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

Kosovo:

Country Private Sector Diagnostic

EXECUTIVE SUMMARY

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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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.

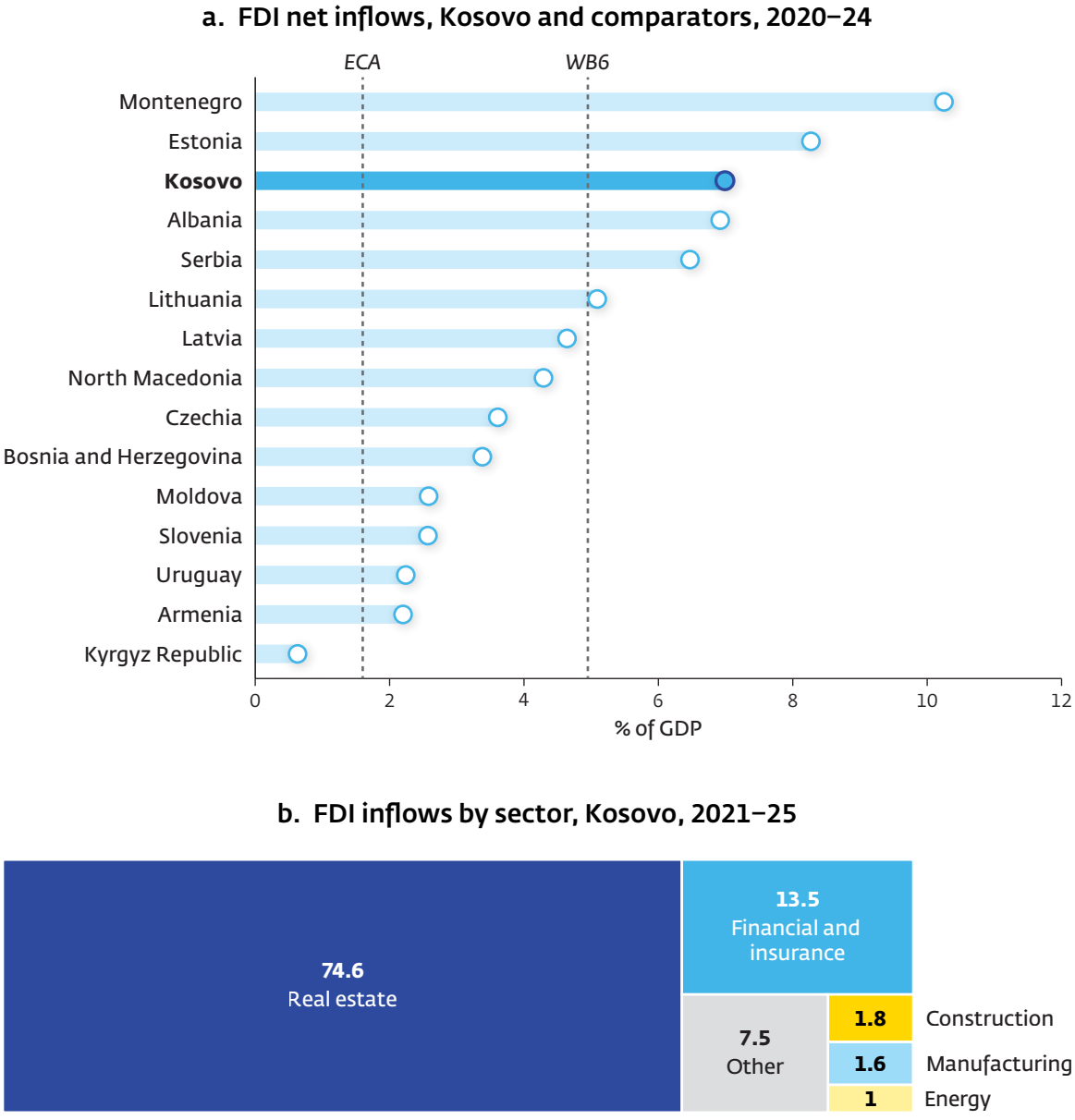
Kosovo has several structural advantages that are potentially attractive to private investors. Its location at the crossroads of regional infrastructure corridors linking Western Europe with the Balkans, combined with duty-free access to the EU market and its ambition to become an EU member state, positions 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



