3. THE ROLE OF TRANSPORT AND TRADE FACILITATION IN IMPROVING EXPORT PERFORMANCE IN KOSOVO

A. INTRODUCTION

3.1 Kosovo’s economy is small, even in regional terms, and long-term growth prospects will strongly depend on developing its export potential. In an increasingly globalized world, success in export markets is increasingly affected by the ability of governments to support an environment that promotes efficient and low-cost trade services and logistics. The overall objective for the development of the transport and logistics sectors can be described as the need to reduce what can be termed as the “economic distance” to the main markets. A crucial component of this process is trade facilitation, or, lowering trade transaction costs, which include all costs related to the moving of goods from the factory to the final destination abroad.

3.2 This chapter presents a comparative assessment of Kosovo’s trade-related environment compared to the rest of the SEE region, and discusses the improvements that could be made to facilitate flow of goods across the borders. It also provides an overview of the transport infrastructure and the investment required to reduce the time and cost of exports and imports. The final section outlines the key recommendations.

B. A COMPARATIVE ASSESSMENT OF KOSOVO’S PERFORMANCE

3.3 To view Kosovo’s performance in a broader perspective, this section compares Kosovo’s performance on several aspects of the trade-related environment with the performance of the other SEE countries. This comparison draws mostly on international indices that rank countries on the various aspects of trade and transport facilitation.26 Among the international benchmarking exercises reviewed are two World Bank indices: the “trading across borders” sub-index of Doing Business and BEEPS27.

3.4 Kosovo performs poorly in the “trading across borders” sub-index of the Doing Business indicators. The World Bank’s Doing Business (2010a) ranks 183 economies on their ease of doing business. On the trading across borders sub-index, Kosovo is ranked 132nd, 19 positions lower than its overall ranking, and considerably below the other countries in the region (see Table 7). Despite the remarkable progress made in the area of customs administration, what is pulling down Kosovo’s overall performance is the cost to export and import, reflecting Kosovo’s landlocked nature, distance to key ports, and poor road infrastructure.

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26 Given its recent change in status, Kosovo is not yet included in a number of international comparative indices.
27 A recent report by the International Finance Corporation (IFC) provides a useful overview of trade facilitation issues in the Western Balkans. The findings of this report, which are preliminary, focus on Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Moldova, Montenegro and Serbia, excluding Kosovo. However, the assessment of the trade flows, logistics, and customs issues in the region, as well as the general recommendations, are also of relevance to Kosovo.
Table 7: Trading across Borders Sub-index

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Documents to export (number of)</th>
<th>Time to export (days)</th>
<th>Cost to export ($ per container)</th>
<th>Documents to import (number of)</th>
<th>Time to import (days)</th>
<th>Cost to import ($ per container)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>66</td>
<td>7</td>
<td>19</td>
<td>725</td>
<td>9</td>
<td>18</td>
<td>710</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>63</td>
<td>6</td>
<td>16</td>
<td>1,125</td>
<td>7</td>
<td>16</td>
<td>1,090</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>106</td>
<td>5</td>
<td>23</td>
<td>1,551</td>
<td>7</td>
<td>21</td>
<td>1,666</td>
</tr>
<tr>
<td>Croatia</td>
<td>96</td>
<td>7</td>
<td>20</td>
<td>1,281</td>
<td>8</td>
<td>16</td>
<td>1,141</td>
</tr>
<tr>
<td>Kosovo</td>
<td>132</td>
<td>8</td>
<td>17</td>
<td><strong>2,270</strong></td>
<td>8</td>
<td>16</td>
<td><strong>2,330</strong></td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>62</td>
<td>6</td>
<td>12</td>
<td>1,436</td>
<td>6</td>
<td>11</td>
<td>1,420</td>
</tr>
<tr>
<td>Montenegro</td>
<td>47</td>
<td>7</td>
<td>14</td>
<td>775</td>
<td>7</td>
<td>14</td>
<td>890</td>
</tr>
<tr>
<td>Romania</td>
<td>46</td>
<td>5</td>
<td>12</td>
<td>1,275</td>
<td>6</td>
<td>13</td>
<td>1,175</td>
</tr>
<tr>
<td>Serbia</td>
<td>69</td>
<td>6</td>
<td>12</td>
<td>1,398</td>
<td>6</td>
<td>14</td>
<td>1,559</td>
</tr>
<tr>
<td>Slovenia</td>
<td>84</td>
<td>6</td>
<td>20</td>
<td>1,075</td>
<td>8</td>
<td>21</td>
<td>1,130</td>
</tr>
</tbody>
</table>


3.5 Nonetheless, time and procedures to export also seem to be lengthier and more cumbersome than in the better-performing regional benchmarks. The time to export, a crucial factor for export-oriented, just-in-time foreign investment operations, is higher than in its neighbors FYR Macedonia and Montenegro. Also, the number of documents required is higher than in any other country of the region. The countries reviewed are considering the introduction of the concept of authorized economic operators (AEOs) and simplified procedures, and have limited their efforts to allowing large selected importers to clear their cargoes at their factories. \(^{28}\)

3.6 Meeting product standards is another area where Kosovo lags behind the region. Exporters face a significant challenge in meeting product standards, especially for agriculture and livestock products. These standards limit export markets, as well as the ability to increase the value of exported goods, because the standards become higher when moving up the product value chain. Policies to improve market access and increase product value have to focus on the capacity to test and certify production, and where appropriate, the logistics to deliver the goods safely. Standards and regulations for goods exported to the European Union are enforced by importers and may include testing on goods or provision of inspectors at production. To meet these standards, exporters must upgrade their production facilities and obtain the

\(^{28}\) The concept of AEOs is one of the building blocks of the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Global Trade (SAFE), which was adopted by the WCO Council at its 2005 session. The framework is based on four elements: (i) the harmonization of advance electronic cargo information; (ii) the use of a consistent risk management approach; (iii) on request of the customs administration of the receiving nation, the customs administration of the sending nation will perform an outbound inspection of high-risk cargo; and (iv) defined customs benefits to businesses that meet minimal supply chain security standards and best practice. Further details can be found in the WCO SAFE Framework of Standards, Authorized Economic Operator Guidelines at http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Capacity%20Building/AEO_Guidelines.pdf.
necessary certification. Governments can assist this process by developing testing facilities and obtaining international acceptance of the certification provided.

