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Sytrime Dervisholli

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# Foreign Investor Manual



# **Foreign Investor Manual**

**Sytrime Dervisholli**

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**List of Abbreviations and Acronyms:**

CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
EIC	European Investors Council
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPA	Industrial Property Agency
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registration Agency
KIESA	Kosovo Investment and Enterprise Support Agency
KSA	Kosovo Standardization Agency
MTI	Ministry of Trade and Industry
NCED	National Council for Economic Development
NIC	National Investment Council
NDS	National Development Strategy
PAK	Privatization Agency of Kosovo
SAA	Stabilization and Association Agreement
SEC	Social Economic Council
TAK	Tax Administration of Kosovo
WB	World Bank

## **Economic State of Play - Kosovo in Figures**

Constitutional regulation of the economy of the Republic of Kosovo is based on the principles of a market economy with free competition. Therefore, the Government of the Republic of Kosovo shall have a liberal trade regime based on the principles of market economy, with free competition that favors the opening of markets as the only possibility for sustainable development of competitiveness.

The Republic of Kosovo is at an important stage calling for the orientation of its development agenda towards European integration in all areas. Such a European development orientation comes naturally after concluding the emergency and stabilization phase during 1999-2007, and the state-building phase in the post-independence period.<sup>1</sup>

It is necessary to integrate the existing policies and strategies and create a common axis of orientation. A genuine national development policy requires not only their coherent interaction, but also to narrow the focus of their multitude of measures, by selecting the "country's top priorities".

The National Development Strategy (2016-2021) represents such a list of top priorities. This is a document that aims to address key obstacles to the development of Kosovo. The production of such a document is based on the fact that one of the key obstacles to sustainable economic development in our country is the coordination of development policies and institutional processes, as identified in various studies conducted by national and international institutions.<sup>2</sup>

It is known that foreign investments play a key role in encouraging and supporting a successful transition. Foreign investment in transition economies appears to be an effective tool for several reasons, such as: potential for growth investing, transfer of know-how, enhanced productivity, improved management and workforce skills and improved trade balance. Although all countries undergoing transition share more or less the same goal, the outcomes of their efforts vary. This is due to different internal and external conditions that affect each country and due to the strategies and policies they undertake to ensure a smooth and successful transition.

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<sup>1</sup> Program of the Government of the Republic of Kosovo 2015-2018

<sup>2</sup> National Development Strategy (2016-2021)



The main interests of foreign investors are profit growth, competitiveness and access to international markets. The main interest of developing countries is to promote economic growth in the country.

Strategic orientations of the platform for investment promotion relate to the strengthening of the private sector and promotion of investment, including foreign direct investments. Institutions under the Ministry of Trade and Industry (MTI), such as Kosovo Investment and Enterprise Support Agency (KIESA), Kosovo Business Registration Agency (KBRA), and Kosovo Standardization Agency (KSA) will serve the purpose of meeting these strategic orientations. In this regard, the resources of the Ministry of Diaspora shall also be utilized, especially business networks established in the Diaspora. In order to achieve this, the Government of Kosovo during this term of office shall focus on the following:

Utilizing market size growth as a result of the implementation of the Stabilization and Association Agreement (SAA), to promote strategic investments in the economy;

Conducting research and analysis on competitive advantages in certain sectors of the economy and application of incentive measures in these sectors;

Preparation and implementation of vocational training in all sectors, regions and enterprises with competitive potential, with special emphasis in the mechanisms of the Investment and Employment Fund;

Continuation of the momentum on the reform of doing business, especially through concrete reforms that enable clear legal certainty for investors.

## **Key Economic Indicators**

On June 29, 2009, Kosovo formally joined the World Bank and International Monetary Fund (IMF). The real development of the economy measured by Gross Domestic Product (GDP) has been favorable in the past years, showing a positive and continuously increasing trend. Despite the effects of the international financial crisis, Kosovo was one of the few countries in Europe that experienced positive economic growth in recent years. As donor support decreases, the private sector consumption and investments are becoming the most important factors behind economic growth. These investments are mainly being driven by the fast expanding financial sector. Moreover, Kosovo Government runs a stable fiscal policy. The tax revenue base has been widened, thus enabling Government expenditures to

increase and in turn support economic growth. Apart from the favorable economic performance, Kosovo runs a very stable monetary policy. Kosovo is one of the few countries outside the EU-Zone that has introduced the Euro as its official currency. The use of the Euro has provided the grounds for low inflation and a stable macroeconomic environment.<sup>3</sup>

The economy of Kosovo was characterized by an increase of activity during 2016 compared to the previous year. According to preliminary statistics of the Kosovo Agency of Statistics (KAS) for the quarterly GDP, it turns out that Kosovo's economy marked an average growth of 3.4 percent over the four quarters of 2016. Economic growth during 2016 was supported by the growth of domestic demand, while net exports negatively impacted the growth rate. During 2016, investment growth was 9.1 percent and consumption growth of 3 percent contributed to the real growth of the country's economy. According to the production approach, economic growth during 2016 was mainly a result of increased value added from activity in the agriculture, trade and financial activities sector. While, the real decline is estimated to be recorded in the real-estate business, processing industry and public administration.<sup>4</sup>

**Table 1: Selected Macroeconomic Indicators**

<b>Description</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>GDP (EUR million)</b>	5,391.8	5,795.5	6,043.1
<b>Unemployment</b>	35.3%	32.9%	27.5%
<b>Remittances (EUR million)</b>	622.3	665.5	691.0

Source: Central Bank of Kosovo - Monthly Statistics Bulletin, October 2017

The next table shows the economic growth for 2016 and the projections for 2017 and 2018 and a comparison with countries in the region.

<sup>3</sup> Sytrime Dervisholli "Opportunities to Foreign Investment in Kosovo", September 2011

<sup>4</sup> Central Bank of Kosovo - Monthly Statistics Bulletin, October 2016

**Table 2: Economic Growth of Countries in the Region, in %**

Country	2016	2017	2018
Albania	3.40	3.70	4.11
Bosnia and Herzegovina	3.00	3.20	3.70
Croatia	1.90	2.10	2.20
<b>Kosovo</b>	<b>4.05</b>	<b>3.34</b>	<b>3.64</b>
Macedonia	2.20	3.50	3.50
Montenegro	5.08	3.63	2.44
Serbia	2.50	2.80	3.50

Source: IMF, Report for Selected Countries and Subjects

### Foreign Direct Investments in the Balkans and Kosovo

In South-East Europe, the rise of Foreign Direct Investment (FDI) flows was mainly driven by European investors. FDI flows in the subregion were largely directed towards manufacturing industries, such as food and tobacco, chemicals, textiles and garments, automobiles and pharmaceutical industries. FDI flows rose in Serbia and Montenegro, while those to Albania remained above \$1 billion. In Bosnia and Herzegovina, FDI flows have declined in the last 3 years. While Eurozone countries (Austria, the Netherlands, Greece and Italy) remained the major investors in the region, investors from countries such as the United Arab Emirates and China are increasingly active.<sup>5</sup>

