
The Recovery is Green: Leveraging Energy Efficiency for the Private Sector

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The Recovery is Green: Leveraging Energy Efficiency for the Private Sector

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1. Introduction

The COVID-19 pandemic has had a positive impact on the environment, with lower CO₂ emissions due to reduced energy use on a global level. However, as a result of governmental decisions on social distancing, it has come with a great price on the building blocks of our society: social and economic activity - through the shutting down of a number of businesses - micro to medium, and bringing to a halt most non-essential activities. Despite financial support from the Kosovo Government through its Emergency Fiscal Package (EFP) and its programs for Economic Recovery, stimulating the economy remains a challenge and serves as a reminder on improving the investment environment sooner rather than later.

With large past and ongoing investments on energy efficiency (EE) measures in the public sector through bilateral donors, International Financial Institutions (IFIs), and the Government of Kosovo (GoK), the COVID-19 times have proved that the business sector, formal and informal, plays a key role within our economy. Hence, it is precisely the latter that is in need of Governmental support, especially through investments with relatively short returns on investment (ROI), such as EE measures. Because micro-, small, and medium enterprises (MSMEs) represent a large portion of the private sector in the country, their contributions to social and economic development are not negligible, and improving their energy performance directly benefits the MSMEs as well as the society.¹ As such, they serve as an important tool for achieving Sustainable Development Goals (SDGs), namely sustainable economic growth, affordable and clean energy, innovation, and responsible consumption, among others.

The purpose of this policy brief is to propose a scheme that would be endorsed by GoK, IFIs, and KEEF alike in an attempt to boost the economy in the short to medium term, while making a greater impact on the environment and the society with generational implications. As such, it provides an overview of governmental support to the sector so far and delves into a description of the sector, possible EE intervention points, and recommendations on functionalizing such a scheme as part of any economic recovery program to be undertaken during 2021.

2. COVID-19 Stimulus Packages in Kosovo

As almost all other countries around the world were challenged by the COVID-19 pandemic, the reaction was a restriction of social activity, in an attempt to follow the World Health Organization recommendations on social distancing, which resulted in a sharp decrease of economic activity. Almost immediately, most countries stepped in and financially supported those that were most affected by the different measures. In Kosovo, such measures were taken several times during 2020

¹ Ke Liu, Clark, Policy Brief: The Role of Micro-Small and Medium Enterprises in Achieving SDGs, available at https://sdgs.un.org/sites/default/files/2020-07/Policy_Brief_MSMEs_and_SDGs.pdf (accessed in November, 2020)

and they usually followed the imposition of restrictions, such as curfews and shorter business hours, to contain the spread of the virus within the country. In March, April and May, Kosovo had the first such response, conveyed to the public only shortly before entering into force, bringing the entire economy to a standstill

COVID-19 emergency response has been dependent on a few factors, one of them being the Consolidated Kosovo Budget. The budget cycle for Kosovo dictates that an approval for a fiscal year (which is the same as a calendar year) must be made in the previous year. As a result, planning in advance in 2019 for the following year with a focus on the health sector did not take place. Although elections were held in October 2019, the Budget for 2020 was only prepared in February 2020 and voted in the Parliament and published in the official gazette on March 19, 2020, which did not account at all for financing of the response to the pandemic. Table 1 below exemplifies the difference in budget planning between 2019 and 2021 for the Ministry of Health and the University and Clinical Service of Kosovo as key institutions throughout the pandemic.

As the pandemic started spreading throughout Kosovo, with the first cases appearing later in the week that the Budget for 2020 was approved, the Ministry of Health started drawing plans to estimate the cost of the preparedness of the health care system. Before that, the Ministry of Health had similar amounts of financing for 2019 and 2020 with the exemptions of increases in order to pay higher wages, which was supposed to be carried out with Public Administration Reform (PAR) and the governmental restructuring that led to the merging of some ministries. Social Policies and Services (SPS) - a program in the Ministry of Labor and Social Welfare - was added to the previous MoH in the 2020 Budget and this explains the notable increase. In essence, the real increase happened in the 2020 Budget Review when the SPS program was removed from MoH and the budget was retained.

<i>Public Health Expenditure</i>					
	Ministry of Health	Investment Clause	University Hospital and Clinical Service of Kosovo	Primary Care	Total
2019	39,863,808	0	121,171,263	53,400,631	214,435,702
2020	50,855,125	2,000,000	118,714,402	61,688,512	233,258,039
2020 Review	51,076,501	31,600,000	117,086,364	61,688,512	261,451,377
2021	71,683,493	25,499,150	104,236,139	62,525,127	263,943,909

Table 1: Budget Planning for Public Health (source: Budgets for fiscal years 2019-2021)

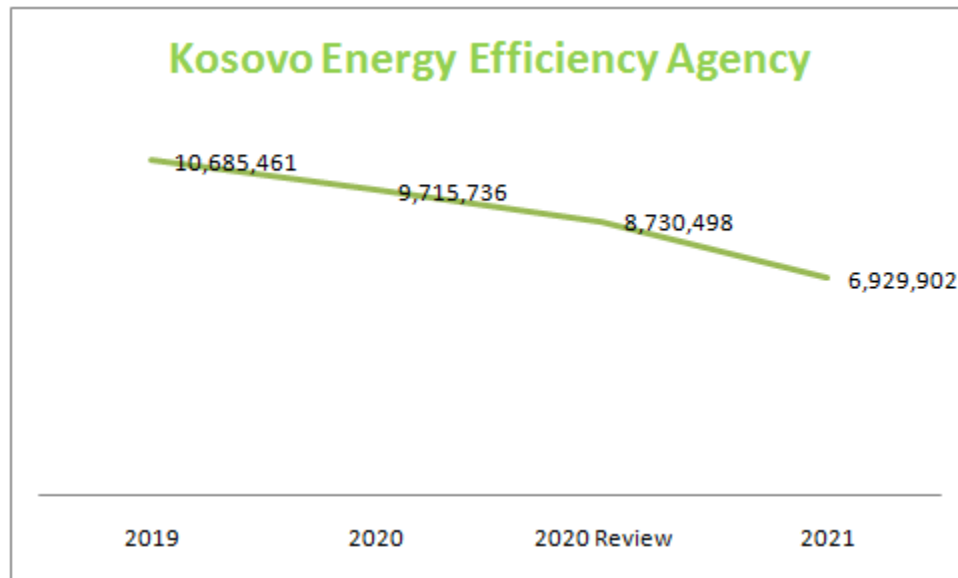
Similarly, with regard to budgeting of the primary health care, which falls under the responsibility of the municipalities, there was a slight increase of 8.3 million euros during the Grant Committee meeting in April 2019 which made the health grant higher to accommodate the increase of salaries.² It is noticeable that the pandemic led to a significant shift to financing capital expenditures from IFIs as an alternative to the previous state revenue financing. The overall public spending in health increased by 0.7% of GDP on an annual basis, including the funding for purchasing vaccines. This goes to show that most of the packages in content are dealing much more with the economy and state functions as opposed to major increases in health spending.