3.7 According to the most recent European Commission’s annual progress report, Kosovo needs to make significant progress in the legislative and regulatory structures affecting trade, including sanitary and phytosanitary standards. The institutional framework to ensure accreditation, certification, and standardization needs to be improved and implemented effectively—Kosovo is lagging behind in the development of conformity certification standards and had no conformity assessment authorities until late 2009. Progress has been made recently but the gap with the rest of the region remains large. Conformity assessments are necessary to assure compliance with international standards, including third-party conformity assessment activities such as testing, inspection, and certification. Building conformity certification infrastructure is extremely expensive and it is not clear whether Kosovo has the necessary fiscal space. Alternatively, Kosovo should explore the possibility of using the conformity infrastructure of neighboring countries (Handjiski et al. 2010).

Table 8: Progress in Convergence to EU Standards

<table>
<thead>
<tr>
<th>Country</th>
<th>European standards adopted</th>
<th>Conformity assessment authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>Albania</td>
<td>14,424</td>
<td>15,029</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>8,000</td>
<td>9,653</td>
</tr>
<tr>
<td>Croatia</td>
<td>10,695</td>
<td>21,368</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>3,674</td>
<td>6,011</td>
</tr>
<tr>
<td>Montenegro</td>
<td>500</td>
<td>1,530</td>
</tr>
<tr>
<td>Serbia</td>
<td>2,805</td>
<td>5,072</td>
</tr>
<tr>
<td>Kosovo</td>
<td>665</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Source: European Commission Progress Reports 2008 and 2009. Note: n/a is “not available”

3.8 According to BEEPS, customs and trade regulations are also ranked as constraint to doing business. Table 9 presents the results of perceived problems in Kosovo’s trade sector.\(^{29}\) Unofficial payments to customs are not perceived to be an issue in Kosovo. In contrast, customs regulations and transport are perceived to be a problem for about a quarter of the firms interviewed. Even though the share of firms stating customs and transport as problems for doing business is similar as in other countries in the region, these constraints may be higher given that the share of exporting firms in the sample for Kosovo is much lower.

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\(^{29}\) Percentage of firms stating that (i) bribery is frequent in dealing with customs/imports; (ii) customs regulations are a problem; and (iii) percentage of firms indicating transport as a problem. The ECA region includes all 28 transition countries and Turkey. The SEE countries include Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Kosovo, Serbia, and Montenegro.
Table 9: BEEPS Results: Problems Doing Business (share of firms)

<table>
<thead>
<tr>
<th>Problems for doing business</th>
<th>Kosovo</th>
<th>SEE region</th>
<th>ECA region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unofficial payments: customs</td>
<td>0.2</td>
<td>4.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Customs regulations</td>
<td>22</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Transport as a problem</td>
<td>27</td>
<td>26</td>
<td>33</td>
</tr>
</tbody>
</table>


C. THE ROLE OF TRANSPORT INFRASTRUCTURE

3.9 Conflict and years of neglect have left Kosovo with a transport system that is inadequate for the needs of the country and incompatible with European standards. The transport infrastructure was largely neglected during the 1990s, and the conflict that culminated with the NATO bombing in 1999 destroyed or rendered unusable important components of the transport infrastructure. Following the conflict, large-scale reconstruction took place of the main road and rail networks, bridges and tunnels, mostly financed by the donor community. However, the allocation of resources for post-war recovery operations that were focused, and rightly so, on rebuilding the main road and rail infrastructure, along with the limited subsequent support from domestic sources, has resulted in inadequate maintenance operations. The result is a significant maintenance backlog on the road network, particularly on the secondary and local road networks. The rail network is in slightly better condition, because after the conflict with Serbia the limited traffic has slowed down deterioration despite the inadequate maintenance.

3.10 Upgrading the transport infrastructure is necessary to reduce the time and cost of transport. Exports exit the country through two main border crossing points, Hani i Elezit (with FYR Macedonia) and Kulle (with Montenegro). In 2008, 38 percent of exports exited Kosovo through the border crossing point of Hani i Elezit, located in the southern part of Kosovo (linking Kosovo with the port of Thessaloniki in northern Greece). This is also the customs station with biggest flow of cars (passengers) and for trucks carrying imported goods to the Kosovo market. In 2008, there was a reorientation away from Mitrovica, which borders Serbia, toward Kulle, near the border with Montenegro, and, as a result of these changes, nearly three quarters of all exports left Kosovo from Hani Elezit and Kulle. Not surprisingly, given that the exports are heavily concentrated in base metals and mineral products, only 2.8 percent of exports leave the country through the Prishtina airport. Given the importance of Hani i Elezit and Kulle as key border crossing points where the bulk of Kosovo’s exports exit the country, improvements in their performance and infrastructure will be needed in the medium-term as exports begin to pick up.

3.11 At the same time, the Government has committed to develop a motorway to Albania (which would go to the border with Serbia in the north), hoping to achieve fast access to the Adriatic Sea and the port of Durres in the south and link to the Trans-European Network Corridor X in Serbia. The full motorway within Kosovo is approximately 117 km in length, and preliminary estimates put the development cost around €750 million to €1 billion. At present, the

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30 This section is based in part on the World Bank (2008a) and European Commission Liaison Office to Kosovo (2008–9).
main port handling consignments originating from or destined to Kosovo is the port of Thessaloniki in Greece (see Table 10). It handles some 70 percent of all consignments, and Bar and Durres account for the rest. The new Durres-Kukes-Morine highway in Albania connects the Adriatic coast with the Kosovo border. It has shortened the distance between Tirana and Pristina by 65 km, but has reduced the travel time by four hours. This highway is not going to connect to the Kosovo border at the same location where the Vermica border crossing point is currently located; it is therefore important for the governments of Kosovo and Albania to establish a mutually convenient location for this border crossing point.