**Table 3: Foreign Direct Investments in the Balkans 2013-2015, (\$ Million)**

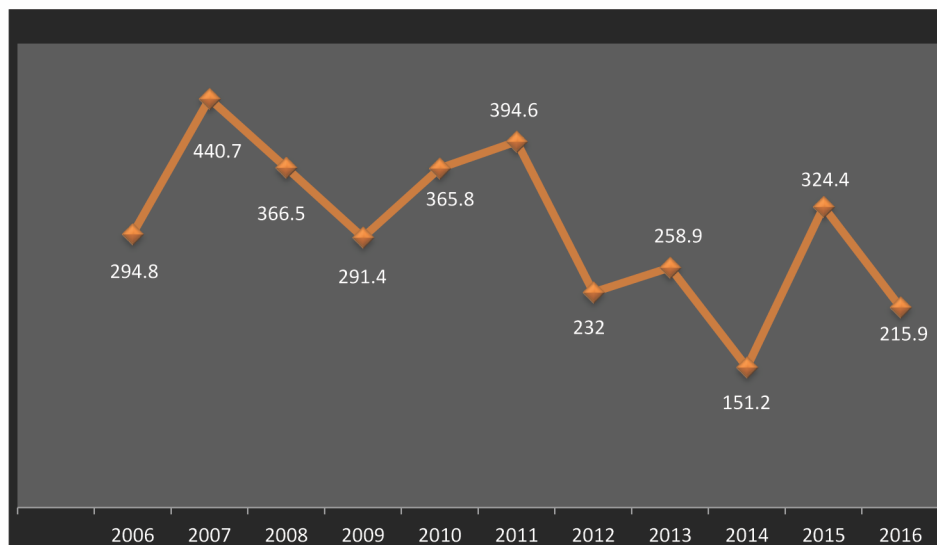
Country	2014	2015	2016
Albania	1,110	945	1,124
Bosnia and Herzegovina	529	270	285
Macedonia	272	240	397
Montenegro	497	699	226
Serbia	1,996	2,347	2,229

Source: UNCTAD World Investment Report 2016

<sup>5</sup> UNCTAD World Investment Report 2016

Given the favorable business climate, a stable macroeconomic environment and good opportunities in various business sectors, Kosovo is becoming an increasingly attractive place for doing business. As a result, the interest of foreign investors is increasing over the years. Kosovo has attracted upwards of EUR 3 billion in the past 10 years (2006-2016). After a peak in 2007 with EUR 440 million, as a result of the privatization process, a slight drop occurred in 2008 and 2009, mainly due to the global financial crisis. In 2015, Kosovo recorded positive FDI growth with EUR 324.4 million, while in 2016 the FDI rate was lower compared to 2015 - EUR 215.9 million. Besides pioneers, such as Raiffeisen Bank and Procredit, which entered the market in Kosovo at the beginning of the transition phase, there is a number of foreign companies that are involved in a wide range of business sectors. According to the Registry of Businesses, there are 4,634 foreign-owned and mixed companies that have already invested in Kosovo. The large number of foreign companies operating in Kosovo is living proof of the opportunities and benefits that Kosovo has to offer.

**Chart 1: Foreign Direct Investments in Kosovo, 2006-2016 (€ Million)**



Source: Central Bank of Kosovo / Annual report 2016

FDIs in Kosovo are concentrated in sectors such as real estate (58 percent of total FDIs), financial services (20 percent), construction (14 percent) and industry (7 percent). In 2016, almost all sectors are characterized by a decline in terms of received FDIs. The value of

investments in real estate was higher by EUR 47.5 million compared to 2014, investments in the financial sector were higher by EUR 22.4 million. The value of investment in real estate was lower by EUR 21.9 million compared to 2015, investments in the financial sector were lower by 45.4 million euros. Regarding the FDI origin, Switzerland represents the country from which the highest FDI came in 2016 (EUR 61.8 million), followed by Turkey with EUR 44.4 million, Germany with EUR 25.7 million, Albania with EUR 28.6 million, the US with EUR 22.6 million and so on.<sup>6</sup>

## **Why Invest in Kosovo?**

The business environment in the Republic of Kosovo is becoming one of the most competitive in the region. An excellent tax system, abundance of natural resources, quick and easy business registration methods, a transparent law on foreign investments, are just a few advantages making this country an attractive and friendly environment for foreign investors.

The Republic of Kosovo is distinguished as the country with the greatest opportunities for investment in the Balkans, hence a strong reason appealing at international investors as a primary place for their investments.<sup>7</sup>

- Lowest operating costs in Europe
- Possess multiple skills, speak many languages and cost effective
- Euro is the official currency
- Free access to markets of the EU, US and CEFTA countries
- Youngest population in Europe
- Stable political situation
- Legislation is in line with EU legislation
- Strategic location with ongoing infrastructure development
- Sound banking system
- Average age of population - 27 (years)
- English and German language is used by most
- Low taxes

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<sup>6</sup> Central Bank of Kosovo / Annual report 2016

<sup>7</sup> Kosovo Investment and Enterprise Support Agency (KIESA)

Kosovo has a number of sectors that provide good business opportunities, such as:

**Agriculture** - With some 60 per cent of the population living in rural areas and mostly working in agriculture, Kosovo has a long standing agricultural tradition. In combination with its mild climate that prevails in the country, there are very good conditions for agricultural production.

**Mines and Energy** - Kosovo has a considerable endowment of natural resources. At 14.7 million tons, Kosovo possesses the world's fifth-largest proven reserves of lignite. In addition to coal-fired power generation capacities, Kosovo can offer huge opportunities in the renewable energy sector. Currently, about 98 percent of the electricity is produced by thermal power plants.

**Wood Processing** - Over 40% of Kosovo's land mass is covered by forests, or an area of approximately 465,000 hectares. Kosovo has a long wood processing tradition and its soils are generally nutrient-rich providing a very good growth medium for natural plants and trees.

**Metal Processing Industry** - Kosovo has a long history of metal working and this sector has undergone major changes over the last twenty years. This sector exports a wide range of metal products, mainly hammered-engraved steel bars and forged metal, to 15 European countries.

**Decorative stone industry** - Availability of some of the world's most beautiful decorative stones is one of Kosovo's hidden secrets. Kosovo's geology is rich and varied and its evolution over time has been influenced by its location in an active tectonic zone.

**Tourism** - Natural wealth of Kosovo represents high quality tourism resources. The description of Kosovo's potential in tourism is closely related to its geographic position. The mountainous south of Kosovo has great potential for winter tourism. One of the most interesting opportunities for foreign investors in this region is the Brezovica Ski Resort in the Sharr Mountains.

**Construction Industry** - In recent years, the construction industry became one of the most important sectors contributing to Kosovo's economic growth. The construction industry remains a sector with highly promising economic potential for Kosovo.

**Textile Industry** - With over 200 years of tradition, textiles were the second largest industrial sector in Kosovo, after mining. In the past, products from Kosovar manufacturers

targeted the local market, as well as other markets throughout the former Yugoslavia, Western and Eastern Europe, and the United States.

**Information and Communication Technology** - According to the latest data of the Telecommunications Regulatory Authority (TRA), 15.3% of Kosovars use the Internet regularly. Compared to EU, where the average usage is at 38%, internet usage in Kosovo can be considered to be significantly lower than in the EU. This gap represents a relevant sector potential waiting to be addressed.

**Food processing** - Kosovo's climate is influenced by its proximity to the Adriatic and Aegean Seas, as well as the continental European landmass to the north. The overall climate is of a modified continental type.

With some 60 per cent of the population living in rural areas and mostly working in agriculture, Kosovo has a long standing agricultural tradition. Agriculture is the main source of income for the majority of the population. The Agribusiness and Food Processing sector is traditionally one of the strongest sectors in Kosovo's economy.

