensitive market segments that pure cost competitors cannot easily enter. The upgrading path toward these higher-value-added activities is, however, conditional on reforms that address the energy, skills, finance, and land constraints that currently prevent firms from investing in the productivity-enhancing technology and certifications that more sophisticated market segments require.

**Realizing the sector's investment potential will therefore require addressing a set of interconnected, policy-induced constraints that currently raise operating costs and limit firms' ability to scale and adapt.** These include unreliable and increasingly costly electricity access, which bears disproportionately on more energy-intensive activities; opaque land markets and cumbersome construction permitting; skills mismatches that constrain productivity upgrading and the move into higher-value segments; and working capital shortages and limited access to long-term investment finance. A significant informal sector—particularly in construction-related services and small-scale fabrication—further distorts competition by allowing noncompliant firms to undercut margins and penalize those that invest in certification and compliance. For Kosovo's manufacturers to capture growing EU market opportunities, they will also need to meet increasingly stringent EU product standards—a requirement that further raises the bar for firms already stretched on resources. Several of these constraints are amenable to policy action, and their persistence reflects gaps in the enabling environment rather than inherent sector limitations.

**Unreliable and increasingly costly electricity poses a significant constraint for Kosovo's building components manufacturers.** About 52.2 percent of firms in Kosovo regularly experience electrical outages, compared with 30.4 percent in ECA,[192] while building manufacturing companies that have energy-intensive production lines (metalwork, powder-coating, radiators, prefabricated panels) and that operate on tight

delivery schedules are particularly impacted. Firms report an average of 5.2 electrical outages in a typical month, compared with 0.6 in ECA.[193] One-third (34.2 percent) of manufacturing companies in Kosovo identified access to electricity as a major or severe constraint, above the economy-wide share of 22.8 percent.[194] Supply interruptions halt production and damage capital-intensive equipment, forcing firms to rely on more expensive, generator-produced electricity. Annual economic losses in Kosovo due to production downtime, the procurement, fueling, and maintenance of generators are estimated at 4–5 percent of Kosovo's GDP—though these figures draw on studies that predate recent developments in the energy sector.[195] Many firms have turned to rooftop solar PV as a strategic investment. However, the potential of distributed solar is constrained by a maximum installed capacity of 100 kW under Kosovo's prosumer regulation (for businesses connected to low-voltage grid), unfavorable net-metering prices, semi-annual rather than monthly settlement cycles, and burdensome administrative procedures (see chapter 3 on utility-scale solar and wind electricity generation).

**Under ERO's Connection Charges Methodology, manufacturers are often required to self-finance firm-level electricity infrastructure, including substations.** When these assets are subsequently transferred to the distribution and transmission operator (KEDS and KOSTT), the costs borne by firms are not fully reimbursed. This acts as a significant disincentive to build manufacturing facilities, effectively imposing a significant and unpredictable upfront capital cost on investors before operations begin, with no prospect of cost recovery. Although the methodology provides for partial reimbursement where assets are later used by other consumers, this covers only the portion of capacity used by third parties and excludes the substantial share of costs borne by the original investor, undermining project bankability. In cases where firms needed only modest capacity (e.g., 150 kVA), KEDS tends to require them to finance larger upgrades (500 kVA) to accommodate area-wide network deficiencies, effectively shifting the initial cost of public infrastructure expansion onto private firms. Moreover, if a project is not included in the approved network development plan at the time of application, current rules provide little flexibility to subsequently recognize and reimburse investor-financed assets even when they would qualify for inclusion in future plan revisions.

**In industrial parks, a legal impasse between KIESA—as manager of public industrial parks—and KEDS prevents the operationalization of grid connections.** Under the Law on Public Property (Law No. 08/L-125; 2023), KIESA cannot transfer publicly-owned assets—including transformers and related infrastructure installed on public land—to KEDS as a private entity without either a compensated transaction or a legislative amendment—difficult to obtain as it can take multiyear inter-ministerial coordination to amend the recently introduced land law. This effectively blocks KEDS from accepting operational responsibility for park infrastructure, leaving firms unable to connect to the grid through

park assets and preventing tenants from monetizing on-site renewable generation through net-metering arrangements.

**The government has recently taken steps to strengthen the policy and institutional framework for industrial and technology parks.** Reforms include the adoption of the Law on Industrial and Technology Parks and the development of related implementation arrangements. These reforms have the potential to reduce investment costs by facilitating access to serviced land, reliable infrastructure, and more coordinated investor support. Their impact will depend on effective implementation, including clear governance and operational responsibilities; timely provision and operation of utility infrastructure; transparent and efficient allocation of park sites; and coordination between central institutions, municipalities, park managers, and service providers.

**Complex, lengthy and costly land conversion and construction permitting processes hinder capital investment.** Seventeen percent of manufacturing firms identify access to land as a major or severe constraint,[196] above the economy-wide average of 12.4 percent.[197] The stock of designated industrial land in Kosovo is limited,[198] forcing firms that wish to expand or establish new facilities to navigate agricultural-to-industrial land conversion. This process, alongside securing construction permits, involves highly specific requirements and prolonged approval processes.

**The permitting framework is fragmented, sequential, and vulnerable to administrative discretion.** Category II and III industrial construction permits—governed by Law No. 04/L-110 and Administrative Instruction No. 04/2017—require a seven-step sequential review across multiple institutions, including municipal Directorates of Urbanism, MESP, and MAFRD. The process lacks a formal coordination mechanism and does not provide a differentiated procedure for fully compliant, investment-ready projects.[199] The absence of transparent performance standards and audit mechanisms creates conditions where municipal authorities exercise broad discretionary power over permit processing. Anecdotal evidence indicates that delays may extend beyond what technical requirements would justify, pointing to potential governance weaknesses in municipal permit administration. In some cases, stakeholder consultations revealed overlapping and partly contradictory mandates between municipalities and the central government, particularly in industrial parks, where permit issuance was reportedly deprioritized.

