case for investing in Kosovo

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preface and acknowledgments

This study has been prepared with the aim of serving as a point of reference for foreign investors who are considering investing in Kosovo. It looks at how businesses in Kosovo have grown over the course of the last years. After providing a brief overview for Kosovo as a country, the study also provides data on major topics of interest for potential investors and interested readers. In addition, the report contains information on industries, which have been identified as important potentials for Kosovo.

AmCham wishes to thank the Investment Promotion Agency of Kosovo for its financial support in compiling and publishing the study. Special thanks also go to the Tax Administration of Kosovo for the help in providing the data for compiling the study.
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list of acronyms

BPO  Business Process Outsourcing
BRIC  Brazil, Russia, India and China
CEFTA Central European Free Trade Agreement
EU  European Union
GDP  Gross Domestic Product
GSP  Generalized System of Preferences
KEDS  Kosovo Electricity Distribution and Supply
KPST  Kosovo Pension Savings Trust
PPP  Purchasing power parity
TAK  Tax Administration of Kosovo
WB  World Bank
executive summary

In the period from 2009 to 2011, the average annual turnover of companies operating in Kosovo increased by roughly 29 percent, while inflation rates have been stable over the course of this period. Government expenditures in infrastructural projects have increased significantly, while new tax incentives have been introduced to stimulate the private sector. Ministries have pledged to undertake all necessary measures to cut down the bureaucracy of doing business in Kosovo, and many reforms are being implemented to improve the performance of the economy. Despite the fact that there is still plenty of work to be done to further improve the business environment, official data from state institutions reveal that businesses can flourish in Kosovo, given the increased consumption capacity and improved well being of citizens.

case for investing in Kosovo
case for investing in Europe
Known as the birthplace of Western Culture and one of the three continents of the Old World, Europe has gone through a lot of changes and transformations over the years. Although there has always been a shift of power among countries in the old continent throughout history, Europe has always been characterized by a sound economy, innovation and strong industrial force in the world. Today, even though North America and South Asia have become the most powerful economies of the world, Europe remains a very important player in the global economy. With a population which amounts to roughly 730 million, Europe is the third most populated continent in the world.

Similar to the rest of the world, the effects of the global financial crisis have been noticed in Europe as well. Despite this fact, the overall trends reveal that the GDP in Europe has been increasing in the past decade:

This figure shows that the spending power of European customers is increasing at a steady rate. In addition, the strong economic ties between United States and European countries are confirmed by the fact that transatlantic economy is still the largest in the world. This is pointed out in “The Case for Investing in Europe”, published by AmChams in Europe.

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1 See World Bank, “GDP Current US$”, 2011
As the report states, the above graph should primarily serve as a testimony that it has been US and Europe in the forefront of stitching the global economy together, with each party being the others biggest investor. With the effect of global financial crisis vanishing, the reasons for US companies to continue investing in European countries are plenty.

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3 id
As to why these investments should continue, “The Case for investing in Europe” lists the following:

- Because Europe is quite large, wealthy, richly endowed, open for business, and ripe for labor and public sector reform, the region will remain a critical geographic cohort in the global operations of U.S. companies.
- U.S. firms not invested in Europe are ignoring a combined market economy larger than the United States. By either measurement of output - GDP expressed in nominal US dollars or on purchasing power parity (PPP) basis - Europe’s economy is expected to remain larger than America’s for the foreseeable future.
- It is Europe's size and wealth that sets the region apart. In 2010, Europe accounted for roughly 30% of global personal consumption expenditures, a share greater than United States (27.7%) and a share more than double the BRIC’s combined (just 13.6%).
- Many European economies remain among the most competitive in the world. In the latest rankings of global competitiveness from the World Economic Forum, seven European countries were ranked among the top 10, and five more among the top twenty-five.
- Based on the Innovation Union Scoreboard for 2011, Switzerland, Denmark, Sweden, Finland and Germany, rank as innovation leaders in Europe. European-based companies accounted for roughly 25% of total global R&D in 2010 and 2011, a share well ahead of R&D spending in Japan (11.4%), China (13.1%), and India (2.8%).
- Europe leads the world in producing science and engineering graduates, with the EU, accounting for 18% of global natural science graduates in 2008. America’s share was 10% of the total. The EU’s share of global engineering degrees (17%) was even more impressive relative to America’s (4%).
- According to the World Bank, 12 European economic ranked in the top 25 most business-friendly nations in the 2012 survey