## **Investment Incentives**

Current incentives cover the following issues:<sup>8</sup>

### **1. Loss Carryforward**

According to Law No. 05/L-029 on Corporate Income Tax, Article 23 of the Law establishes that losses may be carried forward for up to six (6) years, additionally provided in Article 24 of Administrative Instruction No. 02/2016.<sup>9</sup>

### **2. Special Allowance for New Assets**

On "Special Allowance for New Asset", Article 17 of Law No. 05/L-029 on Corporate Income Tax, and Article 19 of Administrative Instruction No. 02/2016 provide clarity on how to handle this issue.

If a taxpayer purchases any production lines for plants and machinery, rolling stock and locomotives used for the railway transport, airplanes, ships, heavy machines for transport, equipment for transport of soil, bulldozers, digging machines and other heavy machines for the purposes of taxpayers' economic activities, a special allowance of ten percent (10%) of

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<sup>8</sup> <http://kiesa.rks-gov.net/page.aspx?id=1,30>

<sup>9</sup> Tax Administration of Kosovo

the acquisition price of asset is allowed in the year in which the asset was first placed into service. This is allowed in addition to the normal allowable depreciation allowance and only if the asset is new or is for the first time placed into use in Kosovo. Deduction is not allowed if the asset is transferred from an existing business or a previous business in Kosovo.

### **3. Avoidance of Double Taxation**

Avoidance of Double Taxation, Article 28 of Law No. 05/L-029 on Corporate Income Tax, and Article 27 of Administrative Instruction No. 02/2016 provide clarity on the avoidance of double taxation.

A resident taxpayer in Kosovo who receives income from business activities outside of Kosovo, and who pays tax on that income to other states according to this Law, shall be allowed to a tax credit for the income tax paid in another state that is attributed to the income created in another state.

Tax crediting allowed shall be limited to the external tax amount paid on the income gained outside of Kosovo, and does not exceed the amount of obligatory taxation in Kosovo on that income. Since the taxation in Kosovo on that income exceeds the paid external taxation, the excessive amount should be included in the calculation of the obligatory taxation in Kosovo. Any international applicable agreement on avoidance of double taxation shall supersede the provisions of this Article in relation to the parties in that international agreement.

### **4. Customs**

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 the import and export of certain capital goods, raw materials, agricultural production inputs, and services.

For more details visit: [www.dogana-ks.org/tarik/](http://www.dogana-ks.org/tarik/).

### **5. Investment Guarantees**

The Multilateral Investment Guarantee Agency (MIGA) (a member of the World Bank Group) guarantees investments in Kosovo up to the value of EUR 20 million.

The US Overseas Private Investment Corporation (OPIC) also provides political risk insurance for foreign investors in Kosovo.

For investment and credit guarantees from Austria, please contact the Austrian Kontrollbank (OeKB) and for Germany, the Euler Hermes Kreditversicherung.



## 6. Land

According to the Law on Local Self Government (No. 03/L-040), the municipalities in Kosovo have the right to lease movable and immovable property to foreign investors. The lease can be granted for a term of ten years with an extension opportunity of up to 99 years.

The existing legal framework in Kosovo allows incentives for foreign and local investors. Their purpose is to promote the growth of the Small and Medium Enterprise (SME) sector. Current incentives cover the following issues:

- Carrying forward of losses;
- Special allowances of new assets;
- Avoiding double taxation;
- Customs;
- Investment guarantees;

According to the Law on Foreign Investment in Kosovo, foreign investors shall be accorded equal rights and obligations as nationals of Kosovo and shall be treated equally.

In order for Kosovo to become an even more attractive destination for foreign investors, the Ministry of Finance has completed a draft of the Administrative Instruction on Tax Holidays, which will be part of the Fiscal Package 2.0, expected to enter into force during 2017.

AI on Tax Holidays has been devised to ensure that businesses that create investment and generate new jobs are exempt from taxation for a certain period.

There are 4 categories provided as follows<sup>10</sup>:

- ✓ Businesses that invest upwards of EUR 10 million and employ at least 120 employees in 3 years, shall be exempt from taxation in the first 6 years.
- ✓ Businesses that invest upwards of EUR 5 million and employ at least 80 employees in 3 years, shall be exempt from taxation in the first 4 years.
- ✓ Businesses that invest upwards of EUR 2 million and employ at least 50 employees in 2 years, shall be exempt in the first 3 years.
- ✓ Businesses that invest upwards of EUR 500,000 and employ at least 30 employees in 1 year, shall be exempt in the first 2 years.

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<sup>10</sup> Ministry of Finance. Since the AI on Tax Holidays is yet to be finalized and is currently in draft format only, it is likely to undergo changes.

## 7. Improved Access to Finance and Product Certification

The Kosovo Credit Guarantee Fund has become operational and so far, has issued around 63 loans for local businesses. The project for certification of Kosovo products according to internationally recognized quality standards is being implemented by EBRD in cooperation with USAID and other donors, and about 20 Kosovo companies have benefited from this project.

### Business Registration Procedures in Kosovo

Business organizations as defined in the Law on Business Organizations are required to register with the central office of KBRA in Pristina, or in one of 28 Municipal Business Registration Centers throughout Kosovo. Businesses are registered free of charge and within a short period of time: one day for Personal Business Enterprises and three days for Joint Stock Companies. This is enabled by an integrated system, where businesses receive a certificate with two numbers: a business number and a fiscal number. Additionally, the charter capital requirement has been stricken and registration procedures simplified.<sup>11</sup>

Number of Registered Business Organizations by Legal Form and year of registration is presented below.<sup>12</sup>

**Table 4: Number of Registered Business Organizations by Legal Form and year of registration**

Year	Personal Business Enterprise	General Partnership	Limited Partners hip	Limited Liability Company	Joint Stock Company	Branch of Foreign Company	Agricultural Cooperative	Total
2014	7,355	91	1	2,125	29	66	4	9,671
2015	7,385	78	-	2,257	27	50	8	10,075
2016 (January-June)	1,847	14	-	1,032	6	10	1	2,910

Source: KBRA

According to the Law on Business Organizations, a Foreign Business Organization is defined as any business organization that has been duly established and is currently validly existing

<sup>11</sup> [www.arbk.rks-gov.net](http://www.arbk.rks-gov.net)

<sup>12</sup> USAID&KBRA "Basic Performance Indicators for Registration of Businesses in Kosovo", October 2016

under the Law of a jurisdiction outside Kosovo, and may engage in business activity in Kosovo by registering a branch in Kosovo with KBRA.

Table 5 below shows the total number of branches of foreign companies registered in Kosovo under the Law on Business Organizations, by country of origin from 1999 to June 2016.

**Table 5: Branches of Foreign Companies Registered in Kosovo**

No.	Country	Branches of Foreign Companies
1.	Albania	168
2.	Macedonia	58
3.	Germany	58
4.	Switzerland	51
5.	Turkey	50
6.	United States	38
7.	Slovenia	38

Source: KBRA

For initial registration, an application can be made to any KBRA municipal center, depending on the headquarters or place of activity of the subject that requires registration.

To start a registration, an applicant must complete the application form. Before filling in the application form, the applicant must know the following information:

1. The application form is specific to the different types of commercial companies that apply (physical persons doing business or corporation). Therefore, the applicant should ensure that he / she knows whether the application will be for a natural person who will be registered to conduct business or a corporation as well as the type of corporation. Information on legal requirements of companies can be found in Law No. 02 / L-123 on Business Organizations. This law can be downloaded from the official website of KBRA.

