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# Toward a Greener Future: Establishing a Green Fund for Kosovo

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## Summary

Environmental taxation is an important fiscal tool used by governments to generate revenue aimed at mitigating environmental impacts and promoting sustainability. In Kosovo, these taxes constitute a significant revenue stream. However, there is a clear discrepancy between the revenue collected and the amount allocated to environmental protection. Kosovo collects substantial revenue from environmental taxes, estimated at approximately 2.3% of GDP, yet allocates less than 2% of these funds toward environmental protection. This gap undermines the effectiveness and public credibility of green taxation, while urgent challenges such as air pollution, inefficient waste systems, and climate vulnerability remain underfunded.

This policy brief advocates for the establishment of a Green Fund for Kosovo, a dedicated, transparent financing mechanism that would reinvest a meaningful share of environmental tax revenues into strategic sustainability initiatives. Modeled on regional best practices such as Slovenia's Eko Sklad, the proposed Green Fund would support investments in renewable energy, energy efficiency, air quality, biodiversity, and circular economy.

The fund would serve as a tool to improve fiscal governance, build public trust, mobilize international co-financing, and ensure Kosovo's alignment with the EU Green Agenda. By linking revenue collection with targeted green spending, Kosovo can accelerate its environmental transition, stimulate inclusive green jobs, and contribute to long-term economic resilience.

To ensure that environmental tax revenues in Kosovo are effectively reinvested in sustainability and green development, this policy brief recommends the following actions:

- Establish a legally mandated Green Fund, in accordance with the Law on Environmental Protection, to finance circular economy initiatives, including research and development (R&D), environmental protection, climate action, and air pollution mitigation.

The Green Fund should:

- Have an independent governance structure with transparent oversight mechanisms.
- Ensure gender-balanced representation on its board and in decision-making bodies.
- Allocate a minimum of 30% of all collected environmental tax revenues directly to the Green Fund, ensuring a predictable and accountable financing flow for green initiatives.

The Green Fund will:

- Promote and positively impact environmental protection.
- Support and scale up circular economy initiatives
- Raise awareness about sustainability practices.
- Enhance the inclusion of women and marginalized groups in green business development.
- Increase women's participation in public funding opportunities.

## Why Establish a Green Fund in Kosovo?

In Kosovo, a critical disconnect persists between the collection of environmental taxes and the financing of environmental protection initiatives. Although environmental taxation generates an estimated 2.3% of GDP annually, approximately €240 million, less than 2% of these revenues are reinvested into environmental priorities. Instead, the majority of environmental tax revenues are absorbed into the general budget, resulting in limited funding for urgent issues such as air pollution, waste management, renewable energy deployment, and climate adaptation.

The establishment of a Green Fund would ensure that a substantial portion of environmental tax revenues is systematically allocated to environmental protection, rather than being dispersed across general expenditures. By channeling resources into high-priority green projects, the Fund would accelerate Kosovo's progress in addressing critical environmental challenges and contribute to sustainable economic development.

Gender equality is integral to the success of Kosovo's environmental transition. Women, particularly in rural and marginalized communities, are disproportionately affected by environmental degradation, yet they remain underrepresented in both decision-making processes and green employment sectors. Integrating a gender lens into the design and implementation of the Green Fund would ensure that women benefit equally from climate investments and are actively included in the shift toward sustainable and green development.

Furthermore, the creation of a Green Fund would help strengthen public trust in environmental taxation by ensuring transparent management and reporting of both revenues and expenditures. It would improve citizen confidence, encourage greater tax compliance, and signal the government's commitment to accountability and responsible fiscal policy.

From a strategic perspective, establishing a Green Fund is essential for aligning Kosovo's environmental policies with the European Union's Green Agenda for the Western Balkans. Kosovo has committed to the Green Agenda and adopted several strategic documents.