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See Quinlan, “The Case for Investing in Kosovo: Why U.S firms should stay the course”, 2012, p.3
American Chamber of Commerce in Kosovo

Kosovo Profile
Kosovo is a landlocked country, located at the hearts of Balkans. It is a democratic state, governed as a parliamentary republic, based on the principle of separation of power and checks and balances system. The newest country in Europe which declared its independence in 2008 is neighbored by Albania, Macedonia, Serbia, and Montenegro. According to the 2011 census, its population amounts to 1,733,872, 50.4 percent being male. In addition, Kosovo takes pride at having the youngest population in Europe, as evidenced by the Census Bureau of the United States of America. Kosovo’s strategic location and developing infrastructure is one of the most attractive reasons to invest in the country. The capital Pristina is one hour driving time to any neighboring country. Ongoing infrastructure projects include modern highway connections to Albania, Serbia, and Macedonia. The driving time to the Albanian Sea Port of Durrës is three hours, and Thessaloniki Sea Port four hours. In addition, the recently concessioned Prishtina International Airport offers daily air connections to many major European cities.

The youngest country in Europe is not yet a member of the European Union. However, Kosovo’s efforts to join EU have increased, especially after the establishment of the Ministry for European Integration, whose responsibility is to coordinate actions and efforts for European Integration and to ensure that laws and regulations adopted by the Government are in line with EU directives and principles. As a result, the majority of laws in power are in line with EU requirements, which ensure a free market economy and pave the way for a business environment which ensures the growth of the private sector. However, challenges still remain and they will be discussed in more depth in the following sections.

Kosovo profile

Kosovo has undergone a lot of improvements in terms of infrastructure as well in recent years. At the heart of these improvements is the new highway to Albania which is being built with the aim to improve the transportation of people and to facilitate trade between the two countries. In addition to this, the Government has planned to build another highway to Skopje, Macedonia in the upcoming years. In terms of energy, despite the fact that some improvements have been made with regards to power supply, many challenges remain and the field is in need of private investments, or public-private partnership projects. Thus, there will be many attractive investment opportunities in this sector in the future as well.

Kosovo’s economy

“A market economy with free competition is the basis of the economic order of the Republic of Kosovo.”

overall economic indicators

Many challenges lie ahead for Kosovo in terms of economy and trade. Kosovo has unilaterally adopted EURO as legal tender with the aim to foster trade with other countries. According to World Bank, Kosovo’s GDP in 2010 amounted to 5,552,317,881 USD, which translates to a GDP per capita of 3,059 USD. Kosovo’s GDP growth rate is explained by the following graph on the right:

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Kosovo’s economy

Inflation rate has been stable in recent years at a rate ranging from 0 to 4 percent, with the exception of 2008, where inflation amounted to 9.4 percent, which can in turn be attributed to the Global Financial Crisis.

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6 Article 10 of the Constitution of the Republic of Kosovo
7 See World Bank, “GDP Current US$”, 2010
8 Data drawn from official World Bank statistics
9 See World Bank, “Inflation, consumer prices (annual %)”, 2010
A major concern for Kosovo remains the high unemployment rate. Due to the lack of official statistics, different institutions provide different estimations about the unemployment rate. According to WB, unemployment rate in Kosovo in 2009 amounted to 45.4 percent\(^\text{11}\). On the other hand, the Ministry of Labor and Social Welfare reported an unemployment rate of 39.4 percent for 2011\(^\text{12}\). Unemployment is more prevalent among women and among people aged 25-39.