For more information, visit the following link: <https://arbk.rks-gov.net/Page.aspx?id=1,33>

## **Taxes and Customs Duties**

The tax policy in Kosovo is oriented towards simple regulations that ensure a broad tax basis and prevent tax evasion. Taxes differ based on type of business and annual turnover. Fiscal Package 1.0 entered into force in September 2015, and consequently the Law on VAT, Law on Personal Income Tax (PIT), Law on Corporate Income Tax (CIT) were amended, and

Administrative Instruction for the Implementation of the Law on VAT and Law on Public Debt Forgiveness were drafted.

The first Fiscal Package abolished VAT for manufacturing machinery, raw materials, and information technology. In addition, this package introduced changes to corporate income for tax cuts and other fiscal stimulus for businesses in terms of new investments.

Whereas, the second Fiscal Package expected to enter into force during 2017, according to analysis and evaluation by the Ministry of Finance, this Package shall contain seven basic elements/measures:

1. Expansion of list of raw materials that are exempted from customs tax;
2. Abolition of excise rate on crude oil for production purposes;
3. Amendments/supplements to the list of products subject to 0 percent rate or reduced rate of 8 percent of VAT;
4. Administrative Instruction on Tax Holidays;
5. Issuing necessary legislative acts for specific conditions of recording, control and marking of flour, which is placed in free circulation in the market of the Republic of Kosovo;
6. Issuing necessary legislative acts for specific conditions for the recognition of losses from deterioration, loss of weight or evaporation of oil and its products;
7. Establishment of new customs codes for certain products, according to EU practices.

Kosovo Tax Administration administers the following types of taxes<sup>13</sup>:

- Value Added Tax (VAT)
- Corporate Income Tax (CIT)
- Personal Income Tax (PIT)

Corporate Income Tax is 10 percent on business profits and each corporate income taxpayer shall make quarterly advance/installment payments on their annual tax dues.

Currently, there are three VAT rates as follows: 0 percent - for exports, 8 percent - for essential products, and 18 percent - for luxury products. VAT payments are made on a monthly basis.

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<sup>13</sup> <http://www.atk-ks.org/7422-2/#>

Personal income tax is administered according to progressive rates.

- Up to €250 is 4%
- Up to €450 is 8%
- Over €450 is 10%

**Table 6: Tax System in the Region (VAT&CIT) – 2015**

	Value Added Tax	Corporate Income Tax
Albania	20%	15%
Bosnia and Herzegovina	17%	10%
Croatia	25%	20%
Macedonia	18%	10%
Montenegro	19%	9%
Serbia	20%	15%

Source: World Bank Doing Business Report 2016

No VAT shall be charged on the following transactions, and the list is not limited to:

- import of a traveler’s personal effects as permitted under the applicable customs provisions;
- import of tourist duty-free goods as permitted under the applicable customs provisions;
- imports, or supplies funded from the proceeds of grants made to for Ministries and Departments governmental or non-governmental organizations in support of humanitarian and reconstruction programs and projects in Kosovo;
- imports or inflows made by, or supplies made to, diplomatic representatives or liaison offices;
- imports or inflows made by, or supplies made to, the United Nations or any of its organs including UNMIK, the specialized agencies of the United Nations, KFOR, the World Bank and international inter-governmental organizations;
- imports or intra inflows of medicines, medical services, pharmaceutical products, or medical and surgical instruments and apparatus;
- a fine or penalty levied by public authorities;

- a supply of medicines, medical services, pharmaceutical products, or medical and surgical instruments and apparatus;
- a supply of public education services;
- a supply of financial services;
- a transfer of title or lease of land or residential property;
- a supply of permits or licenses for a fee by a municipal or public authority.

The collected customs taxes such as Duty Tax, Value Added Tax, and Duty of Excise go to the Budget of Kosovo thus helping the economic development of the country. Additionally, Kosovo Customs Service checks imports and exports by ensuring the protection of economy and protection of trademarks, and generates accurate statistics on external trade. Kosovo Customs is ready to support all potential investors. This support is provided to them to take advantage of easier and faster imports procedures.

### **Customs tariffs in Kosovo regarding imports are:**

- 0% for goods imported from CEFTA countries
- progressive tariff for goods imported from EU countries, according to SAA
- 10% for goods imported from third countries

### **After the changes introduced to the customs system, a reduction of customs tariffs was applied for:**

- fixed assets
- raw materials for agribusiness and other production sectors
- accessory materials for further processing from 10% to 0%, and duty fees were removed for:
  - oil and oil products
  - wheat and corn

### **Exempted from duty fees:**

- Artificial fertilizers
- Pharmaceutical products
- Surgical instruments and apparatus
- Goods for humanitarian purposes
- Goods used by foreign diplomats and consular missions

- KFOR
- UNHCR
- International Red Cross
- UNMIK registered NGOs whose goal is to support the humanitarian and reconstruction programs and projects in Kosovo.

## **Investor Protection**

Law No. 04/L-220 on Foreign Investment aims to regulate the protection, promotion and encouragement of foreign investment in Kosovo, by providing foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in accordance with the widely accepted international standards and practice.<sup>14</sup>

Under this law, a foreign investor, defined as a natural person who is not a habitual resident of Kosovo, a business or other organization, entity or association established under a jurisdiction other than Kosovo, is to be governed by the principle of national treatment, meaning that foreign companies will be treated no less favorably than similar domestic enterprises.<sup>15</sup>

In particular, the rights vested to a foreign investor are:

- Non-discriminatory treatment
- Constant protection and security
- Compensation in case of nationalization and expropriation, including payment of interest
- Compensation in case of violation of applicable law and international law attributable to Kosovo
- Freely transferable and otherwise unrestricted use of income
- Protection against retroactive application of laws

It is worth noting that the SAA provides for the protection of investors, with Article 98 of the SAA providing for the establishment of cooperation between the Parties for the protection of foreign direct investment aiming to bring about a favorable climate for private investment,

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<sup>14</sup> <http://www.kuvendikosoves.org/common/docs/liqjet/04-L-220%20sh.pdf>

<sup>15</sup> <http://www.invest-ks.org/sq/Legjislacioni-dhe-Marreveshjet>

both domestic and foreign, which is essential to the economic and industrial revitalization of Kosovo.

Additionally, there are legal provisions for the establishment of a Division for disputes involving foreign investors, under the Department of Economic Affairs at the Pristina Basic Court, with jurisdiction throughout the territory of Kosovo.

In October 2016, the Assembly of Kosovo approved the Law on Strategic Investments. This Law is expected to streamline procedures and attract the interest of foreign investors in Kosovo.

The main purpose of this law is to eliminate barriers, bureaucratic procedures - deterrent to date, lengthy procedures, and lead to an increase in transparency for the implementation of foreign investments in the Republic of Kosovo. It enables the Government to directly negotiate with both, foreign and domestic investors. At the same time, it provides equal conditions in terms of attracting foreign investors, compared to neighboring and countries in the region.

## **Agreements**

The Government of Kosovo has signed several bilateral Agreements regarding investment promotion and protection with: USA (OPIC), Germany, Austria, Turkey, Albania, Belgium and Luxembourg, Switzerland, Macedonia, Croatia, Montenegro, Kuwait, and Qatar. Additionally, the Agreement with Canada is in-process.