**Skilled labor shortages constrain the competitiveness of Kosovo's building components manufacturers.**[200] Almost half (46.9 percent) of manufacturing firms identify an inadequately educated workforce as a major constraint, well above the ECA average of 28.6 percent.[201] Demand for some occupations[202] in building components manufacturing such as welders, sheet metal workers, machinists, CNC operators, carpenters, joiners, installers, and CAD and CAM designers is projected to grow by between 35 and 41

percent between 2024 and 2027.[203] Yet, firms report acute shortages precisely in these roles.[204] Despite the Sector Workforce Council—a multistakeholder platform intended to better align workforce skills with private sector needs—VET curricula are insufficiently aligned with industry needs, slow to adapt to technological change, and constrained by weak quality assurance.[205] In 2019, 77 percent of VET profiles were not aligned with occupational standards and labor market needs.[206] The ongoing dual VET pilot, supported under the EU UPA and ETF frameworks, is a positive step toward Kosovo's goal of joining the European Alliance for Apprenticeships.[207] However, stronger employer participation in curriculum design, alongside lifelong learning, upskilling and reskilling—including for digital and green production skills—and closer VET and university-industry collaboration will be needed to respond to evolving firm demand. At the firm level, only 30.9 percent of manufacturing companies provide formal employee training.[208] Firms report onboarding periods of up to 12 months for critical roles, with some establishing private academies (e.g., Eurometal's Ministry of Education–certified Welding Academy) to bridge the skills gap at additional cost.[209]

**Emigration and limited workforce participation further constrain the skilled labor pool for manufacturers.** In manufacturing and construction, 12.9 percent and 18.7 percent of workers, respectively, report intentions to emigrate,[210] largely driven by better economic prospects and limited career progression at home.[211] Low labor force participation—particularly among women—and firms' reported perception that young people often prefer white-collar, public sector, and remote work over craft, manufacturing, and trade occupations—as consistently reported by firms in the sector—further constrict the available talent pool. The combined effects of skills mismatches, emigration, limited employer-led training, weak VET systems, and structural inactivity push up labor costs: manufacturing wages grew at an average annual rate of 11.1 percent between 2020 and 2024, outpacing economy-wide wage growth rates of 8.7 percent.[212] Despite the increases, labor shortages continue to hinder building components manufacturers.

**Building components manufacturers struggle to secure finance due to high collateral requirements, insufficient long-term tenors and short grace periods.** Kosovo has introduced instruments that can support financing for firms, including the Kosovo Credit Guarantee Fund, grant schemes, and selected innovation and manufacturing-upgrading programs. However, about 42 percent of Kosovar manufacturing firms identify access to finance as a major constraint (compared to 21.9 percent of firms across sectors, see chapter 1 on country context and business environment), more than four times the Western Balkans average of 9.6 percent.[213] About 31 percent of investments by manufacturing firms are financed by banks, while 55.2 percent of manufacturing firm investments rely on internal finance,[214] with high interest rates and strict collateral requirements reported as primary obstacles to accessing external finance.[215] Most credit is short-term: across private sector lending, 43.9 percent of loans have terms of less than one

year, and about 70 percent are less than three years,[216] which does not align with longer payback periods typical of capital-intensive machinery and equipment.

**Working capital is constrained in the absence of fit-for-purpose financing products.** The majority of manufacturing firms (71.4 percent, compared to 61.9 percent of firms across sectors, see chapter 1 on country context and business environment) use banks to finance working capital (compared to ECA average of 34.6 percent), and bank credit covers about 23.1 percent of total working capital needs.[217] In the absence of structured products, most firms rely on overdrafts to procure inputs—such as sheets, lumber, polymer resins—bridge production cycles, and smooth cash flows between order receipts and customer payments.[218]

**Liquidity pressures are particularly acute because 78.5 percent of Kosovo's manufacturing firms import material inputs.** International suppliers typically require payment in advance or via letter of credit, tying up working capital before goods are received. Domestic transactions are more likely to allow deferred payment arrangements; yet firms often experience delayed receipts from local buyers and payment terms of 60–90 days from foreign buyers. This asymmetry is compounded by a thin trade credit environment: supplier credit accounts for just 0.1 percent of fixed asset financing among Kosovo firms, suggesting that credit-based procurement arrangements remain largely unavailable.[219] Although some banks offer factoring products, uptake is limited given that Kosovo's shallow financial sector, weak contract enforcement environment, and prevalence of informal payment practices reduce the pool of eligible receivables and the reliability of factoring instruments. The absence of structured financing instruments—such as supply chain finance, trade finance, and guarantees—limits manufacturers' ability to expand order intake, smooth production runs, offer competitive terms to buyers, and maintain input buffers against supply chain volatility.

**Weak enforcement of standards, building codes, and certification requirements is a key constraint for Kosovo's building components manufacturing sector.** Kosovo has several, largely EU-aligned frameworks governing building components.[220] However, enforcement is weak and uneven, and inspection capacity is limited. Formal conformity assessment, CE marking, declarations of performance, and energy performance certificates exist, particularly for exports, but many domestic firms, especially smaller producers, do not comply due to cost and limited accredited certification infrastructure. This creates a large informal segment that bypasses standards, undercuts prices, and supplies lower-quality, noncertified products, particularly in windows and doors manufacturing. Since the domestic market accounts for the majority of manufacturing sales, informality distorts competitive dynamics, reducing incentives for formal firms to invest in quality upgrading, CE marking, and energy-efficient production, contributing to substandard building outcomes.