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\(^{10}\) Data drawn from official World Bank statistics

\(^{11}\) See World Bank, “Unemployment, total (% of labor force)”, 2009


\(^{13}\) Data drawn from Ministry of Labor and Social Welfare official statistics
In addition to CEFTA, Kosovo is part of the **Central European Free Trade Agreement** under the name of UNMIK/Kosovo, which enables businesses in Kosovo free access to regional markets. “This comprehensive Agreement’s main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties...”\(^{14}\). Being a member of CEFTA, businesses operating in Kosovo can export without incurring any additional cost to the following countries:

Republic of Albania  
Bosnia and Herzegovina  
Republic of Croatia  
Republic of Macedonia  
Republic of Moldova  
Montenegro  
Republic of Serbia

**Figure 6 CEFTA 2006 Signatory Countries**

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**amERICAN chamber of commerce in Kosovo**

**Kosovo’s economy**

In addition to CEFTA, Kosovo is part of the **US Generalized Systems of Preference** Program, which enables companies in Kosovo to export a list of products without paying any customs dues. The latest renewal of the GSP has been done in November 5 2011, and it will be valid until July 31, 2013.\(^{15}\) Kosovo also benefits customs-free access to EU market thanks to the **Autonomous Trade Preference (ATP)** regime.

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\(^{15}\) For more information on the GSP Program, visit [http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp](http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp)
At the moment, Kosovo is hugely an import-dependent country. Due to the lack of production capacities, the needs of customers are currently met by imports of goods. Despite the fact that exports have been increasing steadily since 2008, imports have been increasing as well even at a faster rate. This is an indicator of the increasing consumption capacities in Kosovo. The following graph reveals Kosovo’s performance in terms of exports and imports in the period of 2008-2011:

![Trade Balance in Kosovo 2008-2011 (data in 000€)](image)

Figure 7 Trade Balance in Kosovo 2008-2011 (data in 000€)

In terms of the composition of imports, Kosovo mainly imports food products and other finished goods which are ready for consumption. This is the main reason why the trading sector in Kosovo is strong and holds an important position in the market.

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With regards to exports composition, Kosovo mainly exports unprocessed and semi-processed goods with little or no added value, which is reflected in the trade deficit. These trends have been characterizing the market in Kosovo ever since the declaration of independence. Given the serious need of boosting the production sector, the Government has pledged and is pursuing fiscal and regulatory policies to stimulate this sector of the economy.

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**Kosovo’s economy**

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17 Id, p.25
18 Id, p.23
Kosovo’s financial sector has been built on completely new foundations. All financial institutions in Kosovo are private and have remained stable despite the financial crisis. There are eight licensed banks, two pension funds, 19 other financial intermediaries, 28 financial auxiliaries and ten insurance companies in Kosovo. Six out of eight banks in Kosovo are foreign-owned. Kosovo financial system is characterized by a very stable banking sector regulated by the Central Bank, which is established as an independent institution. Currently banks and non-bank financial institutions (including micro finance institutions) operating in Kosovo offer loans to both individuals and businesses. During the last few years, banks have been quite conservative in issuing loans to both businesses and individuals. This has allowed them to be very stable, contributing also to the stability of the real market. However, interest rates remain high, compared to EU and regional countries. Interest rates in Business and Agro loans are particularly high.

The problem of high interest rates remains a challenge for Kosovo for the upcoming years, and significant improvements need to be made in the business environment and other sectors in order for them to decrease. The unsatisfactory rule of law and poor contract enforcement situation are perhaps the two most pressing issues which need to be addressed in order for interest rates in Kosovo to decrease.

Data obtained from World Bank Statistics
Agriculture is deemed as one of the main investment potentials in Kosovo. This sector is the biggest employer in Kosovo, and accounts for a large portion of the GDP. Yet, there is plenty of room for additional investments.