## **Business Environment**

During 2016, aiming to improve the business environment, the Ministry of Trade and Industry (MTI) merged the business registration number with the number for export and import; and work is in progress with TAK for businesses to be assigned only one number. The deadline for the registration of businesses has been shortened and recommendations of the "Doing Business" Task Force headed by MTI were implemented. From the earlier timeframe of 3.5 days required to register a business, the timeline is shortened to 1.9 days. In World Bank's Report on Doing Business, Kosovo is ranked 13th for starting a business. Fees have been abolished and reduced for services provided to businesses in the



registration process. A module has been developed for online business registration. Pledge Registry has been upgraded to provide highly advanced services as required by banks. 10,504 businesses were registered, while 2,290 were terminated. The number of foreign-owned businesses is 655, whereas the number of limited liability companies is 3,979.

Tables below show the indicators of Doing Business 2017 Report and provide a comparison between 2017 and 2016.<sup>16</sup>

**Table 7: Kosovo’s Ranking in Doing Business 2017 (rank 1-190)**

	<b>2017</b>
Rank	60
Starting a Business	13
Dealing with Construction Permits	129
Getting Electricity	114
Registering Property	33
Getting Credit	20
Protecting Investors	63
Paying Taxes	43
Trading across Borders	51
Enforcing Contracts	44
Resolving Insolvency	163

<sup>16</sup> <http://www.doingbusiness.org/data/exploreeconomies/kosovo>

**Table 8: Indicator Comparison 2016-2017 (rank 1-190)**

	2017	2016	Change in Ranking
Rank	60	64	↑4
Starting a Business	13	27	↑14
Dealing with Construction Permits	129	125	↓4
Getting Electricity	114	111	↓3
Registering Property	33	33	-
Getting Credit	20	19	↓1
Protecting Investors	63	62	↓1
Paying Taxes	43	77	↑34
Trading across Borders	51	59	↑8
Enforcing Contracts	44	43	↓1
Resolving Insolvency	163	164	↑1

Source: World Bank Report, Doing Business 2017

Economies are ranked on their ease of doing business, from 1–190. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm.

## Trade Regime

Kosovo has a liberal trade regime and there are three major benefits from trade liberalization: better opportunities for exports, a better environment for investment and sustained neighborly relations.

Kosovo currently enjoys free trade under the Central European Free Trade Agreement (CEFTA), enabling its producers to access the regional market comprising of 25 million consumers, free of any customs duties.<sup>17</sup>

The Stabilization and Association Agreement with EU entered into force on April 1, 2016, whereby Kosovo and EU negotiated an asymmetric agreement meaning that, at the time of entry into force, all products from Kosovo (with the exception of those with negotiated quotas) shall have unlimited access to the EU market, while access of EU products will be liberalized in accordance with the agreed timetables, whereby some products will gain

<sup>17</sup> <http://www.invest-ks.org/sq/Sistemi-Liberal--Tregtar>

immediate access, while the bulk will be liberalized in a period of three, five and seven years. Moreover, a category of products, for which Kosovo considered to have local potential including mainly agricultural products, will remain outside of the liberalization schedule for up to ten years. In terms of quota products, domestic wine producers stand to benefit most, for whom when the SAA enters into force, the quota of duty free exports will grow by two and one half times.<sup>18</sup>

On the other hand, Kosovo benefits from a Generalized System of Preferences with the US, Japan, Norway, and Switzerland. This system eliminates customs tariffs for a certain number of products (about 5,000 products).

In addition, a Free Trade Agreement with Turkey has been negotiated and is awaiting signature by the President of the Republic of Kosovo.

### **Imports and Exports 2010-2016**

Kosovo's trade exchanges in 2016 amounted to over EUR 3 billion, an indicator that increased by 4.7 percent compared to 2015, a trend that reflects a tendency of import growth and decline in exports.

Imports of goods in Kosovo amounted to EUR 2,789,700,000, following a higher annual performance than that of 2015 (with an annual growth of 5.9 percent).

Price movement for some commodities in the international markets resulted in the performance of Kosovo's export value influencing Kosovo's foreign trade as well. The most significant drops are the prices of base metals which have a significant share in Kosovo's trade.

Kosovo's exports amounted to EUR 309.6 million, or 4.8 percent drop, compared to 2015, a drop which further increased Kosovo's negative trade balance. By comparison of goods exported in 2016 compared to 2014, the situation is similar to the previous year, so in 2016, exports fell by 4.6 percent compared to 2014.

Kosovo is largely dependent on imports, as a result, the coverage of imports from exports declined to 11 percent compared to 12.3 percent in 2015.

Trade with EU countries and countries in the region participating in CEFTA is the most important part of Kosovo's trade exchanges, with about 71 percent of all foreign trade.

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<sup>18</sup> <https://sbunker.net/teh/45943/cka-do-te-thote-msa-ja-per-ekonomine-e-kosoves/>

**Table 9: Trade by Country Groups, in %**

<b>Country Group</b>	<b>Exp/Imp</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
BE	Exports	44.5	43	38.4	39.4	30.2	32.6	22.6
	Imports	38.3	38	38.7	41.3	42.6	42.2	43.1
CEFTA	Exports	23.5	26	36.8	36.4	39.2	38	46.6
	Imports	37	35	33.7	30.6	28.4	29.2	27.0
Other	Exports	32	31	24.8	24.1	30.6	29.4	30.8
	Imports	24.5	27	27.6	28.1	29	28.6	29.9

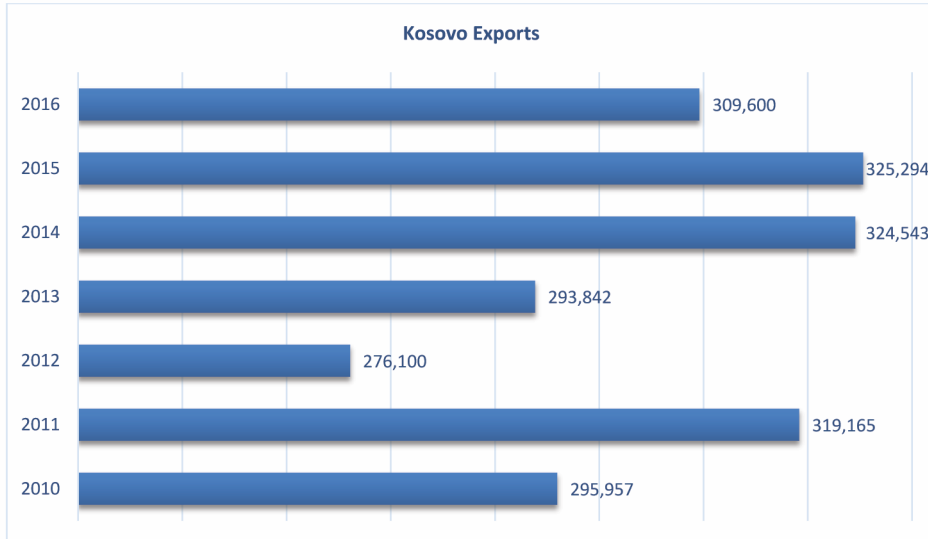
Source: Kosovo Agency of Statistics

**Table 10: Kosovo Exports to the Rest of the World - Key Partners (EUR '000)**

<b>Year/Country</b>		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Turkey	Exports	9,357	7,831	11,380	7,393	10,365	9,212	7,630
	Imports	150,360	184,452	199,881	204,922	238,268	252,285	288,488
Switzerland	Exports	17,786	17,611	15,132	7,155	10,038	11,721	16,762
	Imports	20,981	22,194	22,664	21,020	30,185	23,674	21,796
China	Exports	14,779	28,268	3,266	1,290	42,152	206	11,694
	Imports	135,406	170,285	159,651	179,554	204,789	232,925	258,473
India	Exports	44,895	15,482	22,889	28,953	27,425	47,029	9,425
	Imports	6,182	8,304	9,709	14,429	9,462	13,602	18,960