The capital investments in 2020 were most significantly affected as there was a freeze in the implementation of projects during the second quarter of 2020. Since the annual financial report for 2020 has not been published yet, a source of information is the Nine Month Financial Report for 2020 which shows that only a quarter of the budgeted annual capital expenditures were executed.³ Looking at historical data, this is at least a fifth less than in the previous year, which by the end of the year should come up to 110 million euros or about 1.5 percent of GDP. The figures show that by the end of September, almost 60 percent of the 204 million spent was for the transport sector and expropriation, whereas about 18.5 percent were spent on schools, hospitals and other public buildings. Unfortunately, for the latter category there is a lack of data on the amount spent on retrofitting and whether the existing public investment is implementing the latest efficiency standards.

Delving into energy efficiency expenditures, it is noticeable that the energy sector follows an opposite trend from public health in the budget planning process. As the graph below shows, spending in the Kosovo Energy Efficiency Agency has rapidly declined as the World Bank financed project for central public building retrofits with the Ministry of Economy and Environment is approaching its completion. It is important to note that the budget presented on the graph amounts to only the GoK loan from the World Bank, the expenses for the salaries of KEEA, and the subsidizing of the Kosovo Energy Efficiency Fund. In addition, it is worth mentioning the fact that there are some municipal budgeted funds for the same period, but they are negligible as they are cumulatively less than 100,000 euros per year.

² Grant Committee Minutes dated 23 April 2019 <https://mf.rks-gov.net/page.aspx?id=1,37> (accessed in January, 2021)

³ The Ministry of Finance (2021), The 2020 Nine Month Financial Report, <https://mf.rks-gov.net/desk/inc/media/86D0FC01-2D13-4A37-A2B8-57A88CE22E5D.pdf> (accessed in January, 2021)



Graph 1: KEEA Budget

According to the information published in consecutive budgets, what is not reflected and will probably occur in the mid-term is the planned EE investments in the public sector by KfW, with the support of a German Government grant and Western Balkans Investment Framework (WBIF) grant, which includes public buildings in four municipalities. This was previously included in the budgets of these municipalities, but with KEEA implementation capacities the project has faced significant delays. The entire project, which started preparation in 2013 is 5 million euros in EE measures and so far there has not been a single investment carried out.

2.1. Emergency Fiscal Package

On the 30th of March 2020, 11 days after Budget for 2020 was published, GoK approved the Emergency Fiscal Package (hereinafter referred to as the EFP) approximately a month after the first reported cases of COVID-19 in the country.⁴ The main goal of the 180 million allocated by EFP was to address the impacts of the pandemic on the economy as well as on the most vulnerable groups within the society through 15 different measures - from its content and implementation we can assess that it was a rescue package. The current data available in the spending of the EFP are only available up to 30th of September 2020. Out of 143.4 million spent, 22.3 went on wages and allowances for public employees, 110.5 for subsidies and transfers, and 10.6 for goods and services to support primarily Personal Protection Equipment (PPE) purchases.⁵ More than half or 75.1 million of the total amount of EFP (another way of looking at it is 1 percent of GDP) was spent on subsidizing/rescuing private and public enterprises. More than 31 million or almost 0.5 percent of GDP went on social

⁴ The Prime Minister's Office, (2020), Approval of Emergency Fiscal Package, Pristina, available at <https://krveministri-ks.net/en/approval-of-emergency-fiscal-package/> (accessed in November, 2020)

⁵ The Ministry of Finance (2021), The 2020 Nine Month Financial Report, <https://mf.rks-gov.net/desk/inc/media/86D0FC01-2D13-4A37-A2B8-57A88CE22E5D.pdf> (accessed in January, 2021)

assistance and basic pension double payments. From these data we can note that none of this expenditure went to support capital investments.

Health sector aside, continuous governmental decisions on public health protection, similar to initiatives in the region and beyond, affected MSMEs and gastronomy businesses to a significant extent. As a result, the Package provided the following support to businesses:

Emergency Fiscal Package

Support to businesses

Measure 1.3

Measure 1.3.1.: 170 Euros per employee for April and May, as a support to cover salary expenditures to employers

Measure 1.3.2.: Subsidized rent up to 50% of the rent value for small and medium enterprises, valid for the months of April and May

Measure 1.3.3.: Pension contributions paid for by the Government on behalf of the employers, valid for April and May

Measure 1.7.1.: 100 Euros per employee in grocery stores, bakeries, and pharmacies for April and May

Measure 1.7

Measure 1.10

Measure 1.10.1.: Financial liquidity for micro-enterprises and the self-employed through the Kosovo Credit Guarantee Fund (KCGF) in the amount of 10,000 Euros for 24 months

Measure 1.10.2.: Financial liquidity for companies that offer public services and that can demonstrate the need to cover emergency liquidity

Measure 1.14.: 130 Euros for two months for businesses that register employees with at least one year employment contract

Measure 1.14

The new Government passed a Law on Budget Review for 2020 which was published on August 7, 2020.⁶ The approval of the Budget Review by the governmental cabinet enabled the completion of the financing for almost half of the initially estimated cost of the EFP, in the amount of approximately 180 million euros. The EFP was of a rescue nature and made little impact in shifting the economy towards any transition and, perhaps, only the enabling of access to financing might have resulted in new initiatives by the private sector. Having in mind that the implementation depended on the legislative changes that happened only later, there was no implementation of measure 10.1 until December 2020. The effects of the intervention of Kosovo Credit Guarantee Fund in EE measures investment would have to be examined later during 2021.

It must be emphasized that the implementation of EFP was only possible after Budget Review. This review allowed for the first time a fund within the budget that would allow higher-than-usual transferring within the state budget through Government decisions. It is a novel mechanism, considered risky for public finances in the future, that extends further than ever the balance of powers enshrined in the Constitution. Regardless of legal and other considerations, this mechanism paved the way for the allocation of public resources in the Economic Recovery packages that the Government could implement in the future.

2.2. Economic Recovery Law and Program (on-going)

In mid-July 2020, GoK started the consultation process for the proposed Law on Economic Recovery (LER).⁷ The approval of the law in the Assembly took 5 months, which is a lengthy period if a country is to successfully stimulate the economy. This delay came as the Governing parties effectively lost the majority in the Assembly and the reluctance of the Government to rapidly conclude negotiations with the opposition. Qualitatively, LER changed significantly with provisions that mandate the transfer of funds to businesses and workers and, like the previous package, focusing more on rescue rather than recovery. An amendment that was welcomed by the general public was that it changed the Law on pensions or Trust, allowing citizens to withdraw 10 percent of their savings. With regards to ease of access to finance, LER had provisions for extending the products and coverage of the Kosovo Credit Guarantee Fund (KCGF).