Table 10: Throughput of the Three Main Ports

<table>
<thead>
<tr>
<th>Port</th>
<th>Location</th>
<th>Port throughput (number of consignments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thessaloniki</td>
<td>Greece</td>
<td>32,850</td>
</tr>
<tr>
<td>Bar</td>
<td>Montenegro</td>
<td>5,110</td>
</tr>
<tr>
<td>Durres</td>
<td>Albania</td>
<td>3,056</td>
</tr>
</tbody>
</table>

Source: Kosovo Customs.

3.12 The use of railway transport has picked up over the years, and its significance could continue to grow if the mining sector is developed. Freight transport by volume increased to 832,256 tons in 2008, up from 588,680 tons in 2007 and 545,287 tons in 2006 (Figure 12). In 2008, around 39 percent of total Kosovo Railways (KR) freight traffic was nickel minerals, followed by oil, mainly from FYR Macedonia (31 percent of the total), and coal (11 percent). The 41.3 percent increase in freight volume in 2008 was due to a new contract with Ferronikeli (Box 3), to carry nickel ore. Although KR was projecting freight reaching 1 million tons in 2008, this target was not met because transport of Ferronikeli production was 53.6 percent less than planned, the northern line closed, terminating Italian Kosovo Force (KFOR) transportation, and the transport of goods from the company Llamkos, producer of galvanized iron, was only 47 percent of what was expected.

Figure 14: Freight Traffic, 2001–8

Source: Kosovo Railways.

31 A forthcoming publication of the World Bank, “Trade and Transit Facilitation for Landlocked Developing Countries,” focuses on the inherent disadvantages of landlocked countries compared to countries that have a coastline and deep-sea ports.

32 This remains significantly below past freight traffic, which exceeded 2.5 million tons a year.
3.13 The impact of the global financial crisis and the fall in mineral prices reduced rail transport, but the mining sector offers potential for substantial growth in volume. Over the medium term, the potential for further reopening of old, but still viable, extractive and basic industries (such as Trepca) is considerable. For example, freight transport could exceed 3 million tons over the medium term with the reopening of other mines. For 2010–11, freight volumes are likely to remain low, given the limited improvement in global economic conditions and a weak minerals outlook.

3.14 Upgrading the transport infrastructure requires significantly more resources than what seems to be available. The government will only be able to implement the investment plan with considerable support from private investors through public-private partnerships (PPPs) and loans from international financial institutions (IFIs). At present, it is uncertain whether any road section could be financed through a PPP and whether it would be affordable, given the capital grant required. The amount of support available from the IFIs is also likely to be much lower than necessary. This gap will require a scaling back of this ambitious agenda and a phased approach in implementation. In addition, there is considerable scope for value engineering, which should lead to revised designs and reduced costs on certain mountainous sections. The World Bank 2010 Public Expenditure Review provides a detailed assessment of the viability and implementation schedules of these large capital investments, especially in light of the need to ensure that there is adequate funding for maintenance. Sufficient attention should also be given to rehabilitation and reconstruction of existing road assets.

Box 9: Infrastructure Development Needs to be Accompanied by Institutional Strengthening

Implementing the ambitious transport agenda will require not only financial resources, but also improvements in the institutional setting. The institutional arrangement for managing roads is in need of reform. Within the Ministry of Transport and Communications (MTC), the maintenance program is the responsibility of the Department of Road Infrastructure (DRI), with the supervision of works undertaken by an implementing agency, the Directorate of Roads (DoR). The DoR exercises its duties under the supervision of the DRI, and is also responsible for preparing annual maintenance plans, collecting data on traffic and road safety, checking overloading, and advising the municipalities on road management. Road spending is fully financed from the central budget, but the contract management function is held by a special procurement department in the MTC, and not by the DoR or DRI (ECORYS 2007). This institutional arrangement presents a number of difficulties, not least the existence of two institutions involved in the management of a small network, with limited responsibilities and autonomy in the case of DoR. A recent report (EC 2009b) has highlighted the need for institutional reform, suggesting two operations: full integration of DoR inside the MTC, so that only one institution remains; and the creation of a separate road agency, replacing the DoR.

D. BORDER CROSSINGS AND REGULATORY BARRIERS TO TRADE

3.15 The following section looks at the main regulatory barriers, as well as the formal and informal barriers, to trade and transport, and is based on a simplified trade and transport audit that was conducted using the World Bank’s standard audit questionnaire (Raven 2001).
3.16 There have been considerable changes to the legal and regulatory customs framework following Kosovo’s independence. In August 1999, the Customs Service of the United National Interim Administration Mission in Kosovo (UNMIK) was established to perform customs supervision in Kosovo. However, on December 12, 2008, UNMIK Customs Service became Kosovo Customs, following the adoption of the new customs code a month earlier. Meanwhile, the European Union Rule of Law Mission in Kosovo (EULEX) assumed operational responsibility in the rule of law area on December 9, 2008. EULEX international customs officers established a limited presence at the two customs control points in the north of Kosovo (gates 1 and 31). On February 1, 2009, EULEX Customs started to collect data on commercial traffic at gates 1 and 31 on a “24/7” basis. The information collected includes date and time of crossing, details of the driver and vehicle, importing company, quantity of cargo, invoice number and value of invoice, and currency and customs seal or international road transport (TIR) number. The data are shared with Kosovo Customs and Serbian counterparts. On May 20, 2009, EULEX Customs further strengthened customs control with new measures, including the copying of commercial invoices accompanying goods entering Kosovo and the copying of identification cards of truck drivers transporting commercial goods to Kosovo. However, EULEX does not perform any customs clearance procedures. Drivers are handed a notice advising them to ensure customs clearance for their goods and informing them that the nearest clearance point is at the Mitrovice/Mitrovica Trepcac complex. Copies are shared with Kosovo Customs and the Customs Administration and Tax Administration of Serbia.