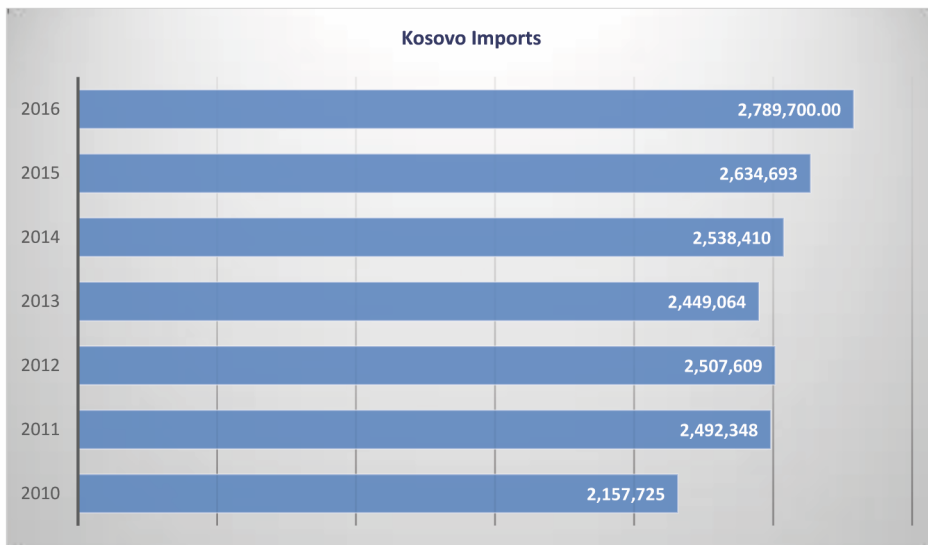
Source: Kosovo Agency of Statistics

**Chart 2: Kosovo Exports 2010-2016 (€ '000)**



Source: Kosovo Agency of Statistics

**Chart 3: Kosovo Imports 2010-2016 (€ '000)**



Source: Kosovo Agency of Statistics

## Trade in Services

Services represent the fastest growing sector of the global economy and account for two thirds of global output, one third of global employment and nearly 20% of global trade.<sup>19</sup>

Services make up a large part of Kosovo's GDP, approximately 65%, and represent the most developed sector in Kosovo compared to the goods sector. Since 2004, the services sector performs in a positive way.

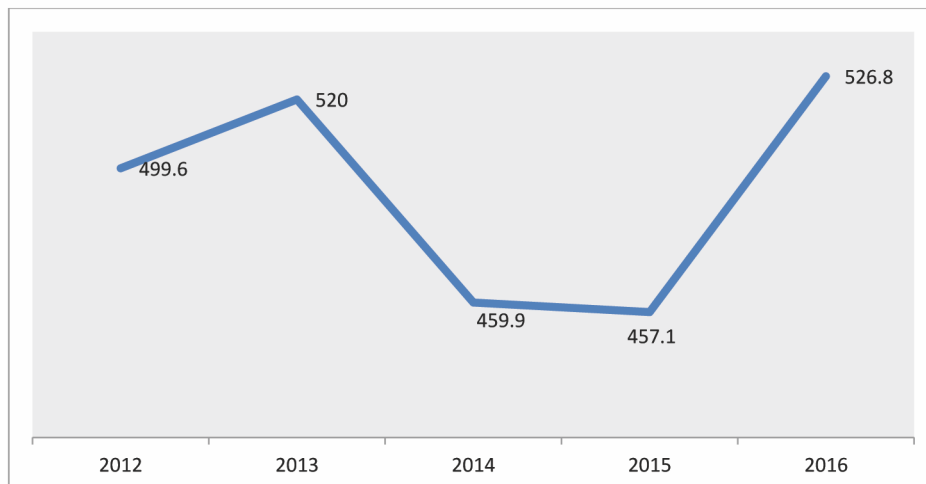
The most developed sectors over the years are: travel services, construction services, computer services, information and telecommunications services, and other business services.

**Table 11: Gross Domestic Product with Actual Prices 2012-2016 (in %)**

	2012	2013	2014	2015	2016
<b>Export of Services</b>	12.6	11.7	13.8	13.7	13.5
<b>Import of Services</b>	5.7	5.9	7.7	7.6	7.7

Source: Kosovo Agency of Statistics

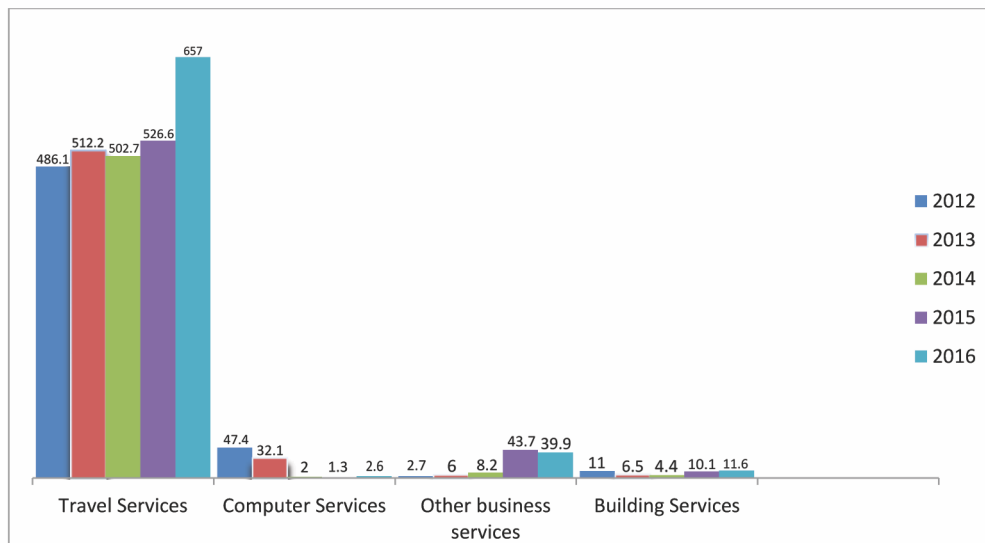
**Chart 4: Balance of Trade in Services 2012-2016 (in EUR million)**



Source: Central Bank of Kosovo

<sup>19</sup> [www.wto.org](http://www.wto.org)

**Chart 5: Services Sectors with Development Potential (in EUR million)**



Source: Central Bank of Kosovo

## Legislation<sup>20</sup>

In order for the economy to function in accordance with Western free market principles, the following laws were approved, in 2016 and 2017:

- Law on Bankruptcy
- Law on Strategic Investments
- Law on Late Payments in Commercial Transactions
- Law on Accreditation
- Law on Regulated Professions
- Law on Amending and Supplementing the Law on Copyright and Related Rights
- Law on Trepça
- Law on Geographical Indications and Designations of Origin
- Law on Establishment of Kosovo Credit Guarantee Fund
- Law on Services

<sup>20</sup> <http://gzk.rks-gov.net/ActsByCategoryInst.aspx?Index=1&InstID=1&CatID=6>

Whereas, draft Law on Business Organizations, draft Law on Consumer Protection and draft Law on Construction Products are being reviewed by the Kosovo Assembly.