Measures that affect the energy sector

Not primarily its goal, LER touched upon a couple of other additional measures which will leave a mark in the energy sector. A measure that includes the freezing royalties for mining companies, which

⁶ Assembly of the Republic of Kosovo, (2020), Law No. 07/L-014 on Amending and Supplementing the Law No. 07/L-001 on Budget Appropriations for the Budget of Republic of Kosovo for year 2020, Pristina: Official Gazette, available at <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=30422> (accessed in December, 2020)

⁷ The Prime Minister's Office, (2020), Draft Law on Economic Recovery - COVID-19, Pristina, available at <https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40899> (accessed in December, 2020)

includes the state owned electric generating company KEK, promotes the “brown” economy. The Law on Economic recovery not only does not stimulate the transition to a green or circular economy, but stimulates the fossil-fuel industry. Article 14 amends the Law on Mines and Minerals “exempted from paying the mining royalty from 1 January 2021 till 31 May 2021 all entities that are obliged to pay this royalty.”⁸ Similarly businesses that benefit from feed-in tariffs for the said period will have their tariffs paid for by the public sector. Though there might be attempts to present this as a support to the green economy, the only beneficiary will be the owners of the recent Renewable Energy Sources (RES) with feed in tariffs. It is unclear how these two policies will affect the energy tariff structure in Kosovo, if the customers were already being charged and the cost of energy production is lowered on the one hand and on the other energy from RES with a significantly higher feed-in tariff is entirely subsidized. Moreover, these two amendments came at the last minute from the coalition partner rather than the opposition parties, raised during one of the Assembly’s extraordinary sessions.⁹ The effect that these policies should have is a lower production cost which will further reduce the already lowest prices of electricity in Southeast Europe. The return on investment of the EE measures will be further delayed and Kosovo’s position will be downgraded as an economy deeply dependent on fossil fuels.

	Mining Royalties	Subsidies for RES	Net Effect
2019	33,000,000	0	33,000,000
2020	33,000,000	0	33,000,000
2020 Review	30,000,000	0	30,000,000
2021	15,700,000	16,000,000	-300,000

Table 2: Net Effect of the energy measures of LER in euros: Mining Royalties and RES Subsidies 2019-2021 (source: Budgets for fiscal years 2019-2021)

One certain impact of these policies is the negative impact on the Budget by almost 0.5 percent of the GDP. In the Budget Review 2020 the royalties were expected to be 30 million euros,¹⁰ slightly more than two thirds of which are paid by KEK. If they are exempted from payment during January 1 until

⁸ Assembly of the Republic of Kosovo, (2020), Law No. 07/L-016 on Economic Recovery - COVID-19, Pristina: Official Gazette, available at <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=35478> (accessed in December, 2020)

⁹ Assembly of the Republic of Kosovo, (2020), Transcript of the Extraordinary Meeting of the Assembly of the Republic of Kosovo, Pristina, available at http://www.kuvendikosoves.org/Uploads/Data/SessionFiles/2020_12_04_ts_Seanca_3tX3UaLLU5.pdf (accessed in December, 2020)

¹⁰ Assembly of the Republic of Kosovo, (2020), Law No. 07/L-014 on Amending and Supplementing the Law No. 07/L-001 on Budget Appropriations for the Budget of Republic of Kosovo for year 2020, Pristina: Official Gazette, available at <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=30422> (accessed in December, 2020)

May 31 of 2021, they will have additional 8-10 million euros less in expenditures. Normally, there should be a revision of the tariff downwards which makes the investment in EE even less profitable. We have to keep in mind that we already do not pay the full price for the brown energy since we do not count the pollution in the price. Under these circumstances there is no clear indication on what will be achieved with the price reduction of the electricity when this amendment was introduced into the LER. Since the new Government will come to power with these policies taking effect, it should instruct KEK on how to proceed with the five month unpaid royalties. Otherwise, in April the Energy Regulatory Office should act in lowering the tariffs, resulting in devastating effects on investments in EE measures, especially when considering that constant changes in the energy prices may provoke public unrest.

On the global stage, leading macroeconomists and several studies have proven that the returns on efficiency and renewables are the highest compared to fossil fuels. In more detail, it is noted that “clean energy infrastructure is also helpfully very labor intensive in the early stages” and that “one model suggests that every \$1m in spending generates 7.49 full-time jobs in renewables infrastructure, 7.72 in energy efficiency, but only 2.65 in fossil fuels.”¹¹ With LER we are clearly trying to become more dependent on brown energy and moving further away from pricing brown energy in the same light that the EU intends to. Where we should have created a mechanism to assist those that cannot afford the right price of this energy, we have lowered the production cost of brown energy.

A law such as LER is a law that amends many other specific laws that deal with institutions. This practice of changing many specific laws with one law is a practice that in the past was discouraged by the Constitutional Court.¹² It might be very well the case that there are court challenges to the Law on Economic Recovery because of the nature of the law that changes many other specific laws and hence cause problems to implementing the recovery Program.

After the publication of the Law on Budget Review for 2020 on August 13, 2020, GoK approved the Economic Recovery Package as the number of COVID-19 cases were rising during summer.¹³ The ERP consisted of 15 measures that included part of the gap of the financing for the Emergency Fiscal Package and additional measures to finance the support of businesses. Many of the measures were either a reiteration of budget allocations or appropriation of funds for which the financing was supposed to come from IFIs. The internal approval process of the IFIs has its own procedure which should be taken into consideration. A blatant disregard for these procedures, would lead to a failure in securing financing for the measures regardless of a pompous decision, leading to an ERP that could not deliver on the many measures that it prescribed. One such example is measure 1A where the

¹¹ Hepburn C., O’Callaghan B., Stern N., Stiglitz J., Zenghelis D., (2020), Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change? *Oxford Review of Economic Policy*, Volume 36, Issue Supplement_1, 2020, Pages S359–S381, available at https://academic.oup.com/oxrep/article/36/Supplement_1/S359/5832003 (accessed in December, 2020)

¹² Constitutional Court Case No. KO 97/12 https://gjk-ks.org/wp-content/uploads/vendimet/KO97_12_AGJ_ANG.pdf (accessed on January, 2021)

¹³ The Prime Minister’s Office, (2020), Government Decision No. 01/23, Pristina, available at <https://kryeministri-ks.net/wp-content/uploads/2020/08/Vendim-nga-mbledhja-e-23-t%C3%AB-e-Qeveris%C3%AB.pdf> (accessed in December, 2020)

government is supposed to increase the KCGF capital by an additional 60 million. At the same time the GoK had an agreement with the World Bank for 21 million euro recapitalization, but no prospect of securing 40 million from EIB considering their internal procedures, nor budget allocation to finance it from revenues. Other measures such as 1C, 1D and 5B include support to reprogramming of loans to the private sector, for which there is no legal infrastructure to implement and to date there is no implementation of any of the elaborate schemes. Most other measures that increased existing expenditure programs had to be amended as most of the measures could not be implemented without further guidance over implementing entities or the criteria and goal of the policy intentions. Moreover, there are no specific measures that tackle EE measures or the greening of the economy. It will fall onto the upcoming Government to revise the measures and add measures that purposefully target the transition to a green economy with heavy investments into the EE measures in the economy. More specifically, the ERP provides the following support to businesses:

Economic Recovery Program

Support to businesses

Measure 1

Measure 1: Facilitating access to loans for private enterprises, to finance investment projects and business continuity

Measure 1A & 1B: Increasing the coverage of new loans through the Kosovo Credit Guarantee Fund and coverage of KCGF fee cost

Measure 1C: Rescheduling the existing bank loans, where the cost of rescheduling is borne by the Government

Measure 1D: Subsidizing interest rates for certain sectors based on a strategic plan prepared by relevant stakeholders

Measure 2: Easing the tax burden on businesses, to improve their short-term liquidity

Measure 2A through 2G: Postponing payment of taxes based on business needs; Covering the five per cent (5%) of the pension contribution that the business pays to employees; Providing Tax breaks for firms for certain sectors; Providing exemptions for prepayments of tax liabilities; Exempting businesses from tax penalties for delays in payment of taxes; opportunity to reschedule previous tax debts; Subsidizing fifty per cent (50%) of rental expenses for businesses

Measure 2

Measure 3

Measure 3: Increasing employment, in particular the employment of specific groups of workers with lower probability of getting employment

Measure 3A & 3B: Subsidizing the salary for employees in businesses affected by the pandemic for March and April (170 Euros); Subsidizing the salary for new employees hired by businesses based on a plan that identifies the sectors and categories of employees most in need

Measure 3C & 3D: Providing professional support for businesses to operate in times of pandemic; Supporting the manufacturing and service businesses with equipment and machinery for process automation

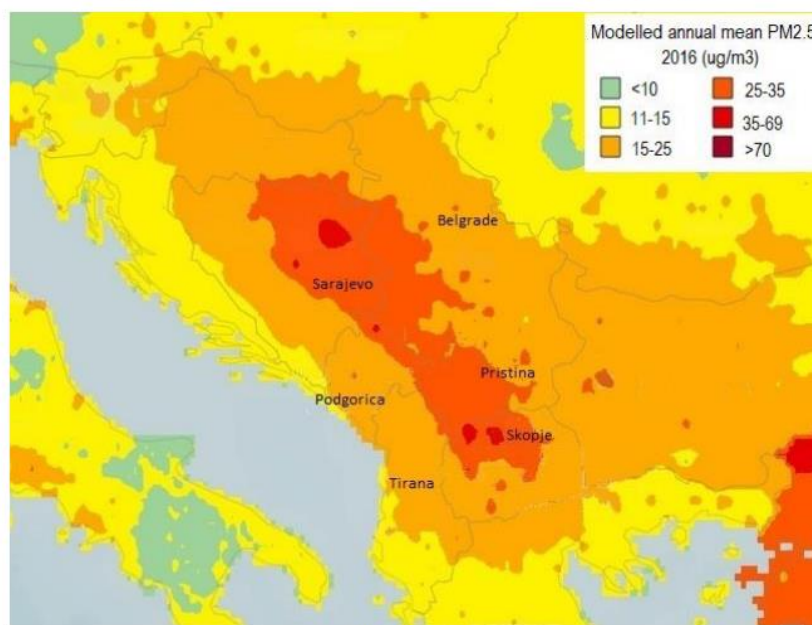
Measure 3E: Supporting the businesses in order to increase their productivity

One further important decision that had an impact on the economy was taken on September 28, 2020.¹⁴ This decision allocated 60 million euros to subsidize the businesses in order to retain employment. For each active business would receive 290 per employee. This of course also had to be modified as a category such as Individual Businesses were left out.

2.3. Economic Emergency Package (Municipality of Prishtina)

In April 2020, the municipal Assembly of Prishtina approved the “Prishtina Economic Emergency Package”, containing several measures. Out of 14, only three were business-focused and - like the national-level packages - they placed an emphasis on their rescue versus stimulation. These measures included rental exemption for businesses using public enterprise premises, public space utilization tax exemption for all gastronomy businesses for one year, and lastly the establishment of a grants program for businesses, the self-employed, and small and medium enterprises.¹⁵

Figure 8. Modelled annual mean concentration of PM_{2.5} in the WB region, 2016.



Source: WHO [130]

The Prishtina region which houses almost half of the population and more than 90 percent of the lignite energy generated in Kosovo. “In the [Western Balkans] WB, particulate matter, especially fine particles (PM_{2.5}), are mainly released by coal plants and biomass burning for household heating. According to the most recent report of the European Environment Agency (EEA), all the WB countries report values above the exposure concentration obligation of 20 µg/m³ for the average

¹⁴ The Prime Minister’s Office, (2020), Government Decision No. 10/33, Pristina, available at <https://kryeministri-ks.net/wp-content/uploads/2020/09/Vendimet-e-mbledhjes-s%C3%AB-33-t%C3%AB-t%C3%AB-Qeveris%C3%AB.pdf> (accessed in January, 2021)

¹⁵ Municipality of Prishtina, (2020), Emergent Economic Package in Prishtina, available at <https://kk.rks-gov.net/prishtine/gallery/pako-ekonomike-emergjente-ne-prishtine/> (accessed in December, 2020)

exposure index (AEI) for PM2.5.”¹⁶ Although municipal capacities for impactful COVID-19 measures are limited, the package itself does not provide the necessary support to businesses that run the economy, and even less so with regard to energy savings and EE. As a city that is most subject to heavy air pollution and electricity use, Prishtina should have taken a leading role in utilizing its budget in developing projects for providing support to businesses, be that in the form of technical assistance or investments.

3. Business Sector in Kosovo

For the purposes of this analysis, it is firstly important to define the business sector and what energy efficiency entails per type of economic activity. According to the Business Registration Agency (KBRA), which is the sole entity responsible for business registration under the Ministry of Trade, businesses are legally categorized as follows: individual business, general partnership, partnership, limited liabilities companies, joint stock companies, foreign companies, socially owned enterprises, public enterprises, and agricultural cooperatives.¹⁷ From this pool of businesses, the paper excludes socially owned enterprises and public enterprises as their energy efficiency needs are already being addressed by the public sector (both local and central level).

On the report of the Kosovo Agency of Statistics (KSA) on the “Statistical Repertoire of Economic Enterprises in Kosovo Q1 2020”, wholesale and retail trade, repair of motor vehicles and motorcycles represent the largest share of registered enterprises in the country (25.5%), followed by manufacture (15.7%), and services (accommodation and food) (11.7%).¹⁸ KSA’s statistical business register also shows that these enterprises have been following such a trend since 2013, with a few changes among the latter two, while the report adds that 98.4% of all registered businesses for 2020 are micro enterprises, whereas 1.5% are small enterprises. Consequently, the above-mentioned economic activities and these enterprises will be the focus of this paper.