**Kosovo's building components manufacturers face an urgent compliance challenge that requires immediate action to avoid losing EU market access.** The EU's revised Construction Products Regulation (CPR 2024/3110) raises market access requirements beyond CE marking as its provisions take effect. Manufacturers must provide environmental product declarations (EPDs), introduce mandatory digital product passports with life cycle environmental data, and report sustainability metrics in the declaration of performance. Noncompliant products risk delays or rejection at EU borders. Compounding this, the EU's Carbon Border Adjustment Mechanism (CBAM) imposes financial obligations from 2026 for carbon-intensive products such as steel and aluminum—core inputs and outputs of Kosovo's building components sector. EU importers will need to purchase CBAM certificates based on verified embedded emissions, potentially increasing costs for Kosovar producers reliant on carbon-intensive electricity. While these regulations raise compliance barriers, they also create opportunities for firms that invest in EPD certification, energy efficiency, and emissions monitoring to access higher-value EU market segments.

**The government has initiated reforms relevant to several of the constraints discussed above.** Reforms include fast-track permitting, investment facilitation, industrial land and parks, skills development, and green transition. While effective implementation and institutional coordination will be essential to realizing the benefits of these reforms, further policy and regulatory measures are also needed to address specific barriers to private investment.

## 5.2 Constraints to Private Investment and Recommendations

**CONSTRAINT 1. Connecting to the power grid is costly, unpredictable, and offers no path to cost recovery for building components manufacturing firms.** For projects that are not included in network development plans, firms are required to self-finance grid connection infrastructure, including substations—before transferring these assets to KEDS, imposing disproportionate upfront costs with only limited and partial cost-recovery mechanisms that typically cover just the portion of capacity later used by other firms, leaving most investor-borne costs unreimbursed. In industrial parks, a legal impasse between KIESA and KEDS prevents firms from operationalizing grid connections.

**RECOMMENDATION 1A. ERO should make the following changes to the Distribution Network Connection Charging Methodology:**

— *Extend reimbursement to cover all eligible connection and reinforcement costs borne by investors* (not only the portion of capacity later used by third party firms and users), while keeping purely customer-specific assets as nonreimbursable customer contributions.

— *Obligate KEDS and KOSTT to reimburse the investor's eligible costs, updated for inflation, in*

*equal monthly installments over a defined period* (e.g., up to 12 months), starting from the year in which KEDS would otherwise have been expected to make the investment (and no later than a fixed outer limit, e.g., five years from application).

— *Allow projects not initially included in the approved network development plan to be incorporated into subsequent plan revisions within a defined timeframe, based on transparent fit-for-purpose criteria and prioritization.* For example, higher-priority projects could become reimbursable within two years of commissioning, while lower-priority projects could be reimbursed within three to four years, providing investors with a credible expectation of eventual compensation and improving project bankability.

— *Treat reimbursed amounts as part of KEDS and KOSTT's regulated asset base or allowable costs, to be recovered through tariffs under ERO's existing regulatory framework.* This will ensure that cost recovery follows the same principles as if KEDS had made the investment itself and avoids ad hoc cross-subsidies.

**RECOMMENDATION 1B. Issue a government decision establishing a standardized long-term infrastructure use-right agreement under Law No.** 08/L-125 on Public Property as the operative solution. Under this, KIESA (or the investor company) retains legal ownership of park-based transformers and related assets. KEDS is then granted a renewable right (e.g., 40 years or aligned with park establishment durations, or with KEDS license) under Law No. 08/L-208. This would enable KEDS to operate and maintain the infrastructure and dispatch electricity, including solar feed-in from park tenants. To implement the Decision, MoE should issue a Ministerial Administrative Instruction under Law No. 08/L-208 on Industrial and Technological Parks, standardizing the infrastructure use-right framework across all public industrial parks and defining KEDS's operational responsibilities.

**CONSTRAINT 2. Lengthy and unpredictable construction permitting delays investment in manufacturing plants.** Category II and III industrial construction permits require a seven-step sequential review across municipal Directorates of Urbanization, MESP, and MAFRD, with no coordination mechanism and no differentiated procedure for fully compliant, investment-ready projects. With discretionary approval timelines, firms face significant uncertainty in planning and executing fixed capital investments—undermining the building component sector's ability to expand production capacity in response to growing domestic and export demand.

**RECOMMENDATION 2. Establish a fast-track mechanism for processing Category II and III construction permit applications submitted by manufacturing firms.** Operationalized through a new Administrative Instruction under Law No. 04/L-110, the fast-track mechanism would introduce a structured parallel process—MESP, MAFRD, and the relevant municipal Directorate of Urbanization would conduct assessments

simultaneously within a single coordinated window. Eligibility would be defined by objective, published criteria: firm registration, a minimum investment threshold, clean cadastral title, verified consistency with the applicable Municipal Development Plan and Zoning Map, complete technical documentation, and completion of the land reclassification as a prerequisite. This fast-track window would function as a procedural overlay within the existing legal framework, preserving municipal authority and regulatory safeguards while materially improving predictability and reducing approval times for investment-ready projects.

**CONSTRAINT 3. Kosovo's spatial planning codes do not formally recognize an "industrial zone" land-use category, delaying project implementation.** Parcels designated by municipalities as industrial in practice retain an agricultural or nonagricultural classification in planning law, requiring a separate conversion procedure before construction permitting can even commence. This adds an indeterminate delay—often of several months—at the front end of an already protracted investment process.

