

Investing and Doing Business in Kosovo

December 2022



**Kosovo Israel
Chamber of
Commerce**



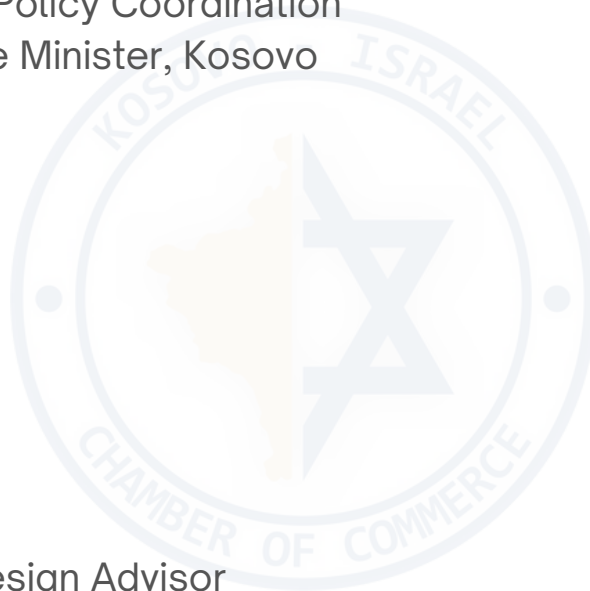
Investing and Doing Business in Kosovo | Kosovo-Israel Chamber of Commerce

Author:

Urtina Zeka

Senior Officer for Policy Coordination

Office of the Prime Minister, Kosovo



Design:

Era Skivjani

Publication and Design Advisor

Kosovo-Israel Chamber of Commerce

DISCLAIMER: The views presented in this publication are solely those of the Kosovo-Israel Chamber of Commerce (KICC).

All rights reserved KICC©2022

Contents

Kosovo in Brief - Fact Sheet	3
Country Context	4
General Investment Environment	5
Currency and the Banking System	8
Trade and Customs	9
Labor Market	12
Industries with Investment Opportunities	13
Agriculture	13
Wood Processing	14
ICT	14
Construction	16
Mining and Minerals	16
Energy	17
Waste Management and Recycling	19
Textiles	20
Tourism	20
Kosovo-Israel Chamber of Commerce	22

Kosovo in Brief - Fact Sheet

Geography

Land size is 10 905 km²; 53% agriculture land, 45% forests; low flood plains surrounded by mountains.

Population

1.8 million; 92% Albanian, minorities include Serbs, Bosniaks, Gorans, RAE, Turks; 42% urban, 58% rural; 800,000 living abroad; languages spoken are Albanian, Serbian and English.

Currency

Euro.

GDP

\$9.2 billion; per capita \$5200; average growth 4.24% in 2021

Inflation

2.36% on average until 2021; 13% in 2022

Financial Sector

Banking system consists of 10 private banks, 14 insurance companies, 2 pension funds and 22 micro finance institutions.

Enterprises

Around 58,000 active businesses in 2019, more than 90% of which are SMEs; approximately 50 % of total businesses are engaged in the trade industry. The number of SOEs in the Privatization Agency of Kosovo portfolio is 595.

Budget

€2.8 billion in 2022

Tariff Duties

10% customs duties on imports, no duties on capital and intermediary goods, and selected raw materials, excise tax on fuel, tobacco, alcohol, and luxury goods. No duties and taxes on exports.

Tax System

VAT standard Rate 18% in basic living goods; 8% in basic living goods; 0% in basic living services and other services including health services and education; progressive Income Tax of maximum 10%; mandatory contribution for employees of 5% of gross salaries.

Free Trade

Stabilization Association Agreement (SAA) with the European Union (EU) signed in October 2015, effective 1st April 2016. Kosovo currently enjoys free trade within the Central European Free Trade Agreement – CEFTA. Autonomous Trade System of Preferences with EU, USA, Norway, Japan, and Switzerland. This program offers a custom free treatment for a wide range of products. Kosovo also has a free trade agreement with Turkey.

Labor Market

Average labor cost 484 euro, minimum wage 264 euro, labor force with advanced education is 71.36 %, English is widely spoken. Unemployment rate at 26%.

Country Context

Kosovo is an upper-middle income country with a market-based economy. The private sector emerged only after the 1999 war and remains underdeveloped. The industrial sector, as the hardest-hit sector from the conflict, has never fully recovered. Therefore, economic growth is driven by consumer demand rather than production. This demand is largely sustained by remittances which account for 15% of GDP. Because of the high volume of imported goods, as reflected in the persistent trade deficit, these funds do not contribute to the creation of job opportunities. Nonetheless, since declaring independence in 2008, Kosovo has experienced economic growth each year of around 4% per annum and exhibits strong potential for further economic growth. Economic growth in 2021 was 7.5%, while the forecasted growth is 3-4% in 2022.

With an overwhelming majority, the government has a strong electoral mandate to implement long-term change. The government ran on the premise of ridding the country of corruption through putting a stop to politically appointed senior level officials in the civil service and vetting the judicial system. Corruption is decreasing, with a Corruption Perceptions Index of 39/100 in 2021.

The judicial system is composed of the Supreme Court and subordinate courts, a Constitutional Court, and an independent prosecutorial institution. The system is improving; the clearance rate for civil and criminal cases is 167%, as of 2018. Laws and regulations are largely consistent with EU best practices and international standards on investment protection. The Law on the Commercial Court, which establishes a special court for handling business disputes, was adopted in January 2022. All large companies are required to comply with international accounting standards.