Although the first quarter of 2020 shows a decrease in the number of registered businesses by 3.86% compared to the same period in the previous year, the report does not elaborate on to what this decrease should be attributed.¹⁹ However, it is expected that this downward trend will follow in 2021 as well (if not longer), especially in light of the fact that the largest contributors to the economy, namely the micro, small, and medium enterprises, have been severely damaged by the anti-COVID-19 measures.

¹⁶ Banja, M., Đukanović, G. and Belis, C., (2020), Status of air pollutants and greenhouse gases in the Western Balkans,, Publications Office of the European Union, Luxembourg, available at <https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/status-air-pollutants-and-greenhouse-gases-western-balkans> (accessed in January, 2020)

¹⁷ Kosovo Business Registration Agency, Types of Businesses, Pristina, available at <https://arbk.rks-gov.net/Page.aspx?id=2,32> (accessed in November, 2020)

¹⁸ Kosovo Agency of Statistics, (2020), Statistical Repertoire of Economic Enterprises in Kosovo Q1 2020, Pristina, available at <https://ask.rks-gov.net/media/5509/statistical-repertoire-of-economic-enterprises-in-kosovo-q1-2020.pdf> (accessed in November, 2020)

¹⁹ Ibid.

For those that have managed to rescue their businesses from closing down, the main available tool to make them flourish again is through access to finance for business operations or new investments. With regard to EE investments, it is precisely financing that presents one of the largest obstacles for businesses. Because commercial banks in Kosovo may perceive these businesses as high-risk clients and the rate of investment is relatively short, the former will not be interested in entering into loan agreements.²⁰ As a result, a governmental push is key to providing support to such financing and should be provided during the implementation period of the ERP.

4. Investment scheme

The Government should embark on a change in course of the existing Economic Recovery Package by including more recovery than rescue of the pre-existing state of the economy. It is of utmost importance to have a strong positioning of the GoK on a reform agenda that shifts from a brown to a green economy. In the EU, top priority is given to investments in EE measures and retrofitting the private sector up to 50% of capital subsidy.²¹ Likewise, it is time for Kosovo to redirect financing from investments in the transport sector into investments in the health sector and a serious commitment to enable the transition of the energy sector.

The Investment Scheme that is being proposed in this paper is similar to the success story in Poland and its Thermal Modernization and Refurbishment Fund (TMRF).²² In the Polish case, the state has financed 20 percent for the investment in heating systems for the residential sector. This scheme has managed to mobilize funds from the private sector by leveraging with the public funds. The TMRF offers different instruments, and for its first 16 years, 500 million euros have been supported by public funds, which have generated more than 2 billion in investment in 38,000 residential buildings.

Following a similar mobilization of funds in Kosovo, if 35 million euros are cut from the transport sector on an annual basis, which would leverage 33% of the investment into retrofitting focused on EE measures in the private sector, 420 million euros or about 6 percent of GDP could be achieved in 4 years of investments. In a less ambitious program of 15 million euros financing, the same results would be achieved in about 9 years. Such a design is possible considering the absorption capacity in the market and it would cover the majority of the buildings in the private sector. Otherwise, the Government may also propose addressing EE investments as initially targeting 5,000 businesses or

²⁰ Interreg Europe, (2017), Financing Energy Efficiency: models and lessons, available at https://www.interregeurope.eu/fileadmin/user_upload/plp_uploads/policy_briefs/2017-04-20_TO4_Front_Energy_policy_brief_S3_revised_IK_3_files_merged.pdf (accessed in December, 2020)

²¹ European Parliament, (2020), Opportunities of post COVID-19 European recovery funds in transitioning towards a circular and climate neutral economy, Policy Department for Economic, Scientific and Quality of Life Policies, available at [https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/658186/IPOL_BRI\(2020\)658186_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/658186/IPOL_BRI(2020)658186_EN.pdf) (accessed in December, 2020)

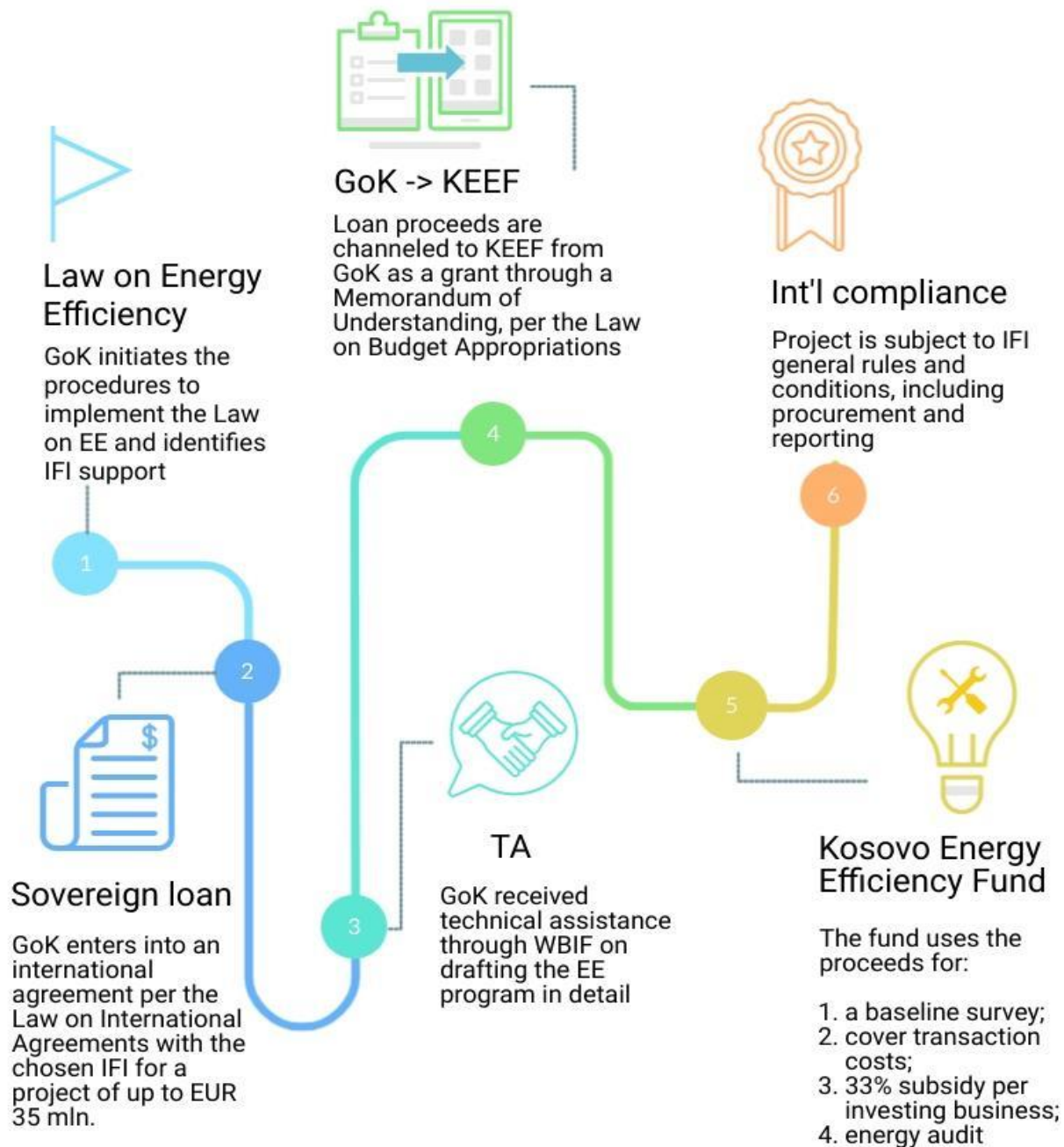
²² BGK, Thermal Modernization and Refurbishment Fund http://publenerf-project.eu/wp-content/uploads/2017/04/GP37_PUBLENEF_Poland_factsheet.pdf (accessed in January, 2021)