Approximately 580,000 hectares of land in Kosovo is agricultural land. This arable land is of good quality, and given the convenient climate and temperatures, good agricultural production capabilities exist. Despite its richness in agricultural land and the convenient climate, Kosovo imports a large volume of agricultural products from other countries in a yearly basis. However, it has been assessed by many experts that Kosovo not only has the capability to be self-sustaining in terms of agricultural production, but it also has the potential to be an exporter of these products. This alone suggests that there are many investment opportunities in this sector.

Investment potentials in agriculture exist in many sectors in Kosovo: production of vegetables, fruits, vinery, cereal, meat and dairy etc. There are many companies which serve as success stories in these sectors. They are among the largest employers and taxpayers in the country.

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**Energy and Mining**

Kosovo is well endowed with natural resources. Its energy production is mainly based on lignite. Its lignite reserves are estimated to be around 11-14 million tons, which provides for a safety net of energy production for many decades to come. However, the Government of Kosovo has pledged to implement EU's 20-20-20 policy, which requires countries to (1) increase energy efficiency by 20 percent, (2) reduce dioxide carbon emissions from energy production by 20 percent, (3) and produce at least 20 percent of power from alternative sources by 2020. Considering this, it is evident that there are plenty of opportunities for investing in alternative energy in Kosovo.

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20 Investment Promotion Agency of Kosovo, "Agriculture and Food Processing Industry", 2008, p.17
The Ministry of Economic Development is the main institution in the energy sector in Kosovo. In addition, the Energy Regulatory Office, which functions as an independent institution in Kosovo, is in charge of supervising and regulating the energy market in Kosovo, while also setting the feed-in prices for energy coming from renewable sources. Some investment opportunities in energy are:

- Building of “New Kosova” lignite-based power plant (capacity 600 MW)\(^{21}\)
- Privatization of Kosovo Electricity Distribution and Supply
- Construction of hydro power plant in Zhur (capacity: 305 MW)
- Construction of several smaller hydro power plants
- Investments in other renewable energy sources (wind, solar, thermal etc.)\(^{22}\)

Considering the importance and the scale of these projects, there is a great need for private investments.

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Kosovo is also well endowed with other minerals, making the mining sector of the country an attractive investment potential. In addition to the fifth largest proven reserves of lignite in the world, Kosovo is also rich with nickel, lead, zink, silver, chrome, bauxite, magnesite, and a range of materials used primarily in construction, such as andesite, basalt, diabas, gabbro, granite, limestone and marble\(^{23}\). This provides for huge exploration potentials, which foreign companies might be interested at.

\(^{21}\) For more information regarding the “New Kosovo” power plant, visit the website www.lignitepower.com

\(^{22}\) Rexha, Blerim, “Investment Opportunities in the Kosovo Energy Sector”, 2010

\(^{23}\) Independent Commission for Mines and Minerals, “Mineral Deposits”
Despite being a landlocked country, Kosovo presents good investment opportunities in tourism as well, thanks to its beautiful landscapes in mountainous regions. Tourism potentials in Kosovo exist in winter tourism, eco tourism and wine tourism. However, in order to make full use of tourism potentials, the government of Kosovo should make further investments in infrastructure, should increase marketing efforts to promote Kosovo’s potentials and should encourage the participation of the private sector in tourism projects.

Another fast growing industry in Kosovo is that of Business Process Outsourcing. The availability of skilled labor, as well as the high literacy of foreign languages (especially English, German, and Turkish), makes Kosovo a very competitive country in offering business process outsourcing services to worldwide companies. In addition, the IT infrastructure in the country is well set-up, which makes it easier for local companies to provide these services to companies abroad. IPAK has identified the following core sectors on which Kosovo can be very competitive in terms of BPO:

- IT-enabled services/ Call Centers/ Shared Service Centers
- Automotive Components
- Electronic Manufacturing Services
- Agribusiness; processing and labeling

BPO can help at reducing the trade deficit which currently is present at large in Kosovo. It has already shown to be of strategic importance to Kosovo, given that there several companies which can be considered as success stories in this aspect. These companies offer IT-related and call center services to international companies, which have rightfully identified Kosovo as a potential for lowering their costs, while preserving the quality level of their services or customer care.