**RECOMMENDATION 3. Amend the Law on Spatial Planning (Law No.** 04/L-174) and the Law on Agricultural Land (Law No. 02/L-26) to formally introduce an industrial zone land-use category. MESP, in collaboration with MAFRD, should (i) introduce a new category within the national spatial planning hierarchy—defining objective eligibility criteria including size thresholds, infrastructure proximity, and environmental screening requirements—to provide municipalities with a consistent application framework, and (ii) ensure a streamlined, time-bound reclassification procedure, subject to a binding decision clock (e.g., 45 days) for reclassifying municipally designated industrial parcels from agricultural status.

**CONSTRAINT 4. Kosovo's VET curricula are poorly aligned with industry needs, contributing to shortages of welders, machinists, CNC operators, and CAD and CAM designers.** Curricula are predominantly theoretical, leaving graduates without practical experience. Structured work-based learning is largely absent, with firms having little input into curriculum design and no mandatory internship requirements. This contributes to the supply-demand gap that forces firms into onboarding periods of up to 12 months and limits capacity utilization, increasing the average cost of labor and limiting firm investments.

**RECOMMENDATION 4A. Update VET curricula for welders, CNC operators, carpenters, and CAD and CAM specialists in the building components sector to reflect current occupational standards.** The Ministry of Education and Science (MES) should carry out this revision in consultation with the Sector Workforce Council and building components manufacturing firms, ensuring that training content is grounded in actual production needs and can be regularly updated as technology and sector requirements evolve.

**RECOMMENDATION 4B. Amend the Law on Vocational Education and Training (Law No. 04/L-058) to require a structured on-the-job training module for VET certification in building components manufacturing occupations.** Codesigned by VET schools and hosting firms, the module should define competency-based practical tasks, learning outcomes, and jointly assessed certification criteria tied directly to the occupational profiles most in demand, including sheet metal workers, machinists, joiners, and installers.

**CONSTRAINT 5. Working capital constraints driven by long payment cycles and limited access to receivables-based finance limit firms' capacity to reinvest in equipment, workforce, and production scale.** Most firms rely on overdrafts to procure inputs, bridge production cycles and smooth cash flows between input orders and customer payments. Although factoring and invoice discounting products exist in Kosovo, their uptake is limited—partly due to the lack of a standardized, interoperable, and widely adopted e-invoicing ecosystem—increasing verification costs, legal uncertainty, and fraud risks for financial institutions—thereby reducing the bankability of receivables as collateral.

**RECOMMENDATION 5. The MoF should introduce secondary legislation and implementation guidelines to facilitate structured e-invoicing under the existing legal framework (Tax Law, Law on Information Society, Law on Electronic Identification and Trust Services No.** 04/L-077, Law on Electronic Signatures, Law No. 03/L-154 on Property and Other Real Rights, and Law No. 04/L-136 on Registration of Pledge in Registry of Movable Property). The secondary legislation and guidelines should:

- *Integrate qualified electronic signatures and trust services into workflows of financial institutions.*
- *Establish clear standards for digital authentication, transmission, and storage* to ensure the authenticity, integrity, and security of e-invoices throughout their life cycle.
- *Recognize digitally verifiable receivables as eligible collateral.* Explicitly recognize digitally verifiable receivables, including e-invoices, as eligible collateral registrable in the collateral registry, thereby strengthening creditor rights, and fostering access to SME financing.

**CONSTRAINT 6. Weak and uneven enforcement of standards and certification requirements (e.g., pertaining to quality, employment, and safety) sustains a large informal segment, undercutting formal producers, and compressing margins.** Many domestic firms, particularly smaller producers, do not comply with CE marking, conformity assessment, and declaration of performance requirements, enabling a large informal segment to supply noncertified products at lower prices.

**RECOMMENDATION 6A. MIET should establish a voluntary, publicly accessible digital registry of certified building products and producers.** The registry should be searchable and verifiable by buyers, developers, financial institutions, and inspectors.

Establishing such a market-wide product transparency and compliance framework to differentiate certified producers creates market visibility and reputational differentiation for compliant firms. This incentivizes formalization by enabling buyers to preferentially source from certified suppliers.

**RECOMMENDATION 6B. Strengthen enforcement by introducing targeted, risk-based inspections.** Focus inspections on product categories in which informal production is most prevalent, particularly PVC windows and doors, and on firms with prior records of noncompliance. Apply graduated sanctions—from warnings and fines to withdrawal from the market—to deter repeat violations and reduce the circulation of noncertified products.

## 5.3 Risks to Be Managed

**Kosovo's construction boom relies heavily on diaspora remittances and FDI that are sensitive to economic conditions in host countries which are increasingly uncertain.** Housing prices in Pristina have increased rapidly and are misaligned with local income levels, suggesting potential for demand correction.[221] External competition intensifies pressure: for instance, Poland has emerged as the world's largest exporter of joinery (windows and doors) since 2022[222] (followed by Romania in the EU), combining EU-standard certification, advanced machinery, economies of scale, and access to EU structural funds which Kosovar SMEs struggle to match. Under a scenario in which domestic construction activity moderates and EU export markets remain contested by well-capitalized incumbents, the viability of investment in the sector becomes substantially more dependent on the speed and quality of the policy reforms discussed above—reinforcing their urgency.

## 5.4 Impact

**Scaling up the manufacturing of building components through the proposed reforms could catalyze substantial private investment, expand production capacity for domestic and export markets, and generate significant direct and indirect employment.** Private investment in new and expanded production facilities, machinery, and supporting infrastructure could reach between US$187 million and US$296 million (in real 2025 US dollars) by 2032. This investment could generate approximately 21,000 to 33,000 more and better jobs, including 8,000 to 12,000 direct jobs in manufacturing and related operations, and 13,000 to 21,000 indirect jobs in supply chains (such as inputs, logistics, and services).