about one out of every eight businesses in Kosovo, and with the current structure of 99.9 percent being micro and small enterprises, an average of 30,000 euros in investment can be assumed. The total investment needed would be about 150 million euros which, if covered with a ratio of one to three, would entail 50 million euros in spending from the public sector. Considering the pace of the investment by the Kosovo Energy Efficiency Fund into the municipal buildings, there would be a need for considerable financing in increasing capacities to administer more rapidly this window of investment into EE measures in the private sector.

4.1. Financing Structure

With the current developments as a result of the pandemic, financing from IFIs has played a key role both for direct budget support, as well as for on-going and new projects, especially for those that came as an emergency response to COVID-19. Whichever new undertaking to come in the health and energy sector is most likely to be supported through sovereign loans from such institutions (such as the European Investment Bank, the Council of Europe Development Bank, the World Bank, etc.). As a result, the way the scheme would be implemented is through a sovereign loan of up to 35 million euros from IFIs, which is channeled to the Kosovo Energy Efficiency Fund as a key entity in the sector and one that is mandated to introduce EE measures not only to the public sector but to the private one as well, per the Law on Energy Efficiency. These 35 million euros are utilized for (1) a baseline survey to assess the current conditions in the businesses vis-a-vis the types of equipment, appliances and systems in places; (2) the high transaction costs that come as a result of multiple investments (lighting, heating, insulation, etc.)²³, (3) a 33% subsidy to the business for any type of investment, and (4) an energy audit post-completion, among others.

²³ Interreg Europe, (2017), Financing Energy Efficiency: models and lessons, available at https://www.interregeurope.eu/fileadmin/user_upload/plp_uploads/policy_briefs/2017-04-20_TO4_Front_Energy_policy_brief_S3_revised_IK_3_files_merged_.pdf (accessed in December, 2020)



One important factor as regards IFI financing is that the scheme/project would be subject to these institutions' general conditions, procurement procedures, and reporting rules, among others, to ensure a timely implementation of the project and in accordance with the applicable legislation. In light of the numerous issues that have arisen during and post implementation for locally-initiated projects, especially with regard to procurement, this investment scheme would reduce - if not entirely eradicate - such burdens. Additionally, IFI financing enables access to more information, up-to-date practices, as well as technical and financial assistance. Along with financing from a number of the IFIs that are

already involved in Kosovo across various sectors (WB, EIB, CEB, EBRD, KfW, and so forth), technical assistance (TA) and investment grants are granted to WB6 through the Western Balkans Investment Framework (WBIF). WBIF is a blended financing facility composed of contributions from the European Commission, channeled through IPA (Instrument for Pre-Accession) funds, as well as contributions from bilateral donors.²⁴ Considering the fact that Kosovo, through its line ministries or beneficiaries, regularly applies for these grants, it should consider applying for TA grants in one of the two annual WBIF TA grants in 2021 to support the authorities in drafting a detailed program for EE measures in the private sector by year-end or for the following year. Such an application would be eligible under WBIF's Energy sector, and if digital upgrades are to be included as well, then it could also fall under the Framework's Digital Infrastructure sector.

Beyond the regular deficit that is capped at 2 percent of GDP, the Government can finance from IFIs, projects that are not tied with the fiscal year with regard to the actual expenditure for development purposes. Since the enactment of this fiscal rule in January 2016 which is known as the “investment clause” there has been less than 0.5 percent of GDP in expenditures using the clause.²⁵ The number of contracts for financing of projects through the clause currently stand at about 335 million or roughly 4.5 percent of GDP, leaving about 5.5 percent of GDP or about 400 million euros at the disposal of the Government to finance projects, including EE measures. The changes that came about with the Paris Agreement, the European Green Deal, the ramifications that are going to be channeled through the Energy Community and the low performance in the previous decade with regard to Energy Efficiency targets should force the Government to undertake significant investment in the green economy transition. A program of 100 million can be financed easily by two institutions that are eager to demonstrate their engagement in transitioning Balkan countries.

One other alternative which must be implemented by the new Government is the application of the Article 10 of the Law No. 06/L-079 on Energy Efficiency²⁶ in establishing the Energy Efficiency Obligation Scheme (EEO). This would require enactment of regulations as stipulated in the legislation and the financing from the proceeds of EEO can be used for partially co-financing EE projects with IFIs in order to have a comprehensive approach to the sector.

4.2. Economic, Environmental and Social Impacts

Impacts of EE investments in general stretch over a few areas, especially on the economy, environment, and society. Of more importance to businesses, these investments lead to reduced

²⁴ Western Balkans Investment Framework, About the WBIF, available at <https://www.wbif.eu/about/about-wbif> (accessed in December, 2020)

²⁵ Assembly of Republic of Kosovo, (2016), Law No. 05/L-063 on Amending and Supplementing Law No. 03/L-048 public financial management and accountability, amended and supplemented by laws no. 03/L-221, no. 04/L-116 and no. 04/L-19405/L-063, Pristina: Official Gazette, available at <https://gzk.rks-gov.net/ActDetail.aspx?ActID=11333> (accessed in December, 2020)

²⁶ Assembly of Republic of Kosovo, (2018), Law No. 06/L-079 on Energy Efficiency <https://gzk.rks-gov.net/ActDetail.aspx?ActID=18216> (accessed in January, 2021)

energy costs for the entity using the space. Whereas on a more global level, they lead to lower greenhouse gases due to reduced energy use and an increase in energy supply.²⁷ If a shift in investments in retrofitting and improving efficiency in the private sector is made, employment will increase as well. The construction sector which is likely yet to face significant difficulties, will be better targeted by opening new opportunities through the creation of demand rather than subsidies for the wages of the workers in the sector.

Kosovo lags behind other Western Balkans countries in the mix of energy and there are many obstacles that are keeping this status-quo. “The highest relative impacts of the energy sector are observed in Serbia, Kosovo and Bosnia and Herzegovina. In the period 2010-2015, coal represented between 50% and 58% of the total mix of fuels for energy supply expressed as kton/y in these three countries.”²⁸ Such a heavy reliance on coal must be reduced through investments in other sources of generation, which must be done at a faster pace with public revenues. Because the current market conditions do not favor this energy transition, a market intervention from the public sector must occur, especially in view of the fact that the energy sector is regulated and the current energy prices favor the status quo.