Despite being a landlocked country, Kosovo presents good investment opportunities in tourism as well, thanks to its beautiful landscapes in mountainous regions. Tourism potentials in Kosovo exist in winter tourism, eco tourism and wine tourism. However, in order to make full use of tourism potentials, the government of Kosovo should make further investments in infrastructure, should increase marketing efforts to promote Kosovo’s potentials and should encourage the participation of the private sector in tourism projects.

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24 Investment Promotion Agency of Kosovo, ”Investment Promotion Strategy”, p.26
In terms of winter tourism, two destinations are worth mentioning: Brezovica and Rugova Gorge. Brezovica has the potential to become a leading destination for winter tourism in South East Europe. Currently, there are many infrastructural challenges to making use of the full potential which this place offers; however, with the necessary investments, Brezovica Skiing Center will certainly become one of the top skiing destinations in Europe. Current assets of Brezovica include three hotels with 680 rooms, two restaurants and nine ski lifts with the capacity to transport 10,000 skiers per hour. Through its proximity to Prishtina Airport (60 km) and Skopje Airport (70 km), the resort is a possible destination for international tourists and has the potential to become the most favourable winter tourism destination in the Balkans. The European Commission has already prepared a master plan for the development of Brezovica Resort Village, which aims to make this destination suitable for year-round tourism (European Commission Liaison Office & Ecosign Europa Mountain Recreation Planners GmbH). Currently, the government is looking to find investors for this project that includes the construction of this village. The development concept of this project is separated in two parts: Base areas development (village, parking, access etc.) and Mountain Development (ski lifts, pistes, mountain facilities etc.). The total estimated investments on lifts alone are roughly 25 million euro.

Also in the Sharr Mountains in the very south of the country, bordering Macedonia and Albania, Kosovo is offering about 22,000 hectares of largely untouched land in the mountainous area, belonging to the SOE “Sharprodhimi” for privatisation. The region offers excellent tourism opportunities, such as skiing, eco-tourism, paragliding, mountain biking, rock climbing, trekking, kayaking, horse riding, etc. The Sharprodhimi land in the municipality of Dragash is stunningly beautiful. It is clearly a remarkable property for eco-tourism, and will only be sold to a proven investor who is committed to a sustainable and rational development program which will have strong local support.
The impact of Kosovo’s war on its wine industry was profound. It went much deeper than the disruption of activity and destruction of property. Now there are signs that a once-thriving industry is getting back on its feet. Some five million litres, including Pinot Noir, Merlot and Chardonnay, age in massive barrels.

Kosovo has a long tradition in viticulture. Some areas in Kosovo (e.g. Rahovec) are very suitable for the production of different types of grape, which has enabled the creation of small wineries and large companies. There are already several success stories in the production of wine, as some local companies are able to export to EU and USA. Some of the grape varieties which are produced in Kosovo are: Cabernet Franc, Cabernet Souvignon, Merlot, Prokupac (local), Gamay, Vranac etc. The tradition which Kosovo has in the production of wine has paved the way for the development of a small scale wine tourism in the country.

Eco Tourism

With regards to eco tourism- which refers to tourism which includes visiting fragile and undisturbed natural areas- there are several locations in Kosovo which are very attractive for tourists and in need of investments. Perhaps the most promising location is Rugova Gorge, which presents tourists with astonishing landscape and terrain. Local inhabitants of the area who have built villas and small hotels provide accommodation to tourists. However, there is plenty of room for more investments in the area, especially in terms of infrastructure, given that the only road which connects Rugove with the city of Peja is at a bad condition. Rugova valley and gorge is suitable for rock climbing, cave exploring, mountain biking, paragliding etc.

Novo Brdo is another mountain region just a short drive away from Prishtina and some refer to it as the green lung of the Kosovo. The small municipality offers unexpected treasures for travelers to explore.