A long-term vision for the country's sustainable development is articulated in the National Development Programme 2030<sup>1</sup>. Additional key documents include the National Development Strategy (NDS), the Economic Reform Program, and the recently adopted Circular Economy Roadmap. The Circular Economy Roadmap for Kosovo represents a significant milestone in the country's transition toward a circular economy. It lays the foundation for a better understanding of Kosovo's unique strengths, capabilities, and opportunities that can drive a successful circular transformation. These strategic documents adopted by the Government of Kosovo (GoK) are aligned with the European Green Deal, the Sustainable Development Goals (SDGs), and the European Integration Agenda<sup>2</sup>. The GoK has emphasized that the implementation of these goals will be carried out through sectoral strategies and institutional action plans, accompanied by oversight mechanisms to ensure alignment with the state budget. More specifically, the goals outlined in the NDS's will be operationalized through strategic objectives in sectoral strategies, which will be further translated into concrete activities with predetermined budget codes, ensuring accountability and clarity in public spending.

Furthermore, the urgency of addressing the financial gap is underscored in the European Commission's Kosovo 2024 Progress Report, which clearly states: "Kosovo should conduct further work to incorporate sustainability considerations both in banking and non-banking strategic policies and objectives, and to implement a regulatory financial framework supporting private investments towards sustainable/green activities." (*Kosovo 2024 Progress Report*, p. 69)<sup>3</sup>. This statement highlights a critical weakness in Kosovo's green transition: the absence of a regulatory and financial infrastructure that enables both the public and private sectors to invest meaningfully in sustainable development.

Demonstrating credible green financing mechanisms would not only improve Kosovo's standing in EU accession processes but also unlock opportunities to access international co-financing from the EU, international donors, and climate finance institutions. Without a dedicated Green Fund, Kosovo risks perpetuating a cycle where environmental revenues are collected without delivering tangible environmental outcomes. Establishing a Green Fund would provide a foundational tool to strengthen environmental governance, promote green innovation and circular economy, create green jobs, and enhance Kosovo's resilience to climate and ecological risks. Moreover, the Green Fund should adopt gender-responsive budgeting principles, ensuring that funded projects include measurable gender equality outcomes. Application guidelines should require applicants to clearly demonstrate how their projects empower women or address gender-specific environmental vulnerabilities.

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<sup>1</sup> Government of the Republic of Kosovo, Concept for drafting the National Development Strategy 2030.

<sup>2</sup> The European Commission has framed the Clean Industrial Deal as the follow-up to the European Green Deal. It will build on the EU's work to transition to a sustainable economy and focus on strengthening industry and increasing competitiveness within this context. For more see <https://www.cleanenergywire.org/factsheets/qa-eu-aims-bolster-competitiveness-through-clean-industrial-deal#:~:text=der%20Leyen%20said,-,How%20is%20it%20different%20from%20the%20European%20Green%20Deal%3F,increasing%20competitiveness%20withi,n%20this%20context>

<sup>3</sup> Commission staff working document (2024). Kosovo\* Country Report. Available at [https://enlargement.ec.europa.eu/document/download/c790738e-4cf6-4a43-a8a9-43c1b6f01e10\\_en?filename=Kosovo%20Report%202024.pdf](https://enlargement.ec.europa.eu/document/download/c790738e-4cf6-4a43-a8a9-43c1b6f01e10_en?filename=Kosovo%20Report%202024.pdf)