3.17 The Customs and Excise Code is broadly in line with EU standards (EC 2009b). Just like the Community Customs Code, the Kosovo code establishes that the origin of goods that were produced in more than one country will be judged on where the goods underwent their “last substantial, economically justified working or processing.” In addition, the Kosovo code goes ahead and actually lists the cases where “last substantial, economically justified working or processing” is not applicable (that is, cases of packaging, labeling, and simple assembly works). The Kosovo code provides for transit under the Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention) and ATA carnets (article 96 of the Kosovo code). In addition, inward and outward processing procedures, including suspension and drawback arrangements, are identical.

3.18 There are some differences between the European and the customs code of Kosovo. Both the European and Kosovo codes state that goods can be declared by any person. However, there is a clause in the Kosovo customs code stating that the declarant should be established in the European Union or in Kosovo. In contrast, in the Community Customs Code this does not apply in the case where goods are in transit, while in Kosovo such a relief clause is missing; this can create complications for non-EU goods transiting Kosovo. The Kosovo code provides for much harsher duty payment options; duty should be paid before the release of goods being imported, the Community Customs Code allows 10 days from the moment of the payment amount has been communicated.
3.19 **Further changes to meet the criteria set in the EU Customs Blueprint** (developed by the Directorate-General for Taxation and Customs of the European Commission) relate to the introduction of the AEO concept and a system for pre-arrival and pre-departure processing of documentation. The AEO concept means that businesses can be accredited by customs as AEOs when they prove that they have high-quality internal processes that will prevent tampering with international cargo, including:

- Ensuring the integrity of information that states what is included as cargo.
- Secure access to the premises to prevent unauthorized persons from adding goods as cargo.
- Ensuring the integrity of employees, so that they do not add any goods to the containers or cargo.

3.20 **In the European Union, reliable and compliant AEOs benefit from simplifications in the customs procedures and/or from facilitation of customs controls relating to safety and security.** They are allowed to submit less data for the pre-arrival and pre-departure declaration and will also be subject to fewer controls as they would be considered secure partners by customs, and because their compliance and reliability would have been thoroughly checked when the AEO certificate was given. It would be even more helpful for the Kosovo Customs legal directorate to further align customs legislation and ensure correct interpretation and implementation of customs rules in operations.

3.21 **Adequate legislation regarding customs valuation is undermined by the absence of a value database.** Customs value is important for more than just the calculation of customs duties. The Kosovo code lays out a primary and five alternative valuation methods in line with those prescribed by the World Trade Organization’s (WTO) Agreement on Customs Valuation (ACV; De Wulf and Sokol 2005). However, Kosovo Customs does not have a value database. Such a database would help eliminate significant ambiguity in the value of a wide range of imported goods and reduce the potential for corruption. At present, Kosovo Customs reported accepting a relatively low ratio—around 75 percent to 80 percent—of invoice-based valuations. For the sake of comparison, Turkey accepts nearly all transaction values. Given the absence of the database, the latter may imply existence of a potentially large area for arbitrary valuation. And this is confirmed by the high number of complaints by traders; 47 percent of complaints, according to customs annual report in 2008, concerned the valuation of goods. More detailed analysis to determine the underlying cause of these complaints should be undertaken.

3.22 **Corruption, at least small scale, does not seem to be a major issue.** There were no recorded incidents of corruption involving Kosovo Customs staff in the first months of 2009, according to EULEX. This confirms the perception of businesses stated in BEEPS. However, a United Nations Development Program (UNDP) report of April 2009 on public perceptions of

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33 These blueprints, drafted jointly by experts of the European Commission and EU member states, are practical guidelines laying down clear criteria based on EU best practice, against which a customs administration can measure its own operational capacity.

34 A value model is integrated within the Custom’s IT system and is used by customs officers at border crossings. The new ASYCUDA World system, which is expected to be installed soon, should provide greater technical possibilities for improving valuation.

35 According to the Kosovo Customs, these invoices account for 95 percent of collected revenue.
corruption found that corruption is ranked as the fifth most important problem facing Kosovo, while Kosovo Customs is ranked third in the list of institutions where there is perceived to exist large-scale corruption. Disciplinary procedures were applied to 85 customs officers in 2008, which is about 16 percent of all employees, however, significant number was related to inappropriate (non-corruption related) behavior, for example, not following rules and procedures.

3.23 One of the main objectives of Kosovo Customs is the collection of revenue, including customs duties, the VAT, and excise. The target for 2008 was €583 million, however a total of €606 million was collected—up from €527 million in 2007 despite the problems in the north with the non-functioning of two customs points, gates 1 and 31. The number of declarations as well as revenue per customs officer has been gradually increasing, mostly due to an increase in the number of declarations and imports, although there is considerable variation by customs station (Table 11).

Table 11: Kosovo Customs: Revenue and Declarations by Customs Station (2007–8)

<table>
<thead>
<tr>
<th>Customs station</th>
<th>Total revenue (€ million)</th>
<th>Revenue per staff (€ million)</th>
<th>Declarations per staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hani i Elezit</td>
<td>253.6</td>
<td>263.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Peja</td>
<td>48.1</td>
<td>63.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Airport</td>
<td>35.1</td>
<td>41.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Internal Station</td>
<td>21.7</td>
<td>50.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Vërmica</td>
<td>12.7</td>
<td>13.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Mitrovica</td>
<td>42.5</td>
<td>39.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Dheu i Bardhe</td>
<td>18.2</td>
<td>13.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Podujeva</td>
<td>29.0</td>
<td>39.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Other</td>
<td>66.1</td>
<td>79.7</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Kosovo Customs.