Wine Tourism

Kosovo’s wine industry was facing ruin in the 90s. Until the outbreak of unrest, Kosovo had a substantial acreage of productive wine-bearing vineyards, but these now lie largely unused.
Given that Kosovo is in need of foreign and domestic investments, the government has pledged to undertake the necessary measures for improving the business environment. However, despite the increased efforts, still there is a lot of work ahead to improve further the position of businesses. For the last two years, Kosovo has ranked poorly in World Bank’s Doing Business Report; however, the following changes that occurred in the business environment in the period of January-June 2012 are expected to improve Kosovo’s ranking in this report:

- Tax clearance documents which are needed for applying to public procurements will have a longer validity, thus making it easier for companies to prepare the tender application packages
- Registration of business entities at Kosovo Customs institution for import/export purposes is no longer required; companies’ VAT number will be used for this purpose
- The new law on construction will make it easier for businesses and individuals to get a construction permit, given that it includes the principle of “consent by silence”, if applicants do not receive an answer for the permit within the legal deadlines

- The declaration of income tax and pensions contributions can now be done electronically, through the official website of Tax Administration of Kosovo
- The law for notary services has been approved and 39 Notary have been certified throughout Kosovo
- Municipal centers for opening businesses have been established which has decreased the time (and costs) of opening a business in Kosovo
- The Law on Obligations has been approved, which also contains a provision which provides for the inclusion of interest rates in late payments
- The interest rate paid to businesses in case of late reimbursements has increased to 2.4 percent per year
- The number of documents required for import/export purposes has decreased from 7 to 3 documents (export declaration, accompanying invoice, and EUR 1- with the request of the party)
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case for investing in Kosovo
In order to assess the growth of the economy in the last two years and to analyze how Kosovar companies have performed and developed during this period, AmCham has conducted a study based on official data received from the Tax Administration of Kosovo. The focus of the analysis is the annual turnover and number of employees of the selected companies. Having in mind the importance of preserving the confidentiality of data concerning companies, TAK provided AmCham with a list where taxpayers’ names were numerically coded. The usage of numerical codes has been consistent, in the meaning that same companies have been assigned with the same coded number throughout the years for which the analysis has been conducted (2009, 2010, and 2011). The list includes all regular taxpayers evidenced in TAK's records. In addition to the overall data on total annual turnover and tax payments, the performance of Kosovo companies during these three years has been further analyzed in three categories separately: businesses with annual turnover of 100,000-1,000,000 euro, businesses with annual turnover of 1,000,000-5,000,000 euro, and business with annual turnover of over 5,000,000 euro. Companies that were opened during 2010 or 2011 have been omitted from the sample because of the purposes of this study to analyze the performance of companies over the years. Also, companies with annual turnover of less than 100,000 euro have been omitted from further analysis due to discrepancies and inaccuracies found in the data, which probably results from the informal economy which is still largely present in some sectors of the economy.

During the period of 2009-2011, both the annual turnover of companies, as well as tax payments have increased steadily and proportionally. While the number of registered taxpayers increased from 4988 in 2009 to 5189 in 2011 (representing an increase of roughly 4 percent), the total annual turnover of these companies increased from 4.7 billion to 6.3 billion euro (representing an increase of 34 percent). The following graph provides for a summary of total annual turnover during this period:
This increasing trend is certainly an encouraging sign for businesses operating in Kosovo showing signs of a stable economic growth. However, considering the fact that the total number of companies changed during this period, this does not reveal the full picture. The following graph represents the trends of the average company turnover for the three years:

Based on the data provided above, the average turnover of the total number of companies has increased steadily during this period. The increase from 946,733 to 1219598 (which in percentage terms amounts to roughly 29 percent), does not only reflect increased consumption capacities, but also vast improvement in the economy overall. On the other hand, despite the noticeable increase in the turnover, average tax payments (excluding customs duties), remained relatively unchanged relative to the number of companies and total tax payments done by all companies, as explained in graph next page.
In percentage terms, the increase of tax payments amounts to roughly 9 percent. This is clearly significantly less, compared to the annual turnover increase, suggesting to an increased profitability of companies. The following graph presents the composition of the list, in terms of annual turnover:

Obtaining real data regarding the actual number of workers in the private sector in Kosovo is difficult, because of the perceived high level of unofficial employment. The most reliable data which can be found from Kosovo institutions are those of Kosovo Pension Savings Trust. According to KPST’s annual report for 2011, the number of pension contributors in the private sector during the period of 2009-2011 increased. The following table is compiled by the data provided in this report (all companies regardless of turnover):
According to these statistics, the total number of pension contributors in the private sector increased by 14.4%. However, this should not be seen as increase in actual employment, due to several reasons, such as the high level of unofficial employment. Following is a breakdown of these workers (contributors) in terms of enterprise type:

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Figure 15 Total pension contributors in the private sector

Figure 16 Pension Contributors in the private sectors based on the type of enterprise

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26 Id.
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The category of businesses with annual turnover of €100,000 to €1,000,000 comprises the largest portion of the list which we were provided by TAK. According to the list, the number of businesses pertaining to this category increased from 2919 in 2009, to 3183 in 2010, and 3471 in 2011. In percentage terms, this represents an increase of 18.9% from 2009 to 2011. Meanwhile the total turnover of these companies increased as well:

Although the number of businesses in this category changed over these years, the percentage increase of 20.6% from 2009 to 2011 in total turnover is an encouraging sign. In addition, the average turnover statistics also provides for a more accurate picture of the real growth of companies pertaining to this list:
Based on Figure 15, the growth of businesses in this category has been relatively slow on average. The turnover increase from € 326,417 to € 330,985 represents an increase of 1.4%. Given the relatively stable performance of these companies in terms of annual turnover, the tax payments remained also unchanged, without considerable fluctuations:

![Figure 19 Average tax payments of companies pertaining to the category of € 100,000 to € 1,000,000](image)

The following graph represents average annual tax payments as a percentage of average annual turnovers over the years:

![Figure 20 Tax payments as a percentage of company turnover (category of € 100,000 to € 1,000,000)](image)
The total number of businesses with annual turnover ranging from 1,000,000 to 5,000,000 euro in 2009 was 646, while this number increased to 712 and 770 in 2010, and 2011 respectively. In this corresponding period, the total turnover of companies also increased, as presented below:

![Total Turnover Graph](image.png)

**Figure 21** Total annual turnover of companies pertaining to the category of €1,000,000 to €5,000,000

The total turnover increased from €1,349,029,238 in 2009 to €1,609,601,443 in 2011, representing an increase of 19.3 percent. Meanwhile the average turnover of all companies pertaining to this category remained relatively constant over these years, as seen on the right graph:

![Average Turnover Graph](image.png)

**Figure 22** Average annual turnover of companies pertaining to the category of €1,000,000 to €5,000,000
Similarly, average tax payments done by companies pertaining to this category remained relatively constant as well, as shown in the following figure:

![Average Tax Payments (€1,000,000-5,000,000)](image)

Expressed as a percentage of average company turnover, average tax payments for 2011 amount to only 2.46%, as shown below:

![Tax payments as a percentage of company turnover (€1,000,000-5,000,000)](image)

This can only serve as a further proof that the tax regime in Kosovo is truly among the most convenient ones in the region and in Europe, with companies facing very little costs associated with tax payments overall. However, it is necessary to reiterate the need for further developing policies which will help the production sector in Kosovo.

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**American Chamber of Commerce in Kosovo**

**Case for Investing in Kosovo**

Expressed as a percentage of average company turnover, average tax payments for 2011 amount to only 2.46%, as shown below:
Businesses with annual turnover which exceeds €5,000,000 can truly be considered the backbone and the driver of the economy in Kosovo. The following paragraphs will reveal the impressive performance which these companies had over the course of the last three years, showing that doing business in Kosovo can be truly beneficial.