Property rights are enforced but establishing title to real estate can in some instances be difficult due to competing claims resulting from the 1999 conflict. Intellectual property rights mechanisms are in place and breach occurs mostly in low value items. There is a lack of awareness and capacity to identify breaches and enforce IPR provisions. Kosovo is not a party to WIPO or other similar organizations, but adheres to multilateral conventions on intellectual, industrial and commercial property rights. Transparency in public procurement has improved and all procurements and related information are published on the e-Procurement system on the webpage of Public Procurement Regulatory Commission. Kosovo's contested statehood causes barriers to doing business. It results in visa restrictions, fewer flight routes, bank transfer restrictions, and issues with software and applications. Nonetheless, Kosovo has attracted FDI due to its young, English speaking population, low labor costs, and proximity to the EU market. The importance of the latter has been highlighted after the COVID-19 pandemic, whereby opportunities for near-shoring production gained interest. Production remains largely in agriculture, wood processing, construction, energy, and mining.

After reaching a record of 10.5% in 2021, GDP growth moderated to 4.9% in Q1 of 2022, driven by domestic demand and exports. On the production side, the service sector was the main contributor to economic growth. The latter was fueled by remittances, credit growth and higher public transfers. Because of the increase in import prices, inflation reached 14.2 percent in July 2022. Kosovo has the lowest public debt in the region with 23% of GDP. Its informal economy is estimated to constitute 31% of its GDP, as of 2018. As of 2021, FDI inflow accounts for 421 million euros. German companies lead in net FDI with 122 million euros. Real estate and leasing activities are the largest beneficiaries of FDI, followed by financial services and energy. The food, IT, infrastructure, and energy sectors are growing and are likely to attract new FDI.

Kosovo's regulations allow for investment incentives. In the 2020 Doing Business Report, Kosovo ranked 57 out of 190 economies surveyed and was recognized as one of the top 20 most improved economies in the world. Some challenges to doing business remain the lack of electricity supply, obtaining construction permits, and the size of the informal sector.

Kosovo has a comprehensive legal framework for investment and business activities. There are three main laws that guide investment:

- the 2014 Law on Foreign Direct Investment
- the 2017 Law on Strategic Investments
- the 2018 Law on Business Organizations

The Law on Foreign Direct Investment gives equal and fair treatment, offers protection for foreign investors and provides a clear definition of foreign investors. The Law on Strategic Investments describes investment activities and the conditions under which investors can receive the status "strategic investor". The Law on Business Organizations covers the registration and closure of a company, and the rights and obligations of shareholders. All of the above are available in English on the official Kosovo Gazette website. Moreover, all new regulations are subject to public consultation processes. Kosovo does not discriminate against foreigners. The FDI regulatory Restrictiveness Index is at 0.001, below the OECD average of 0.064. This indicates that foreign firms operating in Kosovo are granted the same treatment as domestic businesses. Investor protection against expropriation without fair compensation is guaranteed by law. Kosovo also has a network of bilateral investment treaties that constitute another layer of protection.

Alternative dispute resolution tools are available. As a signatory of the ICSID Convention and the New York Convention, Kosovo recognizes international arbitration awards. It hosts private arbitration centers in the Kosovo Chamber of Commerce and the American Chamber of Commerce in Kosovo. In 2018 Kosovo adopted a new mediation law and measures were taken towards online mediation.

The Law on Strategic Investments provides a list of priority sectors, namely: energy with infrastructure and mining, transport and telecommunication, tourism, processing industry, agriculture and food industry, health, industrial and technological parks, and wastewater and waste management. KIESA, the Kosovo Investment and Enterprise Support Agency, is mandated with investment and export promotion, support to SMEs, and managing special

economic zones. It reports directly to the National Council for Economic Development, which is chaired by the Prime Minister. The latter aims to eliminate barriers to doing business and encourage investment in the economy. However, no clear strategy framework for attracting FDI exists, and there is a lack of inter-ministerial coordination mechanisms in this regard. Further, KIESA's financial and capacity shortcomings, paired with its large mandate, limit its ability to attract investment.

Kosovo does not offer specific investor incentives but its tax structure and support measures for strategic projects provides attractive grounds for investment. Kosovo has a flat corporate tax rate of 10%, and grants firms VAT (value-added tax) advantages including deferrals and exemptions, such as for imports of raw materials and machinery. The Law on Strategic Investments provides additional advantages to businesses, including the provision of state-owned immovable property and supported access to basic infrastructure. The government can also issue guarantees or jointly financed FDI projects. KIESA supports investment in the special economic zones according to the Law on Economic Zones.

Registering a business in Kosovo is simple and relatively uncostly. In addition, KIESA provides the necessary pre-investment information and facilitates interactions with other public institutions in the process of obtaining licenses and permits. Opening a business in Kosovo involves 3 procedures and takes 4 days and a half at most.[1] The types of businesses that can be registered in Kosovo include the following:

1. An individual business in which the owner has unlimited responsibility for all the debts of the organization.
2. A general partnership in which all partners are responsible without limitation and with solidarity for the debts of the organization.
3. A limited partnership in which there is at least one general partner and at least one limited partner.
4. A limited liability company, which are corporations established by one or more founders who have a separate legal personality from the company.
5. A joint stock company, which are corporations established by one or more founders who have a separate legal personality from the company.

Foreign businesses may also carry out economic activity through a branch office upon the registration with the Business Registration Agency in Kosovo. Only joint stock companies require minimum capital, which is 10,000 euros. The last two categories can be organized in a corporate form and are considered as legal entities with a separate legal personality from its owners. The section below details the procedures of registering a LLC and JSC.