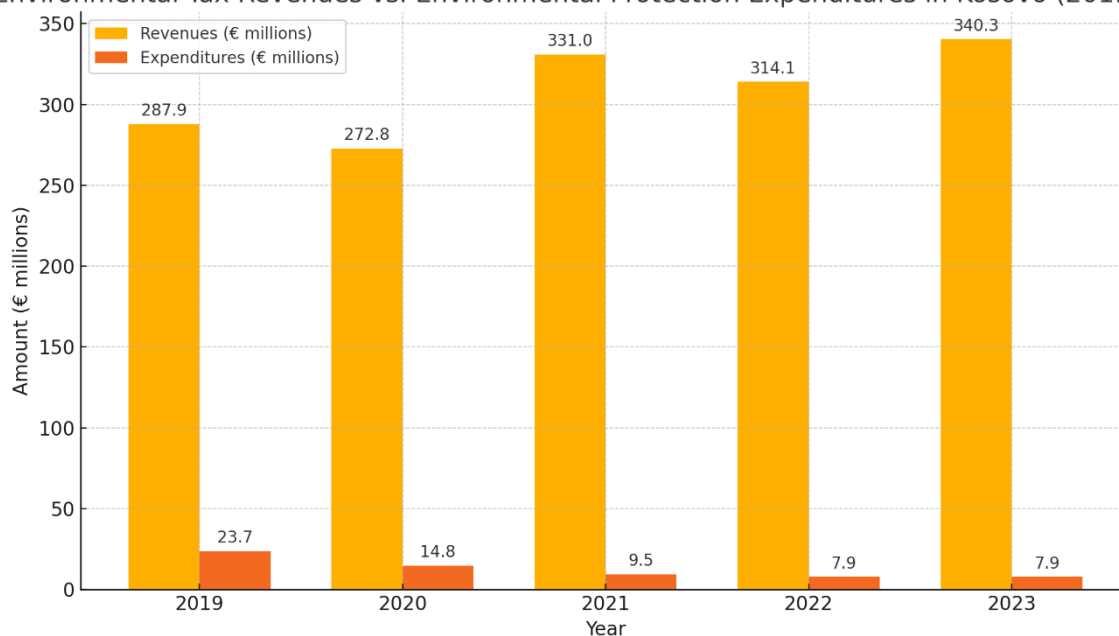
## The Missing Link: Environmental Taxes and Expenditures in Kosovo

In recent years, Kosovo has introduced a range of environmental taxes aimed at promoting sustainable practices and generating public revenue for environmental protection. These taxes, estimated to account for approximately 2.3% of GDP, have the potential to serve as powerful instruments for driving the country's green transition. However, despite the substantial revenue collected, a clear disconnect remains between environmental taxation and actual investment in environmental protection and sustainability initiatives. Only a fraction of the funds generated through environmental taxes, less than 2%, is reinvested into environmental protection measures. This missing link between revenue collection and expenditure weakens the overall effectiveness of environmental policy, undermines public trust in green taxation, and limits Kosovo's ability to address urgent challenges such as air pollution, waste management, renewable energy development, and climate resilience. Bridging this gap is essential to ensure that environmental taxation fulfils its intended purpose and contributes meaningfully to Kosovo's sustainable development goals.

An analysis of environmental taxation revenue versus expenditure dedicated to environmental protection in Kosovo from 2019 to 2023 reveals significant discrepancies (see Figure 1). Despite the substantial financial resources collected, reinvestment into environmental protection activities has remained minimal and has continued to decline over time.

From 2019 to 2023, the Government of Kosovo collected considerable revenues through environmental taxes, ranging annually between approximately €272.8 million and €340.3 million. However, the expenditure explicitly allocated to environmental protection did not follow this upward trend. In 2019, for example, only €23.7 million was spent on environmental protection out of €287.9 million collected. This disparity widened in the following years, with expenditures declining to €14.8 million in 2020, €9.5 million in 2021, and just €7.9 million in both 2022 and 2023, despite consistently high revenue collection.