Table 5.2

# Policy Recommendations to Remove Impediments to Private Investment Manufacturing of Building Components

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **1. High grid-connection costs and the lack of a cost-recovery mechanism discourage investment, while a legal impasse between the Kosovo Investment and Enterprise Support Agency (KIESA) and Kosovo Electricity Distribution and Supply (KEDS) delays connections in industrial parks.** | **1a.** Revise the distribution network connection charging methodology to ensure cost-reflective and time-bound reimbursement by KEDS or KOSTT for all eligible connection and reinforcement costs borne by investors.<br><br>**1b.** Issue a government decision establishing a standardized long-term infrastructure-use-right agreement under Law No. 08/L-125. | ***Lead:*** ERO<br><br>***Coordination:*** MoE, KEDS, KIESA |
| **2. Lengthy and unpredictable timelines for construction permits delay investment in manufacturing plants.** | **2.** Issue an administrative instruction under Law No. 04/L-110 establishing a fast-track mechanism for processing Category II and III construction applications. | ***Lead:*** MESP<br><br>***Coordination:*** MAFRD; municipalities |
| **3. Lack of an "industrial zone" land-use category in spatial planning legislation requires separate conversion of agricultural land before permitting.** | **3.** Amend Law No. 04/L-174 and Law No. 02/L-26 to formally introduce an industrial zone category and establish a time-bound, streamlined land-reclassification procedure. | ***Lead:*** MESP<br><br>***Coordination:*** MAFRD; municipalities |
| **4. Vocational education and training (VET) curricula are poorly aligned with industry needs, contributing to shortages of welders, machinists, computer numerical control (CNC) operators, and computer-aided design (CAD) and computer-aided manufacturing (CAM) specialists, while structured work-based learning is absent in VET programs.** | **4a.** Update VET curricula for welders, CNC operators, carpenters, and CAD and CAM specialists to reflect current occupational standards and competency-based learning frameworks.<br><br>**4b.** Amend Law No. 04/L-058 to require a structured on-the-job training module as a formal requirement for VET certification in building components manufacturing occupations. | ***Lead:*** MES<br><br>***Coordination:*** Ministry of Industry, Entrepreneurship and Trade (MIET), CVET, NQA, Sector Workforce Council |
| **5. Working capital constraints and limited receivables-based finance constrain firms' capacity to reinvest.** | **5.** Introduce secondary legislation and implementation guidelines to facilitate structured electronic invoicing, integrate qualified electronic signatures into financial sector workflows, establish explicit digital authentication standards for electronic invoices, and recognize digital receivables as eligible collateral. | ***Lead:*** MoF<br><br>***Coordination:*** MIET; Tax Administration; Central Bank |

*(Table continues next page)*

Table 5.2

## Policy Recommendations to Remove Impediments to Private Investment Manufacturing of Building Components *(continued)*

| Constraints | Recommendations | Responsible public sector entity |
|---|---|---|
| **6. A large informal segment, sustained by weak and uneven enforcement of standards and certification requirements, undercuts formal firms.** | **6a.** Establish a voluntary, publicly accessible digital registry of certified products.<br>**6b.** Strengthen enforcement by introducing targeted, risk-based inspections for prioritized product categories. | ***Lead:*** MIET<br>***Coordination:*** Kosovo Standardization Agency; municipalities |

# Appendixes

# Appendix A

# Estimates of Potential Increases in Private Investment and Employment

## A.1. Utility-Scale Solar and Wind Electricity Generation

### A.1.1 *Overview*

This report provides illustrative estimates of private investment in utility-scale solar PV, wind, and BESS; associated direct and indirect jobs; and carbon dioxide emissions under reform and no-reform scenarios based on implementation of the CPSD recommendations. Estimates are expressed in real 2026 US dollars, using an exchange rate of €0.85 per US$1, and investment costs reflect capital expenditure.

### A.1.2 *Definition of Scenarios*

The analysis relied on annual peak demand growth projections from the Kosovo Energy Strategy 2022–31 (1.3 percent for 2022–24) and projected capacity additions from Kosovo's draft National Energy and Climate Plan (NECP) 2025–30. Based on these projections, the analysis assumes the following capacity additions during 2022–35:

— *Solar PV:* 896 MW, including 600 MW targeted under the Energy Strategy by 2031.

— *Wind power:* 837 MW, including 600 MW targeted under the Energy Strategy by 2031.

— *BESS:* 178 MW, including 170 MW targeted under the Energy Strategy by 2031.

As of 2024, only 4 MW of solar PV capacity was added to Kosovo's electricity system.[223] By June 2026, a further 200 MW was in the pipeline—100 MW from the winner of Kosovo's first solar auction and 100 MW from KEK.[224] No wind capacity has been added since 2024; Kosovo's first wind auction seeks to procure 100 MW toward a 150 MW target, but no winner had been announced as of July 2026.[225] A bilateral donor has been supporting installation of a 170 MW battery energy storage system with two hours of storage.[226]

Based on these capacity additions, the following scenarios were constructed for 2026–35:

**No-reform scenario**

- *Solar PV:* Total additions are 204 MW—4 MW installed and 200 MW in the pipeline—equivalent to 34 percent of the Energy Strategy's 600 MW utility-scale target. The analysis applies the same 34 percent realization rate to the 296 MW projected for 2032–35, yielding 101 MW.
- *Wind power:* Total additions are assumed at 250 MW: 150 MW in the auction pipeline and a further 100 MW considered plausible based on prior development-partner interest. This represents 42 percent of the Energy Strategy's 600 MW target. Applying the same rate to the 237 MW projected for 2032–35 yields 99 MW.
- *BESS:* Additions include 170 MW in the pipeline, plus 8 MW projected in the NECP for 2032–35.