3.24 The general tariff rate is at 10 percent, and the reduced rate for capital goods and a wide range of intermediary goods is zero. To promote local production, the Kosovo Customs code applies a reduced rate of zero percent customs duty on most raw materials (including fuel) and most equipment for manufacturing, including fuel, all agricultural raw materials such as seeds and fertilizers, among others, and equipment. In the region, weighted average tariff rates for manufactured goods are lower than in Kosovo, while higher for agriculture products. Meanwhile, Kosovo’s VAT of 16 percent is the lowest in the region. Despite the fact that the rates are not excessively high, there remain significant issues regarding inadequate invoicing, smuggling, and corruption.

3.25 The government should consider reducing taxes on imports of electricity generators. Virtually all businesses have to resort to purchasing electrical generators to keep their businesses powered. Yet electrical generators, in contrast to other investment goods, are subject to import duties and VAT, increasing the cost by over 26 percent. It may be advisable to eliminate these taxes.

36 See http://unmikcustoms.org/tarik/.
excessive duties to alleviate what is widely perceived to be the most binding constraint to the country’s development.

3.26 **The list of documents required for trading across borders is typically short and simple.** According to the simplified audit, freight forwarders reported that it takes about two days to collect all of the necessary documents for export, matching the findings of BEEPS\(^{37}\). The following documents are required for clearance:

- CMR
- Commercial invoice
- Certificate of origin issued by the Kosovo Chamber of Commerce
- The EUR1\(^{38}\) document certified by customs for EU-bound exports
- A sanitary or quality certificate
- An import or export license
- Customs declaration.

<table>
<thead>
<tr>
<th>Table 12: Costs and Time of Export and Import Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phytosanitary certificate</strong></td>
</tr>
<tr>
<td><strong>Quality certificate</strong></td>
</tr>
<tr>
<td><strong>Import-export license</strong></td>
</tr>
<tr>
<td><strong>Certificate of origin</strong></td>
</tr>
<tr>
<td><strong>EUR1 certificate</strong></td>
</tr>
<tr>
<td><strong>Driver’s visa for EU countries</strong></td>
</tr>
</tbody>
</table>

*Source: Authors*

3.27 **According to surveyed freight forwarders, road border crossings take between 5 to 8 hours normally, but this can increase to 17 to 20 hours if trucks are not cleared during regular working hours.** There are three institutions represented at the border: Kosovo Border Police, the Veterinary and Food Agency, and Kosovo Customs. The procedures are reportedly the same for exporters and importers and include the following steps:

1. The freight forwarder submits a customs declaration online; according to Kosovo

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\(^{37}\) According to the BEEPS 2008–9 results, the average time to clear exports through customs is 1.72 days—comparable to other countries in the region—while the time to clear imports is 8.52 days. However, the number of trading firms that were part of the BEEPS sample (of total 270 firms) is small, hence the results may not be representative. When compared to other countries in the region, the time to clear imports through customs is five times higher than in Bosnia and Herzegovina, and more than three times higher than in Albania. The same survey found that 81 percent of enterprises in Kosovo used imported inputs for production, highlighting the extent of the economic impact of long import delays.

\(^{38}\) The EUR 1 is a preferential certificate of origin. It is required to validate claims for preferential duty treatment (reduced or duty-free entry). It is applicable for all countries that have preferential agreements with the EU. The EUR 1 certifies the origin of the goods to qualify the import for reduced duty rates.
Customs, 90 percent of declarations are submitted electronically.

2. Upon arrival of the truck to the border crossing, the entry registration is conducted by a customs officer, and the truck and driver documentation (passport, driver’s license, and vehicle documentation) is checked by a customs officer.

3. Irrespective of whether or not the documentation is in order, the truck is directed to the customs terminal parking.

4. A Veterinary and Food Agency agent samples the goods and issues the appropriate certificate, if applicable; there is usually only one agent and thus it may take anywhere from 30 minutes to 12 hours depending on the queue.\textsuperscript{39}

5. The necessary documents are submitted in paper to a customs broker, and it then takes from one to three hours for the broker to process the documents.

6. The customs broker submits the package to the customs officer. It takes two to three hours for the customs officer to process the documents and conduct a visual inspection of the contents of the container or truck.

7. Access fees are paid—a procedure that normally takes less than 15 minutes—and the truck leaves the premises.

3.28 \textbf{Customs clearance should be available 24 hours a day for the busiest customs terminals.} Customs terminals in Kosovo are operated on 24-hour schedule, but working hours for customs clearance are from 8 a.m. to 8 p.m., and this has been reported as one of the reasons for significant delays. The customs terminal at Hani i Elezit processes over 50 percent of all imported goods and there is a strong case for making this border crossing fully operational on a 24/7 schedule for all goods, where as currently only export and import of perishable products, as well as emergency imports, can be cleared 24/7. It would also require cooperation from the Veterinary and Food Agency as well as at least one of the commercial banks, because all of the institutions should have similar working hours. This would also set a higher standard and create incentives for reciprocity on the part of FYR Macedonia’s border services.

3.29 \textbf{At present there is only one public-bonded customs warehouse operated by a logistics company.}\textsuperscript{40} There were approximately 138 private-bonded customs warehouses, owned mostly by relatively large exporters or importers, to be used exclusively for their own needs. Yet there is only one authorized (type A) public-bonded customs warehouse. It is owned by the largest freight forwarder in Kosovo, InterEuropa, a Slovenian firm, and clears about 8 percent of imports and a negligible amount of exports. It received an authorization from customs, but was also required to obtain a business license from the MTC, paying a license fee of about €10,000. Licensing of customs warehouses by the MTC should be abolished, or, at least, should not be priced above the cost of issuing the license itself. It is a widespread practice for businesses in most countries to outsource warehousing. Increasing the number of public customs warehouses operated by freight-forwarding companies would:

- Help reallocate some of the customs clearance to inland terminals

\textsuperscript{39} The delay can last 12 hours in cases where trucks arrive close to the closing time of the Veterinary and Food Agency.