As with EE measures for the residential sector, such a scheme would have a chain effect on the economy. To begin with, if businesses are to introduce EE measures in the form of thermal insulation and window replacement, most of the construction material and the windows will be acquired through the local market.²⁹ This would not only support local producers, but it would bring revenues to the Government through the 18% VAT (Value Added Tax) on all purchased products, hinting towards an increase in money circulation. The construction sector remains one of the country’s largest employers and its formalization would bring further governmental revenues. The proposed investment scheme would not be implemented through companies that are not registered in the relevant authorities, namely the Kosovo Tax Administration and the Kosovo Pension Savings (KPST/Trusti). As such, this project would enable the collection of a 5% tax by the employers and employees from their gross income to KPST for pension contributions, and approximately an 8% tax on personal income.³⁰ On another note, had this process of formalization taken place earlier, more subjects would have had the opportunity to benefit from the current Government’s initiative on the early withdrawal of 10% of their pension savings.

Though the business sector is not dominated by heavy industry, it still is completely reliant on electricity for lighting, heating, and cooling. Introducing EE measures for all three would directly translate into reduced energy use, and coupled with the fact that electricity is the most expensive

²⁷ Interreg Europe, (2017), Financing Energy Efficiency: models and lessons, available at https://www.interregeurope.eu/fileadmin/user_upload/plp_uploads/policy_briefs/2017-04-20_TO4_Front_Energy_policy_brief_S3_revised_IK_3_files_merged.pdf (accessed in December, 2020)

²⁸ Status of air pollutants and greenhouse gases in the Western Balkans https://publications.jrc.ec.europa.eu/repository/bitstream/JRC118679/air_qualityghg_western_balkans_online.pdf

²⁹ INDEP, (2020), Leveraging Energy Efficiency in the Residential Sector, Pristina, available at https://indep.info/wp-content/uploads/2020/11/GIZ_EE_Position-Paper_-EE-in-residential-sector.pdf (accessed in December, 2020)

³⁰ Ibid.

energy type in the country, energy savings would be significantly higher.³¹ As a result, the businesses would be able to use these savings on other investments or simply strengthen their position in the market. Most importantly, reduced energy use would lead to lowered emissions of different types of Particulate Matter, SO_x, NO_x, and other greenhouse gases, having an impact thus on public health as well.

4.3. Kosovo and the EU

How do EE measures relate to the *EU Green Agenda for the Western Balkans (WB)*? This initiative is part of the European Green Deal, which places significant focus on the decarbonisation of Balkan economies that rely heavily on low-quality fossil fuels, such as coal, with the exception of neighboring Albania.³² According to European Commission's guidelines on the agenda's implementation, the most realistic, quickly implementable, and low cost step to be taken by the WB to address decarbonisation is energy efficiency. It identifies the building sector, both public and private, as one with the highest potential for energy cost savings. Coupled with digital upgrades (i.e., on appliances, heating systems, etc.), energy efficiency of buildings could be improved by 15-25%.³³

In the same line, the *Economic and Investment Plan for the Western Balkans*, adopted in October 2020, is to secure grants in the amount of up to 9 billion euros for various sectors as a response to COVID-19 impacts and to spur an economic growth within WB6 for their EU aspirations.³⁴ The Plan, to be implemented through IPA III funds (2021-2027), is set to promote clean energy investments, including energy efficiency and the modernization of district heating systems. One of the flagship investments that the Plan proposes is that the "EU Renovation Wave" is extended to WB6, as a key initiative that would assist the Balkans and their building sector reduce energy consumption.³⁵ As such, Kosovo is very well positioned to receive the necessary support to push forward an EE project for the private sector.

The path that the European Union has chosen is clear: "What these [green] technologies need is easier access to investment, public procurement aligned with the Paris Agreement, and favorable

³¹ Ibid.

³² European Commission, (2020), Launching the Green Agenda: EU support in decarbonising the Western Balkans, available at <https://ec.europa.eu/jrc/en/science-update/eu-support-decarbonising-western-balkans> (accessed in December, 2020)

³³ European Commission, (2020), Guidelines for the Implementation of the Green Agenda for the Western Balkans, Brussels, available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/green_agenda_for_the_western_balkans_en.pdf (accessed in December, 2020)

³⁴ European Commission, (2020), Western Balkans Summit in Sofia: Important steps taken to advance regional cooperation to boost socio-economic recovery and convergence with the EU, Brussels, available at https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2051 (accessed in December, 2020)

³⁵ European Commission, (2020), An Economic and Investment Plan for the Western Balkans, Brussels, available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf (accessed in December, 2020)

environmental regulations that create a need for these solutions on the market.”³⁶ What remains to be done in Kosovo is to have in place a Government that sets the tone with a new climate and energy strategy that clearly addresses financing and investment in transitioning into a green economy. The entire community and consensus in Brussels is to use this opportunity to turn around the economy in order to achieve the targets for a decarbonised economy. The Egmont Institute and many other institutions are “calling for the European Green Deal to be put at the center of the post-COVID-19 recovery.”³⁷ There seems to be general consensus in Europe that this decade will mark a sharp shift towards transitioning the European economies to a low-carbon and new technologies.

5. Recommendations

5.1. Prioritization of EE investments on the State Budget

The alternatives to turning to a green economy and circular economy are inexistent. The long term benefits to turning green outweigh any persistent investment into the existing brown economy. This is true for the quality of life and also for the aspirations of many Kosovars to integrate into the European Union. Experts are concluding that the returns of a transition to a green and circular economy are the highest than they have ever been. “A survey found that leading experts, including academics and senior Group of Twenty (G20) officials, considered spending on clean-energy infrastructure, energy efficiency upgrades for buildings, and green spaces to have sizable long-term multipliers.”³⁸ In terms of Kosovo, one of the main pillars of shifting towards a green economy is the investment in EE measures. Kosovars already are one of the highest energy consumers in Europe and the investment in EE measures is one of the biggest investments that needs to happen in order to turn the economy green. The benefits in employment and the economy will likely be considerable. The returns in EE measures are 7.6 years³⁹ and the public resources should intervene in order to foster further investment in the market.