**Reform scenario**

- *Solar PV and wind:* Capacity additions are assumed to align with the 2026–35 projections in the NECP and Energy Strategy.
- *BESS:* Reflecting recent declines in lithium-ion battery costs, the reform scenario assumes that half of additional solar and wind projects include two-hour battery storage systems configured at 50 percent of the associated generation capacity.

### A.1.3 *Results: Capacity Additions and Investment*

Under the reform scenario, Kosovo would add 1,080 MW of solar and wind capacity—592 MW of solar PV and 488 MW of wind—and 270 MW of two-hour battery storage. At assumed costs of US$731 per kW for solar, US$1,102 per kW for wind, and US$131 per kWh for usable battery capacity,[227] this could unlock about US$1 billion in additional investment.

### A.1.4 *Methodology: Jobs*

Indirect jobs are estimated from higher electricity consumption,[228] using an elasticity of 0.034: a 1 percent increase in consumption is assumed to raise GDP by 0.034 percent. GDP growth is assumed to translate proportionally into labor income growth and is applied to baseline employment to estimate job creation.

In the reform scenario, replacing lignite generation with solar, wind, and BESS could increase electricity consumption through two channels:

- *Export-oriented firms:* Cleaner electricity could reduce CBAM exposure and help firms meet sustainability requirements. More than 8 percent of Kosovo's exports may be affected by CBAM,[229] while exports averaged 37 percent of GDP in 2021–23.[230] The analysis therefore assumes CBAM-exposed exports equal 3 percent of GDP. As solar and wind provide, on average, 16 percent of electricity generation during 2031–57, clean electricity is assumed to enable an additional 0.5 percent of GDP, or labor income.
- *Fewer outages:* Replacing aging lignite plants with solar, wind, and BESS could reduce outages and raise electricity consumption. The analysis assumes that current lignite refurbishment temporarily eliminates outages, but that outages resume from 2041 as plants deteriorate. Estimates use a value of lost load of US$1,823 per MWh of value added, a 2024 outage rate equivalent to 19 percent of gross electricity consumption, and 2024 employment data.[231]

The following assumptions were made to estimate the power generation and indirect employment creation:

- Power generation is modeled over 27 years (2028–54), assuming an economic life of 25 years for solar and wind assets, and 12.5 years for PV inverters and BESS.
- A solar PV capacity factor of 16 percent, direct current to alternating current derate factor of 84 percent, and annual degradation of 0.5 percent.[232]
- A wind capacity factor of 25 percent, inverter efficiency of 90 percent, and annual degradation of 0.6 percent.[233]
- Two-hour-BESS with round-trip efficiency of 85 percent, and degradation addressed through fixed operation and maintenance costs.[234]
- Total baseline employment of 414,913 in 2024.[235]

The following assumptions were made to calculate direct job creation:[236]

- *Solar photovoltaic:* 11 job-years per MW for operation and maintenance, 0.2 for project planning, 3 for system installation and construction, and 0.4 for system decommissioning.

— *Wind power:* 5 job-years per MW for operation and maintenance, 0.2 for project planning, 3 for system installation and grid connection, 1 for system decommissioning, and 0.1 for transport.

— Solar PV and wind plants are assumed to have an economic life of 25 years. Operation and maintenance jobs are treated as full-time jobs sustained up to 25 years.

### A.1.5 *Results: Jobs*

Under the reform scenario, increased electricity consumption could create an estimated 7,800 indirect jobs: 2,000 through export-sector growth and 5,800 through avoided outages. Solar and wind projects could also support about 500 long-term operations and maintenance jobs—equivalent to 13,500 job-years over up to 25 years—and 24,900 temporary job-years across project development, construction, grid connection, transport, and decommissioning.

### A.1.6 *Methodology and Results: Avoided Carbon Dioxide Emissions*

The analysis estimates avoided carbon dioxide emissions by replacing domestic lignite coal power plants using a carbon dioxide emission factor of 0.96 MT of carbon dioxide per MWh for domestic lignite coal power generation.[237] Applying the emission factor to total power generation over the 27-year period yields cumulative total avoided emissions of approximately 34 million MT of carbon dioxide or an annual average of about 1.3 million MT of carbon dioxide, which is equivalent to 24 percent of Kosovo's power sector carbon dioxide emissions in 2023.

## A.2. Business Services

### A.2.1 *Overview*

The analysis estimates potential private investment and job creation in Kosovo's business services sector from the implementation of the proposed reforms, projecting outcomes to 2031 under two scenarios using a top-down and bottom-up triangulation approaches. The scenarios are reform-contingent; absent reform, sector growth is expected to remain modest.

### A.2.2 *Investment and Employment Potential*

Implementation of proposed reforms could catalyze an estimated US$548–689 million in total private investment (constant 2025 US dollars), of which US$68–177 million

represents net incremental investment by 2031. This investment would support approximately 4,600–12,900 new direct jobs, representing a shift toward higher-productivity, higher-wage employment in software development, knowledge process outsourcing, cybersecurity, and AI-enabled services. At least 40 percent of these jobs are projected to be held by women. Beyond direct employment, the investment could support an additional 27,000 to 33,000 indirect jobs (11,000 to 14,000 in IT services and 16,000 to 19,000 in BPOs), arising from backward linkages to domestic supply chains and business support services, as well as induced employment effects driven by increased household spending in the local economy.