Environmental Tax Revenues vs. Environmental Protection Expenditures in Kosovo (2019–2023)



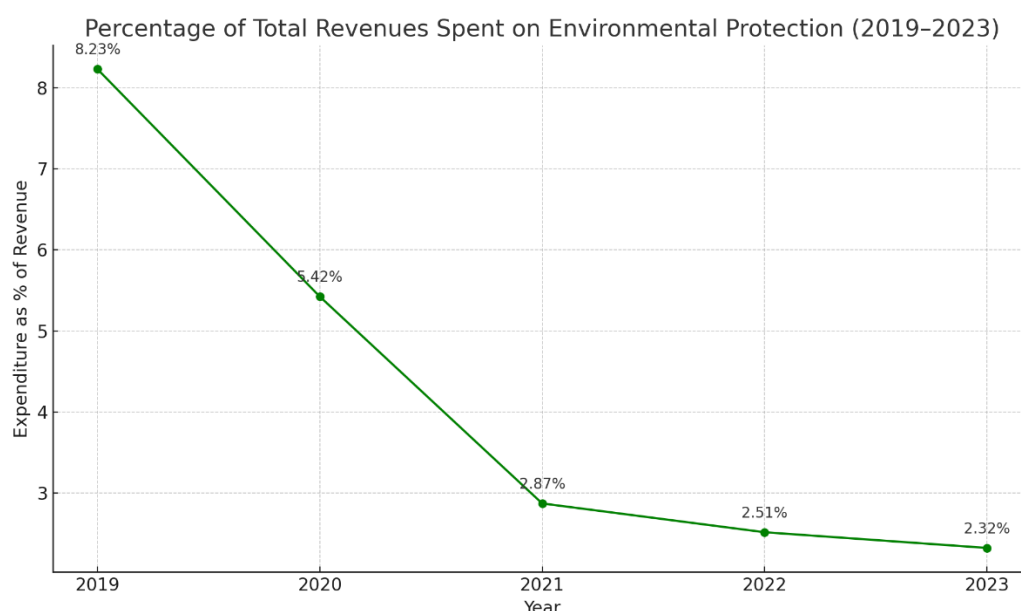
Source: Atlas Institute, based on the Kosovo Agency of Statistics 2025.

The following figure highlights discrepancies in the proportion of government expenditure on environmental protection relative to environment tax revenues (2019–2023). The data reveals a concerning gap between the revenues collected through environmental taxation and the government's actual spending on environmental protection in Kosovo.

Between 2019 and 2023, the share of environmental tax revenue allocated to environmental protection fell sharply from 8.23% in 2019 to just 2.32% in 2023. This consistent and significant decline reflects serious governance and fiscal management challenges, raising concerns about the government's commitment to environmental sustainability.

Despite collecting robust and stable revenues (consistently exceeding €270 million annually), there has been a progressive weakening in the financial commitment to environmental initiatives. The declining allocation trends signal a potential misalignment between budgetary policy and environmental goals. This persistently low and decreasing reinvestment into environmental protection is likely to:

- Undermine public trust,
- Reduce motivation for tax compliance,
- Erode the credibility and effectiveness of environmental taxation as a policy tool.



Source: Author's calculations based on Atlas Institute/Kosovo Agency of Statistics 2025.

Such a significant gap between revenue and expenditure indicates inefficiencies in resource allocation, raising concerns about fiscal transparency, governance accountability, and the government's commitment to environmental sustainability objectives. It also suggests that the primary purpose of these taxes to finance environmental protection measures is not being fulfilled, which may further erode public trust in environmental taxation policies.

To justify the continued collection of environmental taxes and restore public confidence, the Government of Kosovo must ensure these revenues are transparently and effectively allocated to environmental projects and initiatives.

To achieve this, policy measures should:

- Earmark environmental tax revenues explicitly for environmental expenditures.
- Be accompanied by clear reporting, monitoring, and auditing mechanisms to track and verify the effective use of funds.

Moreover, projects funded and implemented by budgetary organizations in Kosovo lack proper green tagging, making it difficult to track and verify whether budgetary allocations are effectively directed toward green and circular economy objectives<sup>4</sup>. This undermines transparency and limits the strategic impact of environmental spending. In this regard, the gap between environmental tax revenues and actual investments in environmental projects should be taken as a cautionary signal.