[1] For Limited Liability Companies

Registering a Limited Liability Company (LLC)

Request the Business Certificate and the Business Information document at the Kosovo Business Registration Agency (KBRA) within the Ministry of Trade, Entrepreneurship and Industry. This is a one stop shop service that includes obtaining the fiscal number and completing the VAT registration and is available in all municipalities and. All the forms can be downloaded in KBRA's website. According to the amended law on Business Organizations, the certificate on business registration can be issued in 2 days not counting the day of submission of documents. The documents required for registration are:

1. Registration application
2. Articles of Incorporation based on Article 33 of Law No.06/L – 016. 3
3. The company agreement for LLCs based on Article 33 of Law No.06/L – 016.
4. Consent of the registered agent based on Article 33.2 of Law No.06/L – 016.
5. Identification document (ID, Passport) of owners
6. Resolution of the competent body of the founding shareholder to establish the new company
7. Copy of the registered agent ID card.

Further, companies then inform the Tax Administration of Kosovo on the hired employees, through the declaration of the list of monthly payment in electronic format provided by the Tax Administration of Kosovo

Although not required, most businesses obtain a company seal.

Registering a Joint Stock Company (JSC)

The Joint Stock Company is established only after the registration of the Statute/Charter approved by the founders with the Memorandum of Incorporation at the KBRA.

To initially register a Joint Stock Company, the authorized representative should submit to KBRA the following:

- A registration form prepared by the KBRA
- ID copy of the owner and of the authorized representative
- The Statute of the Joint Stock Company containing all the information as required by the law
- Memorandum of Incorporation
- A consent form signed by the authorized representative might be required

Law nr.06/L-105 on Corporate Income Tax foresees carrying forward of losses up to four consecutive tax periods which are available as a deduction against any income in those years. In accordance with this law, if a taxpayer purchases new capital goods for the purpose of the taxpayer 's economic activity between two years, in the second category of assets as defined by law, a special deduction of ten percent (10%) of the cost of acquisition of the asset shall be allowed in the year in which the asset has been first placed into service. This deduction is available in addition to the normal allowable depreciation deduction. Moreover, a resident taxpayer who receives income from business activities outside of Kosovo through a permanent establishment outside of Kosovo, and who pays tax on that income to any state, shall be allowed a tax credit under this regulation in an amount equal to the amount of tax paid to that other state. Any tax credit under the present section is limited to the amount of tax that would be paid under Kosovo tax law on the income made in such a state. Any applicable bilateral agreement on the avoidance of double taxation shall supersede these provisions. In order to promote local production, the new Kosovo customs and excise code No. 03/L-109 applies a reduced rate of zero percent customs duty on certain capital goods, raw materials and agricultural production inputs. A zero-tariff rate is also applied to the export of goods and services.

Currency and the Banking System



Although not a Eurozone member, Kosovo adopted the euro in 2002, which provides a stable macroeconomic environment. There has been a historically low inflation rate, averaging at 1.8% per annum from 2003 to 2021. This eliminates exchange rate risk thus putting Kosovo at the front in the region. Kosovo does not have a stock exchange. Kosovo has a two-tier banking system with the Central Bank of Kosovo serving as the financial supervisory agency, responsible for licensing, regulation, and supervision of financial intermediaries. There are 10 private banks, 14 insurance companies, 2 pension funds and 22 micro finance institutions. Foreign banks and branches can establish operations in the country. They are subject to the same licensing requirements and regulations as local banks. There are no restrictions on foreigners opening bank accounts; they can do so upon submission of valid identification documentation. Foreign investors are permitted to open bank accounts in any currency. Foreign and domestic investors can get credit on the local market. The market determines interest rates. The latter have dropped significantly in recent years, from an average of about 12.7 percent in 2012 to an average of 3.1 percent in 2021. Individual banks conduct risk analysis and determine credit allocation. Bank capital buffers and asset quality remain adequate, with non-performing loans remaining stable at 2.1 percent. The average duration of all active credit contracts was 5 years and 5 months in 2021. In 2016, the government partnered with USAID and other international donors to launch the Kosovo Credit Guarantee Fund, which improves access to credit.

Trade and Customs



Kosovo's trade policies make it the most open economy in the Western Balkans region. Further, its geographical position and developed road infrastructure offers a good opportunity to access EU markets. Road transportation dominates while railroad transportation is available for Serbia and North Macedonia. Kosovo has access to the port of Durrës, port of Thessaloniki, and port of Bar.

While not a member of WTO, Kosovo is signatory to the Central European Free Trade Agreement (CEFTA), which gives a free trade regime with Albania, Macedonia, Serbia, Moldova, Montenegro, and Bosnia and Herzegovina, a market that represents around 20 million consumers. Moreover, it has a Stabilization and Association Agreement (SAA) with the European Union, which entails a gradual establishment of a free trade area between Kosovo and the European Union. Based on this, the customs duties for Kosovo exports were abolished, granting full access to the EU market with the exception of a limited number of products for which the quota regime shall apply. Under the same agreement, customs tariffs on industrial imports will be eliminated progressively over a period of 10 years, with complete elimination set to occur in 2026. In order to maintain continuity of the effects of the EU-Kosovo Agreement in a bilateral context, Kosovo also signed a trade and cooperation agreement with the UK. Similarly, Kosovo signed a free trade agreement with Turkey, which foresees the gradual elimination of customs duties on certain products within 10 years and the commitment to negotiate provisions on the facilitation of trade in services.