A total of 34 companies managed to increase their turnover to over €5 million from 2009 to 2011. In 2009, 144 companies had an annual turnover of more than €5 million, while this number increased to an impressive 179. To reflect this increase in the number of companies, the total annual turnover of companies pertaining to this category also increased:

The turnover increase from 2.4 billion euro in 2009, to 3.6 billion euro amounts to an increase of 47.45%. It should be acknowledged that a significant portion of this increase can be attributed to payments made for the construction of the highway which links Prishtina to Tirana, Albania. However, as you will later see, as you have seen in the previous sections and will see at the end of this section as well, the construction of the highway has not increased the fiscal burden on businesses, and neither has it caused difficulties in the state budget. The following graph represents the average turnover of companies with turnover of above 5 million euro, for the period of 2009-2011:
The increase of average turnover from 16.8 million euro in 2009 to 19.9 million euro in 2011, in percentage terms amounts to 18.6%, providing for a more realistic picture compared to total turnover increase. On the other hand average tax payments done by these companies increased at a similar rate of 18.7% for the corresponding period as well:
What is more important for businesses, average tax payments as a percentage of average turnover remained about the same level, despite the increased government expenditures:

Figure 28 Tax payments as a percentage of company turnover (category of over € 5,000,000)
Kosovo is ready for investments

moving towards IFRS and globally accepted accountancy standards

As the business environment becomes increasingly global and companies are routinely being listed on stock exchanges in many countries, there is an increasing need for consistent worldwide reporting standards. IFRS, formerly known as International Financial Reporting Standards, clearly address this issue; its goal is to create comparable, reliable, and transparent financial statements that will facilitate greater cross-border capital raising and trade.

New information technologies have dramatically changed the financial reporting environment, thus reducing the barriers of physical distance and making information available on global level at a touch of a button. As a result, millions of new investors have entered the global capital markets, and without their interests being constrained by national boundaries.

Undoubtedly, globalization is making the case for uniform accounting throughout the world irresistible. Investors are attracted to those markets that they understand, trust and have confidence in. In addition to investors and analysts, other stakeholders such as employees, creditors, suppliers, customers, lenders and non-governmental organizations are voicing their need for top quality information on which they will rely their investment decisions. They want to compare the information published by a target company with its competitors, whether based on the same country or other parts of the world.

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Kosovo is ready for investments

In order to adjust these global changes and to facilitate the decisions of foreign investors, Kosovo Government, the profession and the business community are moving fast forward in adopting these standards which are very important for the business climate. International corporations do not need to adopt specific standards for Kosovo if they apply IFRS in their own headquarters. These standards are accepted and applicable for both, tax and reporting purposes.

The Society of Certified Accountants and Auditors of Kosovo (SCAAK) is Kosovo’s professional body governing the accounting and auditing profession. In addition, SCAAK’s mission includes serving the public interest by training and certifying qualified professionals who provide the highest international standards of expertise and integrity.

The overall purpose of SCAAK is to work in the public interest by promoting high standards and deliver excellence in accounting, auditing, governance and financial management throughout all economic sectors in Kosovo.
Although key challenges remain for further improving the doing business environment, Kosovo presents foreign investors with many investment potentials that are worth exploring. A young and motivated workforce, low tax regimes, sound financial system, as well as an access to a market of over 500 million consumers (through several free trade agreements which Kosovo benefits from), are only some of the benefits from which foreign investors can unlock with their investments. At the same time, Kosovo has adopted and is implementing International Financial Reporting Standards, which enable foreign investors enter global capital markets, without their interests being constrained by national boundaries.

As this study has shown, companies operating in Kosovo were able to grow in terms of both annual turnover and number of employees, while the fiscal burden has remained the same. This growth is proved by the 29% increase in the average annual turnover that companies had in 2011, as compared to 2009. Also, the fact that tax payments as a percentage to total annual turnover remain at a very low level of 3 to 4% annually shows that the tax burden in Kosovo is at minimal levels. In terms of investment potentials the following industries are worth exploring: agriculture and horticulture, BPO, energy and mining, tourism etc.
bibliography