### A.2.3 *Scenario Definitions*

- *Modest scenario:* Kosovo reaches 12 workers per 1,000 population in IT services and 10 per 1,000 in BPO by 2031 (CAGR of approximately 3 percent and 2 percent, respectively). Assumes gradual reform implementation, moderate private investment, and continued labor market constraints including skills shortages and emigration.
- *Optimistic scenario:* Kosovo reaches 15 workers per 1,000 population in IT services and 12 per 1,000 in BPO by 2031 (CAGR of approximately 7 percent and 5 percent, respectively). Assumes rapid reform implementation, strong private sector response, sustained nearshoring demand, and successful positioning as a competitive ICT outsourcing destination.

### A.2.4 *Methodology*

Job creation is calculated by applying scenario-specific workforce intensity targets to Kosovo's projected 2031 population of 1.662 million. Private investment estimates are derived by converting projected incremental employment into sector revenues using regional benchmarks, and then applying industry-standard revenue-to-capital ratios. The analysis uses ratios of 1.5–2.5 for BPO operations and 2.5–4.0 for IT services, reflecting their different physical infrastructure requirements.

### A.2.5 *Key Caveats*

- Estimates capture direct sector effects only. Economy-wide multipliers of 1.5–3.0 suggest total employment impacts could be materially higher.
- Scenarios are sensitive to external demand conditions, nearshoring trends, and the evolving impact of AI on labor-intensive activities.

## A.3. Manufacturing of Building Components

The model estimates the investment impact of reform recommendations for Kosovo's building components manufacturing segment by projecting exports and implied total sales under three scenarios from 2024 to 2032: a baseline, reform case 1 (low reform), and reform case 2 (high reform). It uses 2024 exports of US$309.4 million, based on Kosovo Agency of Statistics trade data, as the starting point for all projections.

Export projections for building components are based on a structural convergence framework that anchors Kosovo's growth trajectory to an aspirational benchmark derived from comparable small open economies, rather than a fixed annual growth rate. The Baltic states—Estonia, Latvia, and Lithuania—are selected as aspirational peers given their experience as small transition economies that successfully deepened their manufacturing export base following EU accession in 2004. Their average building components export intensity—measured as exports across the 37 relevant HS codes as a share of GDP—in 2015, approximately a decade after accession and following a sustained period of structural reform and investment, is used as the long-run benchmark at 8.83 percent of GDP. Kosovo's current export intensity in the same segment stands at 2.76 percent of GDP, implying a gap of 6.07 percentage points.

Under the baseline scenario, Kosovo's building components exports are assumed to grow in line with GDP, holding the intensity ratio constant at 2.76 percent throughout the projection horizon. This reflects the assumption that, absent reform, the sector maintains its current structural weight in the economy even as overall output expands. Reform scenarios are modeled as a gradual, linear convergence toward the Baltic benchmark, with the pace calibrated conservatively to reflect the time it realistically takes for structural transformation to materialize. Under reform case 1 (low reform), Kosovo closes 20 percent of the gap by 2032, reaching an export intensity of 3.97 percent of GDP. Under reform case 2 (high reform), 33 percent of the gap is closed, reaching 4.78 percent of GDP by 2032, with full convergence to the Baltic benchmark not expected until 2038–40. In both cases, the intensity ratio rises linearly from the 2024 starting point to the 2032 endpoint. The reform-attributable export increment in each year is calculated as the difference between the scenario and baseline export values, derived by applying the respective intensity ratios to IMF World Economic Outlook GDP projections for Kosovo.

Exports are translated into implied total sales using an export-to-sales ratio of 27.5 percent, which is the midpoint of the 25 to 30 percent range observed in the most relevant manufacturing subsectors—furniture, rubber and plastics, and base metals—based on firm-level VAT data. This is considered more appropriate than the lower economy-wide manufacturing average, which would understate the export intensity of the segment.

The model then calculates the annual difference in sales between each reform scenario and the baseline. To reflect the time needed for reforms to be implemented and produce measurable effects, only the cumulative sales differential over 2028–32 is used to estimate investment impact. This results in cumulative incremental sales of US$2.6 billion under reform case 1 and US$5.9 billion under reform case 2.

Investment impact is estimated by applying a central investment-to-output ratio of 6 percent to these cumulative sales gains, with a sensitivity range of 4–10 percent to reflect uncertainty. This central estimate is informed by Kosovo's manufacturing value-added-to-investment ratio and adjusted using an assumed value-added-to-output ratio of about 25 percent. On this basis, the reforms are estimated to unlock approximately US$187 million in investment under reform case 1 and US$296 million under reform case 2 over 2028–32. These figures are indicative US-dollar estimates and represent potential investment unlocked by reforms rather than guaranteed outcomes.

The employment impact estimates are derived using a value-added multiplier approach benchmarked against five comparable peer countries: Albania (30 percent weight), North Macedonia (30 percent), Bosnia and Herzegovina (20 percent), Moldova (12 percent), and Armenia (8 percent). The weights reflect the degree of comparability to Kosovo following the World Bank Group Kosovo Systematic Country Diagnostic Update and Kosovo Country Economic Memorandum: Albania and North Macedonia receive the highest weights because they are identified as both structural and regional peers, while Bosnia and Herzegovina is included for its regional and institutional relevance, and Armenia and Moldova receive lower weights as structural—but not Western Balkan—comparators. The methodology first converts projected cumulative investments (US$296 million in the high case, US$187 million in the low case) into additional sectoral output using country-specific investment-to-sales ratios sourced from UNIDO's social accounting matrix data, yielding a weighted average ratio of approximately 0.54.