## Labor Law

The Law on Labor (No. 03/L-212), that entered into force on December 16, 2010, is part of the basic legislation of the Republic of Kosovo that regulates the relationship between employees and employers. This Law aims to regulate the rights and obligations deriving from employment relationships, and ensure protection at work. Its provisions apply to employment in both, public and private sector.<sup>21</sup>

Labor Law should ensure the fulfillment of four main principles:<sup>22</sup>

- Freedom of association and recognition of the right to collective bargaining,
- Elimination of all forms of forced or compulsory labor,
- Elimination of child labor,
- Elimination of discrimination at work.

Supervision of implementation of this Law shall be conducted by the Labor Inspectorate on the basis of the Law on Labor Inspectorate (No. 2008/34). Any natural or legal person who does not comply with the provisions of this Law, shall be subject to punitive sanctions.

The Labor Law, inter alia, provides on the following:

<b>Elements of employment relationship</b>	<b>Relevant provision in the Law of the Republic of Kosovo</b>
<b>Contract</b>	Written
<b>Working Hours per week</b>	40 hours
<b>Reduced Working Hours</b>	Applicable to jobs and duties where, despite the application of protective measures, the employee is exposed to harmful impacts for health
<b>Overtime</b>	At the request of the employer, in extraordinary cases; for a maximum of eight

<sup>21</sup> <http://www.kuvendikosoves.org/?cid=1,191,518>

<sup>22</sup> [http://www.partneretsocial.org/uploads/files/2014/June/20/Liqji\\_i\\_Punes\\_ne\\_Kosove1403267101.pdf](http://www.partneretsocial.org/uploads/files/2014/June/20/Liqji_i_Punes_ne_Kosove1403267101.pdf)



	(8) hours per week.
<b>Break during Working Hours</b>	30 minutes (included in normal business day hours)
<b>Weekly Rest</b>	At least 24 hours
<b>Annual leave</b>	<ul style="list-style-type: none"> <li>▪ At least four (4) weeks during a calendar year (regardless if he/she works a full-time or part-time job); whereby one day shall be added for every five (5) years of service</li> <li>▪ Teachers are an exception</li> <li>▪ Official holidays that coincide with working days shall not be counted as annual leave days</li> </ul>
<b>Annual leave</b>	<ul style="list-style-type: none"> <li>▪ In the event of sickness: 20 working days in one year with full salary compensation</li> <li>▪ In the event of absence due to insecurity and health protection: up to 45 days within a calendar year with full salary compensation.</li> <li>▪ In the event of sick leave due to documented occupational injury and related illness as a result of performing work or services for the employer: 10 - 90 days in one year at up to 70% salary compensation</li> <li>▪ 5 days in case of his/her marriage</li> <li>▪ 5 days in case of death of a close family member</li> <li>▪ 1 day in every case of voluntary blood donation</li> </ul>
<b>Maternity Leave</b>	<ul style="list-style-type: none"> <li>▪ 12 months for women, starting from 45 to 28 days before the expected date of birth - with basic salary compensation at 70% for the first 6</li> </ul>

	<p>months, 50% for the next 3 months and 0% in the last 3 months;</p> <ul style="list-style-type: none"> <li>▪ The father of the child may assume these rights if the mother falls ill, abandons the child, or dies.</li> <li>▪ In other cases, the father is entitled to 2 days paid leave at the birth of the child and 2 weeks unpaid leave at any time before the child reaches the age of 3.</li> <li>▪ Other conditions apply in the event of a stillbirth or birth of a special needs child.</li> </ul>
<b>Allowances</b>	<p>Provided:</p> <ul style="list-style-type: none"> <li>▪ 20 % per hour for on-call duty</li> <li>▪ 30 % per hour for night shift</li> <li>▪ 30 % per hour for extended working hours</li> <li>▪ 50 % per hour for work on national holidays</li> <li>▪ 50 % per hour for work on weekends</li> </ul> <p>Allowances for work on weekends, holidays and other days off based shall exclude each other. An employee may ask from the employer to be compensated in days off instead of allowances.</p>
<b>Part-time Working Hours (min. 20 hours per week)</b>	<p>An employee in this category is entitled to all the rights deriving from the employment relationship on the same basis as a full-time employee, however in proportion to the number of hours worked. He may not work longer than full-time work.</p>
<b>Trial Period</b>	<p>Allowed for a maximum duration of 6 months.</p>

Minimum wage set by Decision of the Government of Kosovo in 2011 is EUR 130 for employees under 35 years of age, and EUR 170 for employees over 35 years of age.

Social-Economic Council (SEC) of Kosovo is a body that provides proposals to competent authorities on issues relating to employment relationships, social welfare and other issues dealing with economic policies in Republic of Kosovo.

### **Law on Property and Other Real Rights<sup>23</sup>**

This law governs the creation, content, transfer, protection, and termination of real rights.

This law regulates ownership and, as limited real rights, possession, real security rights and real rights of use. These limited real rights may be created in ownership and in other suitable real rights.

### **Law on Expropriation of Immovable Property<sup>24</sup>**

This Law sets out:

- rules and conditions under which the Government or a Municipality may expropriate a Person's ownership or other rights in or to immovable property;
- rules and conditions under which the Government may authorize the temporary seizure and use of immovable property;
- procedures governing the conduct of such an act of expropriation or seizure;
- rules and procedures that shall be used in determining the amount and payment of compensation for such an expropriation or seizure; and
- other provisions governing ancillary matters related to such an expropriation or seizure.

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<sup>23</sup> <http://www.assembly-kosova.org/?cid=1,191,349>

<sup>24</sup> <http://www.kuvendikosoves.org/?cid=1,191,342>

## **Law on Allocation for Use and Exchange of Immovable Property of the Municipality<sup>25</sup>**

The purpose of this Law is to regulate the manner of allocation of municipal immovable property for use, exchange of municipal property between the municipality and natural and legal persons, and exchange with central institutions and Privatization Agency of Kosovo (PAK).

In January 2017, Kosovo's Government approved the National Strategy for Property Rights. This Strategy aims to facilitate the purchase, registration, use and sale of land for the people of Kosovo.

## **Law on Obligational Relationships<sup>26</sup>**

This Law contains the basic principles and general rules for all obligational relationships.

Article 12 of this Law regulates commercial contracts, where:

- The provisions of this Law shall apply to all types of contracts, unless expressly stipulated otherwise within this Law.
- Commercial contracts are contracts concluded by commercial entities among themselves.
- Commercial entities established with the Law and other legal persons that perform lucrative activities shall be deemed commercial entities in the sense of the present Law.
- Other legal persons shall be deemed commercial entities in the sense of the present Law, when in accordance with legal provisions, they are occasionally or during their primary activities involved in lucrative activities, if it is a matter of a contract in connection with such lucrative activities.

Chapter 1 of this Law regulates the conclusion of a contract, misunderstandings, mandatory conclusion and mandatory content of contract.

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<sup>25</sup> <https://mapl.rks-gov.net/getattachment/b398d99f-918f-4096-886a-ba9d28820ee2/Projektligji-per-ndryshimin-dhe-plotesimin-e-Ligji.aspx>

<sup>26</sup> <http://www.kuvendikosoves.org/common/docs/ligjet/Ligji%20per%20marredheniet%20e%20detyrimeve.pdf>

## Intellectual and Industrial Property Rights

In the field of industrial and intellectual property, in Kosovo there are two responsible institutions: Ministry of Trade and Industry and Ministry of Culture.

Industrial Property Agency (IPA) operates under the Ministry of Trade and Industry and is the only institution in Kosovo responsible for the registration of industrial property objects in Kosovo.<sup>27</sup> The IPA is committed to promote industrial property rights in Kosovo, so that the business community understands the importance of patents, trademarks, industrial designs, appellations of origin and geographical indications.