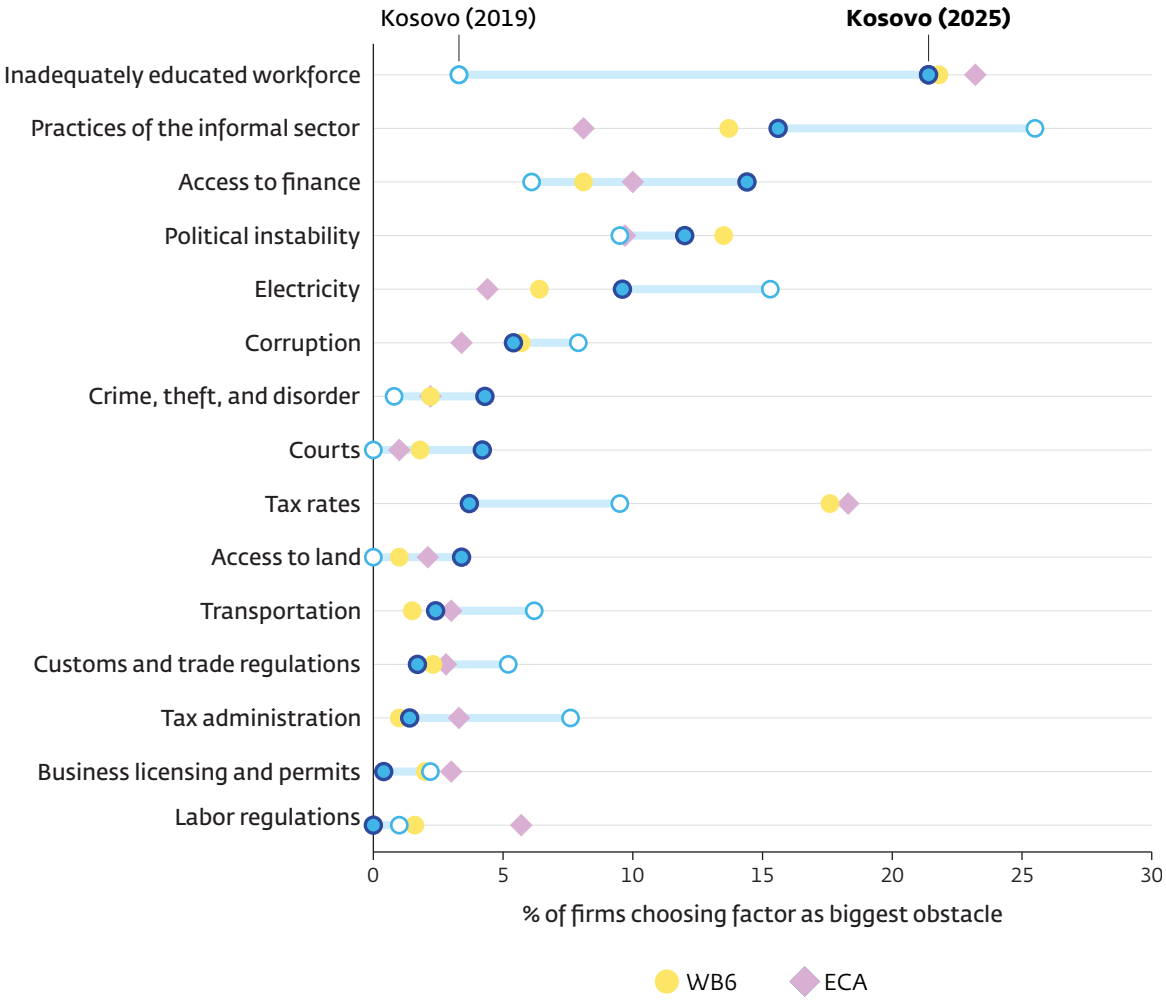
Source: Based on data from CBK and UNCTAD.
Note: FDI = foreign direct investment; WB6 = Western Balkans 6.

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 60–90-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 • Large-scale investment is needed to strengthen energy security and support decarbonization. • 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. **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. **7b.** Procure BESS competitively through auctions with long-term PPAs. **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 • The sector is growing rapidly and generates well-paid jobs, especially for women and youth. • 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. **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. **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: a. Expand Kosovo Credit Guarantee Fund guarantee coverage to asset-light business services exporters; b. Broaden the coverage of the Electronic Pledge Registry; c. Issue guidance on the valuation of intangible assets, drawing on established international frameworks; and 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. **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 • Scope to leverage Kosovo's rapidly growing domestic construction market. • 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. **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. **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. **6b.** Strengthen enforcement by introducing targeted, risk-based inspections for prioritized product categories.

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IFC International Finance Corporation

MIGA Multilateral Investment Guarantee Agency

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