## Example from Slovenia: The Role of the Green Fund in Promoting the Environment

The following section highlights the successful case of Slovenia's use of environmental tax revenues for environmental protection. In 2021, Slovenia collected approximately €1.94 billion in environmental taxes, representing around 3.8% of its GDP (Eurostat, 2022). These revenues were generated from various sources, including energy taxes, vehicle registration taxes, pollution fees, and resource-use charges. During the same year, Slovenia spent approximately €510 million on environmental protection measures, including waste management, biodiversity conservation, air quality improvement programs, renewable energy promotion, and climate change adaptation (Eurostat, 2022; Slovenian Ministry of Finance, 2022).

The direct reinvestment rate of environmental tax revenues into environmental protection was calculated at approximately 26.29%, indicating that slightly over a quarter of Slovenia's environmental tax revenues were used for environmental objectives.

While Slovenia demonstrates a strong linkage between environmental tax collection and environmental spending, it is important to note that not all environmental tax revenues are earmarked specifically for environmental protection (Eko Sklad, 2022). A portion of the revenues, particularly from energy consumption taxes and vehicle ownership taxes, continues to flow into the general state budget to finance other public expenditures.

Nevertheless, a significant and well-managed portion of environmental revenues in Slovenia is allocated through the Environmental Fund (Eko Sklad, 2022). In 2021, Eko Sklad directly managed approximately €100 million for environmental projects, primarily focused on:

- Supporting energy efficiency improvements in households and businesses.
- Promoting the adoption of renewable energy sources, such as solar panels and biomass.
- Financing sustainable mobility initiatives, including subsidies for electric vehicles and the development of EV charging infrastructure (Eko Sklad, 2022).

Through the structured operation of Eko Sklad, Slovenia has ensured that a meaningful and transparent share of its environmental tax revenues contributes directly to its national environmental and climate policy goals. The Slovenian model demonstrates that even without fully earmarking all environmental tax revenues, the establishment of dedicated financial mechanisms for environmental spending, such as Eko Sklad, is essential. This approach guarantees that at least a substantial portion of environmental tax revenues is reinvested in ways that clearly support environmental improvements and national public policy objectives.

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<sup>4</sup> Discussion during the roundtable policy debate entitled "Circular Economy for Green Transition in Kosovo". 30 May 2025, Prishtine, Kosovo.



Kosovo and other Western Balkan countries can draw key lessons from Slovenia by:

- Establishing a Green Fund to manage a dedicated portion of environmental tax revenues.
- Introducing clear financial reporting and transparency mechanisms to ensure accountability in the use of the green fund.
- Prioritizing investment in renewable energy, energy efficiency, pollution control, and biodiversity protection.

## Legal Basis for Establishing the Green Fund

From a legal perspective, the only viable option for the functional establishment of a Green Fund in Kosovo is through the adoption of a special law. In particular, following Article 77, paragraph 2 of the Law No.03/L-025 on Environmental Protection Law<sup>5</sup>, the Eco Fund must be established through a special law adopted by the Assembly of the Republic of Kosovo. Without such a dedicated legal act, the fund cannot be legally or institutionally operationalized.

This legal foundation is not only a prerequisite for functionality, but also a strategic tool to:

- Align Kosovo's green financing architecture with EU standards.
- Strengthen donor and investor confidence.
- Enable measurable progress in the country's green transition.

## Importance of the Green Fund for Kosovo

A Green Fund would function as a specialized financing mechanism, explicitly designed to manage funds raised from environmental taxes and channel these resources exclusively into environmental sustainability initiatives. Such funds have proven successful in numerous countries, enhancing clarity, accountability, and public confidence in environmental governance.

## Importance and Benefits of a Green Fund

- Ensuring Dedicated Allocation:

A Green Fund guarantees that environmental tax revenues are strictly allocated to environmental projects, thereby reducing the risk of misallocation or diversion to unrelated expenditures.