\textsuperscript{40} According to article 104 of the Kosovo Customs code, a customs warehouse may be either public or private. A public warehouse is a customs warehouse available for use by any person for the warehousing of goods, while a private warehouse is a customs warehouse reserved for the warehousing of goods by the warehouse keeper—the person authorized to operate the customs warehouse.
• Reduce border congestion
• Simplify international cargo consolidation services
  Create a more competitive environment in both warehousing and cargo consolidation services.

3.30 **There appear to be delays in receiving VAT rebates for firms that use inward processing.** There is evidence that receiving VAT rebates takes about two months—the maximum period mandated by the tax code—after all of the required documents are submitted. The outstanding backlog is estimated at €40–€50 million. The main reason for the delay is that tax authorities do not accept the customs documents certifying that the goods have been exported or re-exported. Instead, they require exporters to obtain a copy of import declarations from the importer. Hence, exporters in Kosovo depend on the cooperation of their counterparts, something that is not always guaranteed. Not surprisingly, this is even more problematic for smaller exporters and firms whose counterparts change frequently. Enhanced cooperation between customs and tax authorities on VAT rebates is recommended; tax authorities should accept customs clearance of exports as proof of export.

3.31 **Risk management improved with the introduction of a “red” and “green” line, but it could be further strengthened.** In practice, Kosovo Customs resorts to country profiling due to the limitations of the IT system. Discussions with freight forwarders suggest that there are few inspections of EU cargo, while a large percentage of non-EU cargo is inspected, such as cargo originating in Turkey. Kosovo Customs is exploring an option of adopting a more advanced system. One of the major alternatives being considered is ASYCUDA World, a free system developed by the United Nations Conference on Trade and Development (UNCTAD) and adapted to the needs of developing countries. The system has already been fully mobilized in neighboring Albania. A more modern and advanced system like ASYCUDA World will allow for improved user experience; improved risk management, including better company profiling; fewer physical inspections; and a faster average border crossing time.

3.32 **Kosovo could take a number of measures to expedite customs clearance to reduce export and import costs.** Several measures, if implemented, could improve customs processing times. Improved risk-based inspections of cargo could be introduced if the IT system used by customs informs declarants of the outcome of their automated risk analysis every time their declaration is processed. The risk rating should be performed in light of details previously entered by customs headquarters staff members into the customs computer system through an appropriate risk analysis module. Other measures could include:

• Recognition of foreign country quality and sanitary certificates
• Operation of border agencies 24/7 days a week, especially for busy border crossings
• Since 90 percent of customs declarations are submitted online, processing prior to the arrival of cargo at the customs terminal should be feasible
• Sanitary and customs inspections conducted from a single window.
Table 13: Strengths and Weaknesses of Kosovo Customs

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary legislation is in place and is EU compliant</td>
<td>The complete set of secondary legislation not yet passed (though Administrative Instruction by the Minister of Economy and Finance was issued in October 2009)</td>
<td>Scrutiny of all existing legislation and eventual modification of secondary legislation, regulations, policies, instructions and/or standing operational procedures needs to be completed as soon as possible</td>
</tr>
<tr>
<td>Legal gaps are small because former UNMIK rules and regulations are still applied</td>
<td>No new administration instructions issued by the director-general, as required by the Customs and Excise Code</td>
<td></td>
</tr>
<tr>
<td>A professional, standard unit is dealing with potential breaches of the code of conduct</td>
<td>A fixed time frame for review of existing regulations, policies, and instructions has not been set</td>
<td>With a Customs and Excise Code that is compliant with the EU, it is expected that the basis for all further legislation and regulations will be European standards</td>
</tr>
<tr>
<td>Proven performance in revenue collection</td>
<td>Lack of coordination between ministries of economy, finance, and customs</td>
<td></td>
</tr>
<tr>
<td>EULEX did not turn to executive responsibilities or reverse Kosovo Customs decisions in the past six months</td>
<td>Complaints on decisions seem to focus consistently on the same issues, including valuation of goods</td>
<td>Further analysis needs to be conducted to detect underlying causes of appeals complaints</td>
</tr>
<tr>
<td>Complaints and appeals procedures are in place</td>
<td>Independent review board has not met for more than a year, generating an appeals backlog</td>
<td>Efforts are needed to decrease the perception of corruption, including transparent communication</td>
</tr>
<tr>
<td>Kosovo Customs has an action plan to prevent and combat corruption</td>
<td>Perception by the public of corrupt practices in Kosovo Customs</td>
<td></td>
</tr>
<tr>
<td><strong>Sustainability of service</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memoranda of understanding with most neighboring countries exist, with the intention to review them in execution of the new Customs and Excise Code</td>
<td>Complains of understaffing at border/boundary crossing points, however no assessment appears to have been made</td>
<td>Specialized training in law enforcement areas might be needed</td>
</tr>
<tr>
<td>Examination of vehicles and goods are based on risk analysis derived from the Trade Risk Management System (TIMS), which includes a risk module</td>
<td>Training plan is not very extensive in more specialized areas of law enforcement and prevention (organized crime)</td>
<td>Human resources management and training do not seem to be in line with the EU Customs Blueprint</td>
</tr>
</tbody>
</table>
Government strategy on integrated border management has been approved; Kosovo Customs contributed to its preparation.

- Equipment levels at border/boundary crossing points are quite different, and in several cases not satisfactory.
- Infrastructure and equipment will need to be upgraded at several locations in light of the integrated border management strategy.

- Examination of vehicles and goods are based on risk analysis derived from TIMS, which includes a risk module.
- TIMS is not equipped for generating information on serious crime, and no specific database is available for specific intelligence needs.
- Recently approved integrated border management strategy opens the prospect of improved cooperation with border police, including at border/boundary crossing points.

- Operational plans exist for each directorate and form the basis of internal reporting.
- If operational plans need to be formally approved by the Minister of Economy and Finance, there is a risk of political interference.