Kosovo has signed a Joint Declaration on Cooperation with the signatories of the European Free Trade Agreement (EFTA) and the Economic Cooperation Agreement with the Czech Republic. Kosovo benefits from trade preferences with EU, USA, Norway, Japan and Switzerland, which gives a custom free treatment for a wide range of Kosovo products. Kosovo has signed double-taxation treaties with Albania, Austria,

Trade and Customs

Croatia, Hungary, Latvia, Lithuania, Luxemburg, Malta, Netherlands, North Macedonia, Saudi Arabia, Slovenia, Switzerland, Turkey, the United Arab Emirates, and the United Kingdom. Such treaties with Belgium, Finland, and Germany are inherited from the former Yugoslavia. Israel does not have any bilateral investment or taxation treaty with Kosovo. While all these agreements are in place, there have often been cases of non-tariff barriers from other CEFTA economies which cannot be solved by CEFTA dispute mechanisms. This is further exacerbated by the fact that three of CEFTA states have not recognized Kosovo's statehood.

Kosovo has a high trade deficit given the small domestic market and low production. Exports cover imports by 15% and the trade deficit is around 30% of GDP. Exports and imports of goods and services represent 35.4% and 68.1% of GDP respectively. Trade in Kosovo was reported at 104% of GDP in 2021. Its trade with CEFTA represents 38% of exports and 19% of imports. Trade with the EU accounts for 30% and 44% of exports and imports, respectively. Kosovo's main export partners are Italy, Albania, Macedonia, Switzerland, Montenegro and Germany. Other important trade partners for Kosovo are China, Turkey, and India, mainly due to the large amount of ores exported and various imported goods.

Kosovo mainly exports metals (47 percent of total exports) and mineral products (30 percent of total exports). Other exports include prepared food, plastics and rubber, machinery, appliances and electric materials and textiles. Services represent the largest share of the economy, accounting for 46.4% of GDP. Trade in services accounts for 37% of GDP. Services exports have seen an annual average growth rate of 12.9%, while services imports have seen an annual average growth rate of 8.1%, resulting in a growing surplus. The main services Kosovo exports are travel services. In 2021, Kosovo imported products from Israel worth 23 million euros and exported products worth 356,330 euros. Exports include dresses, raw hides of cattle, mattresses, and soft drinks. Imports from Israel include diesel fuel, gasoline, orthopedic devices, plastic furniture, washing or dyeing machines, and herbicides.

Kosovo's trade policy is largely reflected in the Law on Customs and Excise Code of Kosovo No. 03/L-109. However, specific laws for exemptions from custom duties apply. Government decisions are enforced ad hoc depending on the government agenda. The customs code is based on the EU customs code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System. A 10 percent customs duty applies to countries which Kosovo has no trade agreement with. There is also an 8% VAT on essential goods and an 18% VAT on all other imported goods. A rate of 10% is imposed on imports and zero percent on exports. Goods with EU origin, pursuant to Agreement of Stability and Association with the EU, have different levels of tariffs, depending on the maturity of

Trade and Customs

Agreement, year after year and tariff number. Exemptions from VAT and specific goods based on tariff number exist for imports of raw materials. CEFTA member states are exempted from the customs duties. Exemption covers a range of capital and intermediary goods, but also for pharmaceutical goods, which are zero rated. Excise tax is applied to, among other things, petroleum, tobacco, and alcohol as a flat percentage rate of the value of the item (10%-50%) or is pre-determined based on the item. Exemptions include most agricultural inputs, chemicals, wood products, health and medical devices, production-line expenses, raw materials, machinery used in production, and IT equipment. Updated detail on tariff schedules based on product category is available on the official website of Kosovo Customs.

Policies on temporary importation and re-exportation of products are allowed so long as the product does not undergo change. Such products are subject to import duties at 3% of their value for every month or part of the month in storage. The latter is available as bonded warehousing (privately-owned storage facilities) and allows non-domestic goods without imposing import duties. The goods can be re-exported free of charge. Temporary admission is mainly applied to vehicles, machineries, but never to consumable goods. Products are also allowed to be temporarily exported, or outwardly processed, in order to undergo any processing. They can be released in the domestic market with partial or total exemption from import duties. Again, consumable goods are not subject to this policy.

Importers must be equipped with a single administrative document which is available at the Kosovo Customs' office in Prishtina. It requires a certificate of origin, commercial invoice, and customs goods declaration. Labels in Albanian and Serbian with product detail are required. Product certification is regulated by the Law on Standardization. The Standardization Agency and the Accreditation Directorate within the Ministry of Industry, Entrepreneurship and Trade are responsible for standardization and accreditation. While not a member of the International Organization for Standardization, Kosovo has certified experts in ISO 9001 and similar areas. European and international standards apply. Kosovo is a member of the European co-operation for Accreditation (EA), the International Laboratory Accreditation Cooperation (ILAC), and employs the code of conduct of International Accreditation Forum (IAF). This makes test certificates be accepted from laboratories in countries with agreements with the former three organizations. Kosovo standards are identified with SK. Regarding professional services, legal and accountancy professions require registering with the Kosovo Bar Association and the Society of Certified Accountants and Auditors of Kosovo (SCAAK) respectively.

Labor Market

Almost two thirds of Kosovo's population is of working age (15-64). As of 2021, the unemployment rate was 25.8%. Unemployment among women is higher (32%) than that among men (25%). The unemployment rate amongst the young, namely those aged 15-24 years, is especially high. With more than half of the population under the age of 25, Kosovo has the youngest population in Europe. However, the weak economy, paired with a skills mismatch, has contributed to an unemployment rate of about 50% among this group. Moreover, the share of the youth population not in employment, education, or training (NEET) stands at 32%. A potentially more worrisome feature of the labor market is the low level of the participation rate, especially among women. The inactive labor force represents more than 60% of the working age population. In addition, only one in every five women actively participates in the labor market, mainly due to competing domestic chores and the acquisition of lower levels of education among women compared to men. There is a high rate of informal employment, which constitutes a third of the Kosovan labor supply, as of 2017. The minimum wage is 264 euros per month while the average wage is 484 euros.