While many European countries will have to shift their industries, Kosovo is home only to public electricity generation plants, which are based on high-carbon technologies. As noted in the IMF report, “a major challenge will be to change dramatically the composition of investment toward low-carbon technologies”, on which Kosovo should intensively work.⁴⁰ What the new Kosovar Government can

³⁶ Timmermans F., Piccard B., (2020), Which world do we want after Covid-19?, Euractiv, available at <https://www.euractiv.com/section/energy-environment/opinion/which-world-do-we-want-after-covid-19> (accessed in December, 2020)

³⁷ Colli, Francesca, (2020), The end of ‘business as usual’? COVID-19 and the European Green Deal, available at <https://www.egmontinstitute.be/content/uploads/2020/05/EPB60.pdf?type=pdf> (accessed in December, 2020)

³⁸ IMF, (2020), Public investment for the recovery, available at [Chapter 2. Public Investment for the Recovery. IMF Fiscal ...www.imf.org › Files › fiscal-monitor › October › English](https://www.imf.org/Files/fiscal-monitor/October/English) (accessed in December, 2020)

³⁹ Western Balkans: Scaling Up Energy Efficiency in Buildings <https://openknowledge.worldbank.org/handle/10986/20003>

⁴⁰ Ibid.

address is the promotion of development of new industries that are based in low-carbon technologies. Otherwise, the mining companies can do little to change their extraction of resources.

Kosovo public finances are built on the principle of collection of revenues in a single account and then be redistributed based on the priorities of the country. According to the Law on Public Financial Management and Accountability there can be no earmark of specific taxes with expenditures. This system allows for an allocation of resources in a sector in order to achieve policy goals in an order that are set by consecutive governments. In the previous decade Kosovo embarked in construction of the national highway network in line with the EU TEN-T network. The Route 7 linking the capital Prishtina with Albania cost about 20% of GDP.⁴¹ Because of the increases of the GDP, longer years of implementation of Route 6 and the shorter length (about a quarter less) of this highway, the cost was about 11 percent of GDP and even higher if the expropriation bill was made public.⁴² Taken in total these two projects for the implementation period 2010-2019 had a cost of 1.6 billion euros. It must be taken into consideration that in parallel the Kosovar budget financed many regional and local roads.

With a few exceptions such as the EE investments in public buildings for central government administration, there needs to be a general re-allocation of public resources into energy transition. The improvements in the healthcare and education are not as intensive in investment as the energy sector. These crucial sectors need improvements in management to be accompanied with relatively less investments in infrastructure, whereas the opposite relationship is necessary in the energy transition. In contrast with the previous macro-fiscal stance, the wage bill and social transfers have increased over the years. These increases in recurrent expenditures have led to pressures in the capital investments and a diminished effect of public investments in transforming key sectors.

5.2. Timely securing of IFI project financing

One of the main challenges MSMEs currently face is cash flow and access to finance, hindering thus their plans for business growth or any kind of investment, including EE measures. Coupled with the fact that the Government lacks the necessary human capacities and expertise to implement any large-scaled project that does not directly benefit the public sector, securing financing from IFIs is of crucial importance. Nonetheless, it must be highlighted that the majority of IFIs and any potential project with them is subject to lengthy, bureaucratic processes that often prolong the initiation of said project in practice. National legal procedures until the financial agreement between the creditor and GoK, stemming from the Kosovo Law on International Agreements, perpetuate the prolongation of project implementation. As a result, it is necessary for the Government to undertake a visionary approach to EE investments through IFIs and steer such projects in the right direction. Initiating early discussions

⁴¹ Second Review under the Stand-By Arrangement, Request for Rephasing of Purchases and Modification of Performance Criterion <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Kosovo-Second-Review-Under-the-Stand-By-Arrangement-Request-for-Rephasing-of-Purchases-and-40199>

⁴² Annual Financial Reports 2014-2019 <https://mf.rks-gov.net/page.aspx?id=1,29> (Accessed January 2021)

with IFIs also enables a more comprehensive outlook on the current situation as well as a better positioning of the project alongside other large capital investments.

5.3. Accountable decision-making in support of RES infrastructure

It has been showcased throughout the paper that investments in EE are key to putting the first step towards energy transition. Nonetheless, it does not imply that GoK should not place any attention on larger initiatives such as renewable energy production. Perhaps, a middle ground between all past governments that have traditionally supported the reliance on coal and any new one that is aligned with the EU in terms of RES and economic development is precisely the opportunity to revitalize and re-purpose the mining fields and former ash dump sites at KEK. As noted earlier in the paper, since KEK has been exempted from paying mining royalties in the first months of 2021, an important investment opportunity has emerged. Because this exemption would only translate into savings (or indirectly, higher salaries or bonuses to the employees), KEK could instead utilize these funds to invest in green energy. The public company should diversify its portfolio of energy generation, as it would lead to a guarantee of the supply of energy whilst it would also significantly contribute to a clean and sustainable energy transition. In practice, this could be achieved by the on-going plans to transform the former vast fields that were exploited for mining into solar farms. In addition to their positive impact on the environment and energy security, such an investment would also ensure a slight increase in the price of energy at the adequate market prices which is comparable with the regional market and, in turn, stimulate investments in EE measures. Although detailed studies have been realized through KEK resources to explore the possibilities of constructing a solar park in the former mines, it remains with the new Government to provide strong support to the company in transitioning energy production for both the company and the country.

6. Conclusions and Recommendations

The political situation in the country and the absence of compromise among public parties have resulted in a number of scattered initiatives. This instance has not only led to delays in implementation, but has also aggravated the public and potential beneficiaries. What all the measures taken by the Government to combat the effects of the pandemic on the economy have in common is that they have been transient and not as effective as expected initially. The latter was due for a number of reasons, starting from the many non-registered businesses at the Tax Administration to a great lack of information on the rules of procedure. Looking at these packages more comprehensively, it is noticeable that governmental decisions have not considered the long-term effects of lockdown measures on the business community. Consequently, all packages, on both the national and local level, have used a “business rescue” approach, a concept which was elaborated throughout the paper.

If a new Government comes into office during the first quarter of 2021, it will have to tackle many issues with a comprehensive program that addresses COVID-19 holistically into a transformation of the economy that relies increasingly on green energy and more climate-friendly policies. The main difficulties in implementing such new programs in the short-term but with a long-lasting impact will depend entirely on the readiness of the Government as well as the Assembly and its members to introduce the programs in the first place. This, however, does not imply that public sector employees are to be stripped off their responsibilities to continuously adapt to the situation and provide recommendations that are in line with the practices, goals of their institutions, and the laws in force.

The business sector plays a crucial role in Kosovo's sustainable economic development (and therefore in approaching the SDGs), first and foremost due to job creation, followed by innovation, entrepreneurship, and [women] inclusion. Access to finance is a long-standing issue for the MSMEs and even more so for investments in EE at a time when economic activity has been reduced to a significant extent. As a result, having the Government facilitate the process would be a concrete step towards economic recovery, which signifies a proactive approach to tackling COVID-19 effects.

The Government is already receiving immense support through institutions like GIZ, whose technical assistance and data gathering projects (with specific reference to the yet unpublished report on Building Typology) will further improve the estimations and better equip the Government during its investment planning process. IFIs in general should remain closely involved in the country to facilitate energy transition and the decarbonization of economy, not only because of their access to most recent developments in the sector, but also due to their efficient use of financial resources as well as the necessary expertise gained from past experiences in the region and beyond.