- Promoting Inclusive Access:

The Fund should ensure that at least 30% of funding recipients are women-led businesses or initiatives that directly benefit women and marginalized groups. Additionally, the fund would provide technical assistance and capacity-building support to women entrepreneurs and community-based organizations.

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<sup>5</sup> Law No. 03/L-025 on Environmental Protection. (2009). Official Gazette of the Republic of Kosovo. Available at [https://old.kuvendikosoves.org/common/docs/ligjet/2009\\_03-L-025\\_en.pdf](https://old.kuvendikosoves.org/common/docs/ligjet/2009_03-L-025_en.pdf).

- Transparency and Accountability:

Through a clear governance structure and robust monitoring mechanisms, the fund would enable comprehensive reporting of financial activities. This level of transparency would foster trust among citizens and stakeholders, reinforcing tax compliance and broad public support.

- Long-term Environmental Sustainability:

Consistent and predictable funding enables the planning and implementation of long-term environmental projects, including renewable energy initiatives, waste management programs, air and water quality improvements, biodiversity conservation, climate change mitigation and adaptation measures, and R&D in all these projects.

- Leveraging Additional Funding:

A well-established Green Fund can mobilize additional financial resources from international donors, development agencies, and private sector partnerships, thereby amplifying environmental investments and supporting broader sustainability goals.

## Key Components for Establishing a Green Fund in Kosovo

To address the critical gap between environmental tax collection and environmental investment, Kosovo must urgently establish a dedicated Green Fund. This fund would ensure that revenues generated through environmental taxation are systematically reinvested into environmental protection, rather than being absorbed into the general state budget, where their intended purpose is often diluted. A Green Fund would provide the institutional structure needed to align financial flows with Kosovo's sustainability objectives.

The Green Fund of Kosovo should be established as a publicly owned, independent legal entity with full financial, administrative, and operational autonomy. Its core mission would be to support Kosovo's green transition by financing and implementing environmentally sustainable investments in line with:

- National climate and development goals.
- The EU Green Deal.
- The Green Agenda for the Western Balkans.

The Fund will carry out this mission by mobilizing and allocating financial resources, including environmental tax revenues, donor contributions, and international climate finance, through a series of structured public calls targeting a wide range of beneficiaries:

- Public sector institutions: for projects that promote environmental sustainability, including green infrastructure, climate adaptation, circular economy, biodiversity protection, waste reduction, and sustainable resource management.
- Business entities: to support green innovation, circular economy initiatives, clean production technologies, pollution control, and the transition to low-carbon business models.
- Non-governmental organizations (NGOs): to enhance the role of civil societies in environmental advocacy, education, community-led climate resilience, ecosystem restoration, and behavioral change towards sustainability, with gender inclusion as a cross-cutting priority in all activities.

To maximize the impact of the Fund's resources, a mixed-financing approach should be adopted. Drawing lessons from successful models such as Slovenia's Eko Sklad, the Green Fund should combine grants, soft loans, and targeted subsidies. This approach would enable the Fund to support a wider range of projects, mobilize private sector investment, and optimize the use of limited public resources.

Transparency must serve as the cornerstone of the Green Fund's operations. Regular public reporting on revenue sources, funded projects, and measurable environmental outcomes is essential to rebuild citizen trust in environmental taxation. Transparency would also signal Kosovo's commitment to international environmental standards and enhance its credibility when seeking additional international support.

Strategic planning will be critical to the Green Fund's success. Funding priorities should be closely aligned with Kosovo's most pressing challenges, including air quality improvement, renewable energy development, modernizing waste management, circular economy, and strengthening climate resilience. By targeting these key areas, the Fund can deliver measurable environmental outcomes, support public health, stimulate economic growth, and position Kosovo as a regional leader in environmental governance. Importantly, strategic planning should be guided by sex-disaggregated data and gender impact assessment to ensure that environmental investments contribute to reducing, rather than reinforcing existing inequalities, but rather advance the gender equality agenda.

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