Employers in Kosovo are obliged to respect the work hours, payment overtime, health and safety standards, and annual leave, including maternity leave. The latter comprises six months of paid leave, three months of government paid leave, and another three of unpaid leave. Premium for overtime work is 30% of hourly pay. Layoffs and firings are distinct, whereby severance is only paid for laid off workers in cases where 10% of them are laid off collectively. The cost of laying off employees is the cost of 4 weeks' wage. There are no unemployment benefits. Both employer and employee are subject to compulsory pension contributions in Kosovo. The total compulsory contribution is 10%, where 5% represents the employee's share (withheld from gross wages) and 5% the employer's share. Employers and employees may contribute additional pension contributions up to 30% (15%+15%). Labor unions are independent by law. Strikes in the private sector are infrequent. Labor disputes are adjudicated in local courts. The Ministry of Finance, Labor, and Transfers is mandated with oversight of adherence to labor laws through its Labor Inspectorate. The latter suffers from a limited budget and lack of staffing.

Industries with Investment Opportunities



Agriculture

Agriculture is an important economic activity that contributes 8.1% to GDP and accounts for over 23% of total employment. The total area of used agriculture land is 418 581 hectares (ha), with almost half of it being arable land. The average farm size is 1.76 ha. The government aims to improve the regulation and consolidation of agricultural land. Consumption of agricultural products is lower than production making Kosovo a net importer. Remaining competitive in the region remains a challenge given the surrounding economies are more developed. Some factors that limit competitiveness are land fragmentation, lack of production technologies, and lack of efficient irrigation.

The agriculture sector often benefits from government subsidies. In 2021, 64 million euros were dedicated to farmers via grants and subsidies. Agricultural businesses and farmers can receive subsidies as a monthly salary and rental costs, but also get interest-free loans, financial liquidity and social assistance measures.

Fruits and vegetables are the most important crop and a total of 105 crops can be grown in the country. Some investment opportunities include flowers, asparagus, apples, berries, and saffron. Moreover, given its latitude and irradiance, Kosovo is a known producer of wine grapes, including Cabernet Franc, Merlot, Prokupac and Gamay. Kosovo also offers good conditions for livestock farming. The most widespread livestock includes cattle, sheep and goats, pigs, and poultry.

Policy in this sector is initiated by the Ministry of Ministry of Agriculture, Forestry and Rural Development and implemented through the Agency for the Development of Agriculture. There are no tariffs or VAT on agricultural inputs but there are no export support measures. Income tax for the agriculture sector is 10% but varies between 8-14% depending on income. VAT machinery and some plants as seeds is 8%.



Wood Processing

Forests make up around half of the total land area. As such, Kosovo offers great investment possibilities in all wood processing phases, including manufacturing of doors, windows, and various furniture. The annual allowable amount of felling is currently slightly below 1 million m³. As evidenced by a share of GDP of 11.67%, the manufacturing industry represents a significant contributor to economic development. Kosovo offers various incentives that aim to further promote and facilitate primary and secondary wood production. There is a zero customs rate for the imports of selected machinery and capital goods related to this sector.

The sector of manufacturing of wood and of products of wood has 1,429 employees in 408 enterprises and annual turnover of 44.50 million euros. Exports in this sector, in 2019, have increased by 41.94%, compared to the previous year. The total value of exports is 7.67 million euros, export to EU countries is 40.54%, to CEFTA countries 24.49%, EFTA 33.89% and other countries 1.08%. The furniture industry is dominated by micro, small and medium enterprises. The furniture sub-sector employs 2,608 individuals in 393 enterprises with a total annual turnover of 70.68 million euros. The total value of exports in this sub-sector is 15.31 million euros. Exports to EU countries are 36.03%, to CEFTA countries 21.43%, to EFTA countries 41.38% and to other countries 1.16%.

Investment opportunities lie in furniture manufacturing as well as processing of byproducts, such as sawdust and wood chips.



ICT

The ICT sector is among the few sectors within the Kosovo economy that is characterized by a positive trade balance, whereby around 91% of already existing companies export their services. The Government of Kosovo is working to position the country as a regional hub for IT related products and services, building on the strong IT and English-language skills within the workforce. Companies have found different ways to do business with international companies. According to the responders, by far the most popular way is direct exports from Kosovo to the client abroad. Others are doing business through a subsidiary / branch office in the target market, as a distribution partner / local Partner (sales agent), with a representative office, as well as a joint venture. According to the companies participating in this research, Central Europe and North America have the highest potential to export to, specifically Switzerland and Germany, followed by USA and Canada, and the United Kingdom. This sector has seen interest from the labour force as well. The average salary for this sector is almost twice as the national average salary. The highest average salary for 2020 of 1,047 euros is

received by Developers, followed by Business Development Managers who receive on average 975 euros. Because of these favorable conditions, companies believe that they can easily find new employees. The average number of employees in a firm is 33. These companies mainly provide Software as a Service (SaS)/IT Consulting, followed by services for hardware products and software reselling. They mainly use Big Data and AI technologies to deliver services. JAVASCRIPT, HTML, XML and PHP are the most used programming languages. While the most popular database technologies amongst the respondents are MS SQL/MYSQL, followed by MS SQL Server.