**Source:** EULEX (2009).

**Note:** This table does not include all the items listed in the report.

### 3.33 In addition to customs operations, non-customs procedures also seem to slow down and increase the cost of crossing borders.

For example, sanitary and phytosanitary standards (SPS) represent a challenge and an opportunity for Kosovo. On the one hand, exports to the European Union may be increased as a result of developing an SPS infrastructure. On the other hand, with the demise of tariff barriers, SPS are increasingly used within CEFTA as a means of protecting domestic producers, a fact that has serious ramifications for Kosovo, given that a third of its exports to as well as a quarter of its imports into the CEFTA region are agricultural goods, the highest in the CEFTA region (Handjiski et al., 2010).

### 3.34 The Veterinary and Food Agency of Kosovo (VFAK) does not operate on 24/7 schedule at border crossing points.

Currently the agency works from 8 a.m. to 8 p.m. at the border. It often has only one representative at each border crossing station. Because the health certificates of neighboring countries are not recognized and routine samplings of 100 percent of food and livestock are conducted, one representative is often not enough, which extends waiting times up to two to three hours. Even longer delays exist in cases where goods are not cleared within normal operation hours. VFAK is closed on Saturdays and Sundays, increasing the waiting time at the border.\(^{41}\) VFAK should consider operating on Saturday and Sundays to be on the same schedule as Kosovo Customs. This measure, along with increased acceptance of relevant certificates issued by neighboring countries—especially at the busiest border crossings—could reduce border crossing time considerably.

\(^{41}\) In addition, it has been reported that to call the phytosanitary representative after hours necessitates payment of an additional €25. Many freight forwarders interviewed reported that a receipt for the extra €25 is usually not issued.
3.35 Finally, moving goods across borders could be eased by introducing integrated border management (IBM). At present, border agencies rarely coordinate their activities, partially due to the physical constraints of inadequate border crossing infrastructure. At one of the recently upgraded border crossings, the police and Kosovo Customs are co-located and they check the necessary documents of drivers and their consignment on imports only once. However, at most other border crossings, the customs station is a few hundred meters up to several kilometers away from the border crossing point. This slows down the customs and border clearance by adding another step of document checking into the process, and even leads to additional waiting time for the transfer of documents from the border to the station. At present, border procedures are not single window—even if checks by different border agencies are taking place at the same time, there are different lines and phytosanitary inspections only starts once customs clearance is completed.

3.36 Kosovo has 13 official border crossing points (BCPs) and 2 temporary crossing points. Of the 13 official BCPs, 10 are for road traffic and the remainder for railroads. The stretches between official BCPs, the so-called “green border,” are currently the responsibility of the NATO-led KFOR, although it is envisaged that these responsibilities will be transferred to the Kosovo border police in the future. In terms of infrastructure and equipment in road BCPs, the worst working conditions are in Glloboqica (bordering FYR Macedonia), Mucibabe, and Mutivode—both these stations border Serbia—where customs officers are using containers as premises, while as mentioned earlier, there is a customs presence in only one railway BCP, Hani i Elezit. The strategy notes that most BCPs do not have facilities, equipment and adequate space to work, and are therefore not in compliance with EU requirements.

Box 10: The Single Window System

A single window system is a trade facilitation scheme that enables international (cross-border) traders to submit regulatory documents at a single location and/or single entity*. Such documents are typically customs declarations, applications for import/export permits, and other supporting documents such as certificates of origin and trading invoices. The main advantage of having a single window is to increase efficiency through time and cost savings for moving cargoes across borders. In a traditional pre-single window environment, traders normally have to visit multiple government agencies in multiple locations to obtain the necessary papers, permits, and clearance to complete their import or export processes.

In practical terms, a single window environment provides one entrance, either physical or electronic, for the submission and handling of all data and documents relating to the release and clearance of an international transaction. This is managed by one agency, which informs the other appropriate agencies. In the case of Kosovo, starting an IBM strategy is a positive step in the right direction, and could be followed in a second phase with a single window system. The Macedonian Customs Administration, for example, introduced in November 2008 an electronic single window for trade facilitation. The new system simplifies the process of exporting, importing and transit of goods, and is a first step toward achieving a fully paperless trade system (Handjiski et al. 2010).

*Further details on UNECE’s Recommendations and Guidelines for Establishing a Single Window at: http://www.unep.org/cefact/recommendations/rec33/rec33_ecetrd352_e.pdf
E. Transport Services and Supply Chain Performance

3.37 The road transport industry is not well organized and standards are not always maintained. The licensing of all commercial vehicles in Kosovo is undertaken by the MTC’s Department of Transport. At present, there is no active truck association to represent the interests of the road transport industry. There are estimated to be about 90 licensed freight companies, of which 66 are “own account” operators, while vehicles operating in international traffic and delivering goods to Kosovo are mostly based in neighboring countries, although a number of them are joint ventures with local companies. Unlike in the European Union, there are no effective restrictions on access to the profession and vehicles can be purchased in the open market with minimum control from the MTC. Among the key recommendations to strengthen the sector are the following:

- Improve the recording of licenses
- Require own account operators to undertake a check on operational standards
- Encourage the industry to establish a body to represent the road transport industry
- Ensure that vehicle inspection is conducted in conformity with the law and establish roadside checking of all vehicles on a random basis.

3.38 Kosovo does not issue international road hauler traffic licenses (CEMT licenses), nor is it a signatory of the TIR Convention or ATA Carnet Convention. In the case of the CEMT licenses, the fact that Kosovo is not a UN member state means that it cannot be a member of the International Transportation Forum (ITF). Since CEMT is only valid for operations between two member states, Kosovo is neither issuing nor accepting CEMT licenses.