Value-added multipliers capturing direct and indirect effects are obtained from GTAP 11b input-output tables for the "Manufactures nec" sector in each peer country (ranging from 0.81 to 1.08). Employment impacts are then calculated by applying the ratio of additional value added to national GDP, scaled by each country's industrial employment base. The final estimate represents a weighted average across all peer countries, reflecting the assumption that Kosovo's manufacturing sector productivity and employment elasticity will approximate the average characteristics of its regional peers. The model estimates between 20,992 (low reform) and 33,200 (high reform) direct and indirect jobs created through investments in building components manufacturing over the 2028–32 impact window.

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123. Between 2020 and 2024, the European demand for IT outsourcing (ITO) (including domestic, nearshore, and offshore outsourcing) grew from around €18.8 billion to €28.4 billion in terms of contracts per year, projected to continue growing, reaching €237 billion by 2030 (CBI, 2026).
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147. E-Kosova is the official state portal that provides public services electronically, enabling citizens to access services that are traditionally offered in government offices and service counters.
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162. Directive (EU) 2022/2555 on measures for a high common level of cybersecurity across the Union (NIS2) replaced the original NIS Directive (2016/1148) and entered into force in January 2023, with a transposition deadline of October 2024 for EU member states. NIS2 significantly expands the scope of covered sectors and entities, raises baseline requirements for risk management and incident reporting, and introduces supply chain security obligations.
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164. Ibid. Most continuing VET (CVET) programs in ICT are not regulated by the National Qualification Authority (NQA) or the Ministry of Education Science Technology and Innovation. The duality of the system between formal initial VET and nonregulated CVET limits the portability of qualifications and progression in training (Garrote Sanchez, et al. 2026).
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166. Garrote Sanchez, D., Testaverde, M., Dowe, M., Lal, M., and Zavalina, P. (2026). Understanding Training Pathways into in-Demand IT Technician Occupations in Kosovo. Washington, DC: World Bank Group. http://documents.worldbank.org/curated/en/099021926120513130.
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168. Building on the ENS methodology in Article 19.
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These are important medium- to long-term elements of Kosovo's broader industrial-policy agenda. Consistent with CPSD methodology, however, this diagnostic focuses on a limited set of binding constraints and feasible near-term actions identified through the sector deep dive; it does not seek to provide a comprehensive sector-development strategy for manufacturing.

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182. Caritas, 2025; USAID (2021) Kosovo Energy Security of Supply - JO 27: Assessment of PV Generators in Kosovo.
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184. World Bank. 2025. Western Balkans Regular Economic Report No. 28 Fall 2025 (Caritas, 2025; Rrecaj and Koecker, 2019; USAID, 2021)
185. Kosovo's net energy cost advantage remains despite high coping costs linked to grid reliability issues (e.g., generator backup investment, equipment damage from voltage fluctuations) which erode a significant share of Kosovo's headline tariff advantage.
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# Abbreviations and Acronyms

| | |
|---|---|
| AIB | Association of Issuing Bodies |
| ALPEX | Albanian Power Exchange |
| BESS | Battery energy storage systems |
| BPO | business process outsourcing |
| CBAM | Carbon Border Adjustment Mechanism |
| CBK | Central Bank of Kosovo |
| CCDR | Country Climate and Development Report |
| CEFTA | Central European Free Trade Agreement |
| CEM | Country Economic Memorandum |
| CfD | contract for difference |
| CPSD | Country Private Sector Diagnostic |
| CRM | Common Regional Market |
| DACH | Germany, Austria, and Switzerland |
| EBRD | European Bank for Reconstruction and Development |
| ECA | Europe and Central Asia |
| EMIR | European Market Infrastructure Regulation |
| ERO | Energy Regulatory Office |
| FDI | foreign direct investment |
| FiT | feed-in tariff |
| GDP | gross domestic product |
| GDPR | General Data Protection Regulation |
| GO | guarantee of origin |
| HHI | Herfindahl-Hirschman Index |
| IPP | independent power producer |
| ISO | International Organization for Standardization |
| KCGF | Kosovo Credit Guarantee Fund |
| KEDS | Kosovo Electricity Distribution Services |
| KEK | Korporata Energjetike e Kosovës |
| KESCO | Kompania për Furnizim me Energji Elektrike e Kosovës |
| KIESA | Kosovo Investment and Enterprise Support Agency |
| KOSTT | Kosova Operatori i Sistemit, Transmisionit dhe Tregut |
| MCC | Millennium Challenge Corporation |
| MEPSI | Ministry of Environment, Spatial Planning and Infrastructure |
| MiFID | Markets in Financial Instruments Directive |
| MoE | Ministry of Economy |
| MSME | micro, small, and medium enterprises |
| MT | metric ton |
| MTU | market time unit |
| NIS2 | Network and Information Security Directive 2 |
| NPL | nonperforming loan |
| OECD | Organisation for Economic Co-operation and Development |
| OPPA | Office for Public Property Administration |
| PPA | power purchase agreement |
| RGF | Reform and Growth Facility |
| SAA | Stabilization and Association Agreement |
| SCADA | Supervisory Control and Data Acquisition |
| SCD | Streamlined Country Diagnostic |
| SEPA | Single Euro Payments Area |
| SOE | state-owned enterprise |
| STIKK | The Kosovo Association of Information and Communication Technology |
| TPP | thermal power plant |
| TSO | transmission system operator |
| TUOS | transmission use of system |
| UNCTAD | United Nations Conference on Trade and Development |
| UPS | uninterruptible power supply |
| VET | vocational education and training |
| VRE | variable renewable energy |

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MIGA Multilateral Investment Guarantee Agency

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