The main organization that supports the growth of this sector is the Kosovo ICT Association (STIKK). It was established in 2008 with the aim of creating a better ICT business environment by improving standards and educational opportunities and advocating with the government on behalf of its members to ensure that the sector will attract new business and investment. STIKK is a key contributor to Kosovo's IT strategy, a member of the Steering Committee for the implementation of the Kosovo IT Strategy and it also conducts the annual IT Barometer study providing an insight of the IT industry of Kosovo and market trends. STIKK currently accounts for 125 +members, which represents 90% of the ICT market of Kosovo. STIKK founded the Innovation Centre Kosovo to support entrepreneurship, innovation and commercially based business development with focus on information and communication technology. ICK is the leading integrator for start-ups. As of 2019, the total number of companies registered in the ICT sector in Kosovo is 982.

The mobile connections as a percentage of total population is 97% while internet users as a percentage of total population is 88%. Kosovo's telecommunications sector is one of the least expensive in the region and has similar quality voice services in comparison with other providers in the region. Five main companies – IPKO; Kosovo Telecom (KT); ArtMotion; Kujtesa; and a branch of Serbia's telecom company, MTS – provide internet service. Kosovo Telecom offers mobile telephone services through its subsidiary Vala and has approximately 50 percent of the market share. KT, once the most profitable state-owned enterprise and still the major provider of landline services, is in a crisis state due to political interference, a bloated workforce, inflated wages, and years of mismanagement. The company is facing its current financial crisis, in part due to failure to pay an international arbitration award and has come close to bankruptcy. The opportunities to invest in this sector include infrastructure development and a 5G roll-out.



Construction

The construction sector is one of the most important sectors contributing to Kosovo's economic growth. GDP from Construction in Kosovo averaged 116.47 EUR Million from 2011 until 2022. As of 2021, the construction sector makes up 8.5% of the GDP and employs around 12% of the total workforce. The construction of residential and non-residential buildings ranks as the second largest business activity in the last 10 years in Kosovo. As of 2019, 807 construction businesses were registered, while 7,500 businesses were registered in the last decade. As an economic activity, the construction field continues to generate large revenues from the sale of residential units. About 60% percent of all FDI inflows, as of 2021, went into the real estate and construction sector. This has been driven mainly by the purchase of real estate by Kosovo's diaspora, and by public investments. According to the results, investments in construction (buildings and other construction structures) occupy the main share with 55.7% of investments



Mining and Minerals

Kosovo mainly exports metals (47 percent of total exports) and mineral products (30 percent of total exports). Zinc, lead, silver, gold, cadmium and bismuth are extracted along Trepça's mineral belt. Lead-zinc and nickel reserves are estimated to be around 48 and 16 million tonnes, respectively. Chrome and bauxite reserves amount to 89 and 13.2 million tonnes, respectively. Other metals include aluminum and copper. Its coal mines are responsible for over 92% of energy generation. There are different mines that can either be acquired through the ongoing privatization procedures or can be revamped by entering joint ventures with private owners. Trepça is the largest mining complex and employs 22,000 workers.

The Independent Commission for Mines and Minerals (ICMM) is responsible for Kosovo's minerals sector and issues exploration and exploitation licenses and ensures legislative compliance with international standards. Since 2007, it has issued around 500 exploration and mining licenses. It is also a contact point for prospective bidders and provides technical information. Some investment opportunities, besides PPPs in existing or new mines ownership, include sales of equipment and exporting to global markets.

Kosovo's electricity supply options are highly constrained because of the limited availability of renewable energy and the country's two aging ignition-fired generation plants. More than 92 percent of electricity generation comes from coal. Electricity demand has far outpaced supply in recent years. By January 2022, the Kosovo government subsidized the energy sector in the amount of €90 million (about 1.3 percent of GDP) and increased energy tariffs to cover the cost of increased energy imports. In August 2022, Kosovo was forced to introduce rotating outages due to low electricity production and high imports. In September 2022 it introduced subsidies to energy efficiency measures worth approximately 6 million. Hence, this sector is being treated with priority by the government and presents a good investment opportunity for businesses.

The government, together with international donors, is investing in energy generation and storage. The Kosovo Energy Corporation (KEK), the owner of the two coal-fired power plants, plans to invest in the rehabilitation of TPP units through public procurement procedures. Moreover, in line with the new energy strategy 2022-2031 (draft version), which foresees zero CO₂ emissions by 2050, the Government will support renewable energy investors through PPA's with 12-15 years of duration using public auctions. The first auction for Solar PV will be announced within the next 6 months. The current installed Solar PV and Wind capacity is 160MW, while the targets for 2025 and 2031 are 490MW and 1300MW respectively. Kosovo has very good solar irradiation. The average yearly production of a 1 MW PV plant (south oriented, ground mounted, angle >20 degree) is 1300-1380 MWh. There are two large RES plants in Kosovo:

- Sowi Project, located in Bajgore, Mitrovica (Northern part of Kosovo) with a total installed capacity of 105 MW. This project is owned by Enlight Renewable Energy Ltd, an Israeli Renewable energy company. EBRD financed this project.
- Kitka Wind Project, located in Kamenica (Eastern part of Kosovo) with a total installed capacity of 35 MW. This project is owned by Gurus Holding (main shareholder) and two small shareholders (three of them are Turkish Companies).

The average yearly production of the above projects is approximately 2800 MWh per 1 MW installed capacity. The output for wind projects varies based on location and there is a need for a detailed feasibility study for each project to assess the return on investment.

Kosovo is also investing in the largest energy storage project in the region. In July 2022, it has signed a co-financing agreement with the Millennium Challenge Corporation, which foresees the investment in a 340 MWh (170 MW) battery storage project. The objective of this project is to support Kosovo's energy security and transition to a cleaner energy future. The tendering process for the purchase of the technology will be led by MCC Kosovo and is expected to start in 2024. The estimated total cost of the project is around 180 Million USD.