3.39 The absence of TIR and ATA Carnets creates difficulties for traders and carriers. Carriers encounter difficulties, particularly when traveling to non-EU countries. For example, when transporting consignments from Kosovo to Turkey, they are forced to wait in long lines on several international borders and carry significant amounts of cash to meet the required guarantees for the right of transit. The absence of ATA Carnet implementation creates complications when goods are being imported into Kosovo temporarily. The establishment of a TIR Association to allow cargoes sealed under TIR to be cleared within Kosovo would be recommended, but first the International Chamber of Commerce, the International Roads Union, and the International Freight Forwarders Association (FIATA) must accept Kosovo as a member.

3.40 Another issue faced by the road transport sector is the cost (in time and money) of obtaining EU visas. It can take between two to three weeks to obtain the visa, which is initially issued for only 15 days, although renewed applications can lead to an extension of the visa for a period up to one year. On December 19, 2009, citizens of FYR Macedonia, Montenegro, and Serbia were granted visa-free access to the Schengen countries (which includes most EU countries as well as Switzerland and Norway). Visas will also eventually be abolished for Albania, Bosnia and Herzegovina, and Kosovo, but the time frame is not yet clear. This situation puts Kosovo’s truck drivers at a disadvantage in comparison to three of its four neighbors.

42 This section on heavy goods vehicles is based on the European Commission Liaison Office to Kosovo (2008–9).
3.41 To assess supply chain performance, three firms were selected as case studies. The objective of the analysis was to quantify the key cost and time elements and identify key bottlenecks in these processes. The three firms selected (see Annex 4) included:

- A freight forwarder importing agricultural goods to Prishtina via the port of Bar
- A potato and potato processing company, exporting both potatoes and potato chips to the EU and CEFTA countries
- A wine exporter, exporting about 40 percent of its produce to Germany.

3.42 The border crossing procedural steps are similar for all three manufacturers. All three producers clear customs at the customs station closest to their production facility. In all three cases, the time spent in a border crossing was between 4 to 6 hours, with an additional 16 to 24 hours to obtain the necessary documentation, with the exception of the driver’s visa, which can take about two to three weeks. This is significantly below the figure of 17 days to export and 16 days to import according to Doing Business 2010 (World Bank 2010a), but for exporters it corresponds with the findings of BEEPS, which found that it takes one day to clear exports in Kosovo. The large difference between Doing Business 2010 and the case studies reflects the fact that the case studies covered relatively large firms. Despite this, there is considerable variation among the firms interviewed regarding the time it takes to cross the Kosovo border; according to the wine exporter, on average this takes 5 hours, but can vary from between 5 to 18 hours. The large variation in border processing time is an important issue because the predictability and reliability of supply chains are increasingly important in a world of just-in-time production sharing. Fees are applied to each imported and exported consignment, with the exception of charges for various inspections, which are assessed depending on the nature of goods in the consignment, for example, veterinary inspection for agricultural produce. The weight of the consignment and the depth of the inspection and associated analysis determine the cost.

3.43 Transport is the largest part of the generalized logistics cost. Economic distance to market, or generalized logistical cost, can be defined as the sum of all the time and cost expenditures of moving a consignment to a market (World Bank 2004c). In the case of the importer of agricultural goods, total transportation costs from the Port of Bar to Prishtina is about €1,200 to €1,300 for a 40 ton truck, in addition to a further €200 to €300 for port-handling fees for a container, and this sum dwarfs the costs associated with customs clearance. Meanwhile, for the wine exporter, the time and monetary costs of obtaining customs documentation and customs clearance are significantly below the transport costs to Germany: for a truck full of wine, the documentation and clearance costs are under €250, while the transportation costs are over €3,000. In the case of both the importer of agricultural goods and the wine exporter, the status of Kosovo has led to a diversion of the cargo transport route to avoid Serbia, and this added significant transportation costs in terms of cost and time. For the wine exporter, this has meant that transport costs are an additional 15 percent to 23 percent of the consignment value for a mid-quality wine. The manufacturer exports about 90 percent of its produce, but has to pay VAT and customs duty on all imported inputs, principally bottles and corks, while reimbursement is time consuming because it requires obtaining a copy of the purchaser’s import declaration as proof of export. Also, the wine exporter faced delays in obtaining VAT reimbursements.
F. MAIN RECOMMENDATIONS

3.44 Considerable efforts are needed to strengthen Kosovo’s export performance. Kosovo has a very small export base—10 times lower than its imports—and exports are heavily concentrated. Both on the regional and the EU market, Kosovo is competing with the other SEE countries, which not only have a much stronger export sector, but also a better overall investment climate, a key element for attracting export-oriented FDI. Moreover, the authorities cannot use exchange rate policy to make Kosovo’s exports more competitive. This makes it all the more important for Kosovo to implement trade facilitation measures and, in the medium term, to improve its transport infrastructure.

3.45 Enhancing Kosovo’s export competitiveness will require infrastructure investment, legislative improvements, and the strengthening of institutional capacities including:

- Investing in transport infrastructure:
  - Investing in the transport network to deal with the increasing demand.\(^{43}\) (long-term measure)
  - Establishing a sustainable financing framework to evaluate the financial feasibility of the significant transport needs and determine their priority. (short-term measure)
  - Improving the legal and regulatory framework to attain compliance with the EU transport acquis (short to medium-term measure).

- Ensuring adequate maintenance to preserve the value of the country’s transport infrastructure and to avoid future contingent liabilities due to deferred action.

- Further streamline customs operations and procedures. Annex 5 provides a list of detailed policy recommendations grouped into short-term and medium-term measures depending on the time and effort needed to implement the recommendation. Immediate focus should be on the short-term measures which could lead to immediate improvements in border crossing efficiencies.

- Improve the functioning of other border crossing institutions (see Annex 5 for a list of short and medium-term policy measures)

- Develop the “quality infrastructure” (standardization, accreditation, and metrology) to ensure that product can meet EU and international standard requirements.

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\(^{43}\) The forthcoming public expenditure review of the World Bank will review these important expenditure choices in the transport sector to come up with concrete and detailed recommendations on the choice and phasing of transport investments over the medium to long term.