Moreover, the MCC Compact foresees a third project, the ACFD component, which intends to attract private investment in the energy sector. ACFD will catalyze funds from DFC, the International Development Finance Corporation which gives concessional loans to companies investing in development projects primarily in lower and middle-income countries. This can provide good grounds for benefiting from the ACFD component, which may include technical assistance for private companies wanting to invest in Kosovo's

Kosovo's electricity supply options are highly constrained because of the limited availability of renewable energy and the country's two aging ignition-fired generation plants. More than 92 percent of electricity generation comes from coal. Electricity demand has far outpaced supply in recent years. By January 2022, the Kosovo government subsidized the energy sector in the amount of €90 million (about 1.3 percent of GDP) and increased energy tariffs to cover the cost of increased energy imports. In August 2022, Kosovo was forced to introduce rotating outages due to low electricity production and high imports. In September 2022 it introduced subsidies to energy efficiency measures worth approximately 6 million. Hence, this sector is being treated with priority by the government and presents a good investment opportunity for businesses.

The government, together with international donors, is investing in energy generation and storage. The Kosovo Energy Corporation (KEK), the owner of the two coal-fired power plants, plans to invest in the rehabilitation of TPP units through public procurement procedures. Moreover, in line with the new energy strategy 2022-2031 (draft version), which foresees zero CO₂ emissions by 2050, the Government will support renewable energy investors through PPA's with 12-15 years of duration using public auctions. The first auction for Solar PV will be announced within the next 6 months. The current installed Solar PV and Wind capacity is 160MW, while the targets for 2025 and 2031 are 490MW and 1300MW respectively. Kosovo has very good solar irradiation. The average yearly production of a 1 MW PV plant (south oriented, ground mounted, angle >20 degree) is 1300-1380 MWh. There are two large RES plants in Kosovo:

- Sowi Project, located in Bajgore, Mitrovica (Northern part of Kosovo) with a total installed capacity of 105 MW. This project is owned by Enlight Renewable Energy Ltd, an Israeli Renewable energy company. EBRD financed this project.
- Kitka Wind Project, located in Kamenica (Eastern part of Kosovo) with a total installed capacity of 35 MW. This project is owned by Gurus Holding (main shareholder) and two small shareholders (three of them are Turkish Companies).

The average yearly production of the above projects is approximately 2800 MWh per 1 MW installed capacity. The output for wind projects varies based on location and there is a need for a detailed feasibility study for each project to assess the return on investment.

Kosovo is also investing in the largest energy storage project in the region. In July 2022, it has signed a co-financing agreement with the Millennium Challenge Corporation, which foresees the investment in a 340 MWh (170 MW) battery storage project. The objective of this project is to support Kosovo's energy security and transition to a cleaner energy future. The tendering process for the purchase of the technology will be led by MCC Kosovo and is expected to start in 2024. The estimated total cost of the project is around 180 Million USD.

Moreover, the MCC Compact foresees a third project, the ACFD component, which intends to attract private investment in the energy sector. ACFD will catalyze funds from DFC, the International Development Finance Corporation which gives concessional loans to companies investing in development projects primarily in lower and middle-income countries. This can provide good grounds for benefiting from the ACFD component, which may include technical assistance for private companies wanting to invest in Kosovo's



Waste Management and Recycling

As rural-urban migration continues, waste management issues continue to be more pronounced. A lack of infrastructure for waste management creates opportunity for investment in waste management, including recycling, collection, and the related equipment. This is a responsibility of municipalities. Local governments are responsible for waste management, and the Law on Waste regulates waste collection, transportation, treatment, storage, disposal, import, export, plans for environmental management, and the rights and obligations of licensed entities in the sector. The Ministry of Environment, Spatial Planning, and Infrastructure drafts the plans and strategies for policy, such as the new 2021-2030 Integrated Waste Management Strategy, which addresses barriers to waste management and aims to increase business and employment opportunities in the sector. The publicly owned company Kosovo Landfill Management Company (KLMC) is responsible for supervising and managing disposal sites.

The waste generated per capita was 253 kg in 2019, around half of the EU average of 502 kg. There are no estimates of uncollected municipal solid waste though the waste has reportedly increased by 40% from 2015 to 2019. The waste management system is underfinanced. Landfills request gate fees and are used to cover the cost of managing the landfill with no aftercare plan. Households pay a fixed monthly fee for collection and disposal while businesses pay a fixed fee for collection. The latter is the responsibility of municipalities and licensed companies. There are common collection points in urban areas and door-to-door collection in rural areas. The coverage of collection services is over 80% as of 2021. No official system for separate collection or EPR schemes is in place. However, informal waste pickers play an important role in recycling, whereby the separated waste is sold to licensed companies for export.

There is a general lack of data, or poor quality of data, in waste management reporting. To alleviate this, a performance grant was introduced to incentivize municipalities to improve their waste management reporting. From the data that is available, less than 40% of collected waste is disposed of in managed facilities, while the 2020 target was 60%. There is a lack of financial and human resources to vary out sufficient inspections. Moreover, there is an inventory of illegally deposited waste which can be a good starting point for investment. No separate collection for food waste is planned as of 2021. Investment opportunities therefore include municipal, industrial and hazardous waste management and/or recycling.



Textiles

Kosovo has a 200-year history in textiles. USAID has supported the apparel industry in Kosovo with various projects, including support on equipment and workforce training. One of them, the investor portal in the apparel sector, gives foreign investors access to information about Kosovo's entire apparel sector. There are currently 111 private enterprises engaged in the manufacture of textiles with 629 employees and a turnover value of 15.38 million euros. The majority of them are manufacturers of final products. Textile products from Kosovo are mostly exported to the EU countries and CEFTA countries. Out of 111 enterprises, 11.71% are exporting ones. Exports in this sector increased by 28.34% in 2019 compared to a year before. Many smaller companies sell standard apparel products and uniforms to the highly fragmented local and adjacent countries market and to local governments. There are several high-end women's fashion designers in Kosovo that sell through their ateliers and in stores in the main cities. Apart from being labor-intensive, the apparel workforce is women-dominated, and many of the firms in this subsector are women-owned or women-run. The apparel sector had 856 employees, 210 enterprises, and a turnover of 8.51 million euros as of 2019. The apparel sector is part of the five-year USAID EMPOWER Private Sector project, which is also funded by the Swedish International Development Cooperation Agency, which has been working since July 2014 to stimulate large-scale job creation by elevating the competitiveness of Kosovo firms in the growth-ready sectors.



Tourism

In the last ten years, Kosovo has seen a steady increase in tourist arrivals and overnight stays. The highest increases were recorded in 2015 and 2016. However, over the last three years the increase in the number of tourist arrivals and overnight stays has slowed down, with 287 083 tourist arrivals and 490 402 overnight stays in 2019, lower than all other economies in the WB region. Around 50% of foreign tourists are from five destinations: Albania (19.6%), Germany (10.4%), Turkey (8.3%), Switzerland (7.9%) and the United States (5.8%). The main tourist destinations are Prishtina, Peje and Prizren, where nearly 88% of tourist arrivals are registered. According to the available data from 2019, accommodation and food services contribute to 1.4% of GDP and 6.4% of employment (23 600 jobs). While there is no strategy that guides tourism development, the department for tourism at the MTI is responsible for its promotion on a government level. It has created tourist information system, which provides reliable information on tourist destinations, accommodation, attractiveness and tourist services. Information is available mainly in

Albanian, English and Serbian on websites, road signs, in tourist information centers, etc., and is regularly updated. Kosovo's tourism branding and marketing framework has not yet been established. Overall, tourism marketing is implemented by tourism stakeholders but in an uncoordinated manner. Kosovo still does not have an economy-wide organization for tourism promotion and marketing, unlike most economies worldwide. A notable tourist destination is the mountainous south of Kosovo with potential for winter tourism. One such example is the ski resort Brezovica in the Sharr Mountains. The resort is 1,700 and 2,500 meters above sea level and offers good snow conditions, as well as long ski seasons.



Kosovo - Israel Chamber of Commerce

The Kosovo – Israel Chamber of Commerce was established in Kosovo in late 2021 as a not-for-profit association under Kosovo law. The founders are American-Israeli-Kosovar companies which intend to facilitate and support business relationships between Israel and Kosovo, and build upon the formal diplomatic relationship established between Israel and Kosovo to expand commercial ties between the two countries.

www.kicc-ks.org

The Mission of the Kosovo – Israel Chamber of Commerce is

- To facilitate and support business relations between Israel and Kosovo
- To support the formalized diplomatic relationship between Israel and Kosovo with specific business and other activities
- To support and enhance business-to-business and people-to-people engagement and to facilitate scientific exchanges that will strengthen business relations between Israel and Kosovo
- To expand opportunities for business cooperation, innovation and investment in all economic sectors
- To strengthen and diversify Israel's access to the Western Balkans market and to support Kosovo's access to Israel's market.

In order to achieve its Mission, the Kosovo – Israel Chamber of Commerce will focus on the following activities:

- To promote Israel as a valuable partner for Kosovo's economic development
- To establish a network of Israeli and Kosovo businesses that will strengthen business relations between Israel and Kosovo
- To provide professional support services for Israeli and Kosovo businesses in an effort to establish communication and cooperation for trade and investment
- To provide information to Israeli and Kosovo businesses on business and investment opportunities and other relevant information required to enable and facilitate business cooperation
- To provide professional training and other capacity-building activities related to business cooperation, investment and trade
- To organize and implement industry-specific missions to Israel, Kosovo and other countries in order to bring together potential business partners and to explore business opportunities
- To perform any other activities that are required and relevant for facilitating business cooperation between Israel and Kosovo

The Kosovo-Israel Chamber maintains a team of professionals and experts and offers advisory services to investors

References

- American Chamber of Commerce in Kosovo. (2022). Matching Israel's Demand for Goods and Services.
- Central Bank of Kosovo. (2022). Foreign direct investment – by country.
- Deloitte. (2022). Doing business in Kosovo: A comparative guide.
- European Environment Agency. (2021). Municipal waste management in Western Balkan countries — Country profile Kosovo.
- International Trade Administration. (2022). Kosovo - Country Commercial Guide.
- KIESA. (2016). Investor Guide: Investing in Kosovo. Ministry of Trade, Industry, and Entrepreneurship.
- OECD. (2021). Competitiveness in South East Europe 2021: A Policy Outlook. Kosovo.
- STIKK. (2020). Kosovo IT Barometer 2020.
- The Kosovo Agency of Statistics. (2021). Labour Force Survey.
- The Kosovo Agency of Statistics. (2022). Economy (various data).
- The World Bank. (2020). Doing Business Report: Economy Profile Kosovo.
- The World Bank. (2021). Systematic Country Diagnostic Update. Kosovo.
- The World Bank. (2022). World Development Indicators.
- U.S. Department of State. (2021). Investment Climate Statements: Kosovo.