In the framework of its duties, the Industrial Property Agency:

- Reviews requests for protection of rights of industrial property objects;
- Maintains records on acquired rights for protection of industrial property objects;
- Proposes, compiles and publishes the official Bulletin of Industrial Property Agency;
- Promotes the protection of industrial property;
- Proposes the ratification of international agreements in the field of industrial property and ensures the fulfillment of obligations thereby undertaken;
- Performs other information services, especially database research.

Copyright and Related Rights Office<sup>28</sup> is an administrative body which was established and operates under the Ministry of Culture. Duties of the Office include:

- Issue authorizations to associations for collective administration of rights;
- Revocation of the issued authorization to the association for collective administration of rights in case they do not comply with the criteria foreseen by the law.
- Supervision of activities of the Associations for collective administration of rights;
- Promotion and undertaking of activities for giving necessary information to authors, right holders and the wide opinion on copyright and related rights;
- Following international legislation and giving recommendations in respect with the area of copyright and related rights.

The field of industrial and intellectual property is governed by the following laws:

- Law No. 04/L-065 on Copyright and Related Rights
- Law No. 05/L-058 on Industrial Design
- Law No. 05/L-051 on Geographical Indications and Designations of Origin

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<sup>27</sup> <http://kipa.rks-gov.net/>

<sup>28</sup> <http://www.mkrs-ks.org/?page=1,157>

- Law No. 04/L-026 on Trademarks
- Law No. 04/L-029 on Patents

## **Road Transport**

The territory of Kosovo has a suitable road infrastructure for the development of different business activities. The road network comprises 730 km of main roads. With the construction of highway to Albania, Kosovo is an important bridge between Western Europe and Adriatic Sea.

## **Rail Transport**

Kosovo possesses a railway system of 330 km covering the entire territory of Kosovo, by connecting the north with south and east with west.

## **Air Transport**

Kosovo has only one airport, Pristina Airport, which is one of the busiest airports in the region. This airport provides flights to the most important centers in Europe but also to USA.

## **Kosovo Diaspora**

The role of Kosovo Diaspora is regulated by Law No. 04/L-095 on Diaspora and Migration. Kosovo Diaspora has played an important role in the economic development of Kosovo during the 90s and after 1999. The Ministry of Diaspora was established because of this undeniable role in the economic, social and cultural development of Kosovo, as a need of providing an address to the Kosovo Diaspora.

With respect to remittances from the Kosovo Diaspora, over the years we have seen an exceptional contribution with an impact on reduction of poverty in Kosovo.

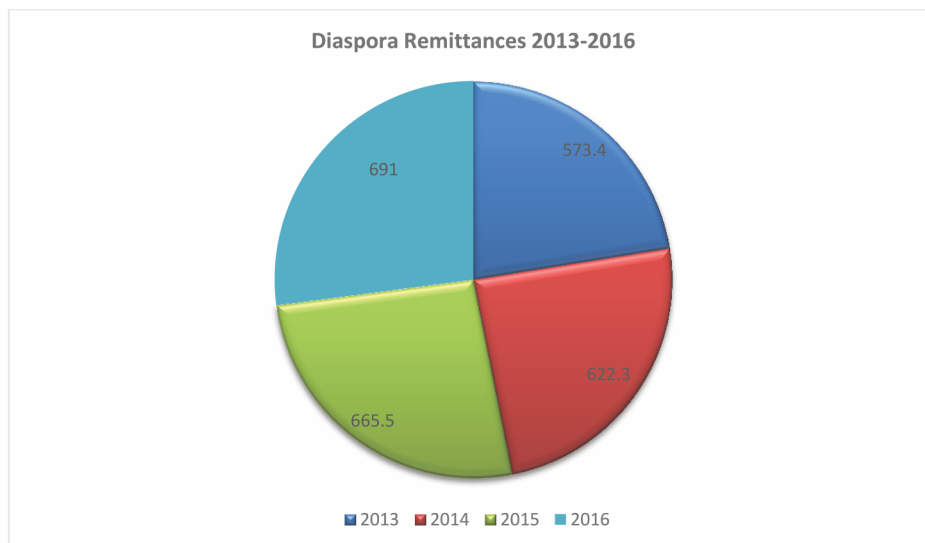
The Diaspora Ministry is in the process of diaspora registration and so far 400,000 Kosovars living in the diaspora have been registered and the registration process is still ongoing.

Remittances received in Kosovo, which also represent the largest category within the secondary income account, amounted to Eur 691.0 million, representing an annual growth of 3.8 percent. The remittances received in Kosovo mainly come from Germany and Switzerland, countries from which 37.1 percent and 22.6 percent of total remittances received in Kosovo are sent. A considerable part of the remittances was also received by the US, that is 6.8 percent of total remittances received in Kosovo.

Macroeconomic projections for 2017 suggest that Kosovo's economy will be characterized by a real growth of 3.7 percent. This growth is expected to be generated by domestic demand, while net exports are expected to have the lowest negative impact on GDP. Consumption, as the main component of domestic demand, is expected to mark a real increase of 2.1 percent, based on expectations that private consumption will grow by 2.4 percent and public consumption by 0.6 percent. The factors that are expected to affect the growth of private consumption, among other things, are the increase in remittances and credit growth. Until the end of 2017, remittances are expected to grow by about 2.8 percent annually.

Relevant data is presented below<sup>29</sup>:

**Chart 6: Diaspora Remittances, in EUR Million**



Source: Central Bank of Kosovo

<sup>29</sup> <http://www.bqk-kos.org/?id=55>

**Table 12: Diaspora Remittances, by Country in EUR Million**

Description	Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	Norway
2013	135.8	95	30.6	23.9	9.3	17.4	11.5	10.2
2014	145.6	90	19.8	15	10.5	24.9	11.6	12.8
2015	146.9	89.5	19.3	14	9.9	32.1	11.5	11
2016	148.5	90.6	21	14.4	9.2	27.5	13.5	8.1

Source: Central Bank of Kosovo

## Kosovo Banking Sector

Today, there are ten (10) commercial banks that are operating in Kosovo, representing 69.0 percent of total assets in the financial sector.<sup>30</sup> Their products and services include bank accounts, loans, domestic and international payments, bank cards, bank guarantees, letters of credit, e-banking. Access to these services is currently enabled through 263 branches and sub branches, 540 ATMs, 9,493 POSs (point of sale), and 196,656 e-banking accounts.

Their activity is dominated by loans, and the maturity can be up to 15 years, depending on the type of loan. Of the total loans, 65.2 percent are loans to enterprises. Most of these loans are absorbed by the trading enterprises sector (51.8 percent of loans to enterprises), whereas loans issued to the industrial sector (including mines, production, energy and construction) compose 23.0 percent of total loans to enterprises. The agriculture sector represents 4.0 percent of total loans to enterprises. Household loan participation is 34.4 percent of total loans.

The structure of banking sector liabilities is dominated by deposits, which represent 80.2 percent of total liabilities. Deposits in the banking sectors have recorded an annual growth of 6.5 percent, amounting at EUR 2.7 billion. Deposits in the banking sector consist of household deposits, which participate with a share of 74.4 percent in total deposits, whereas deposits of private sector enterprises make up 20.1 percent.

Commercial banks in Kosovo have different shareholding structure. Eight of them are foreign capital banks and two local capital banks.

There are 3,337 commercial bank employees.

<sup>30</sup> <http://bankassoc-kos.com/sektori-bankar>



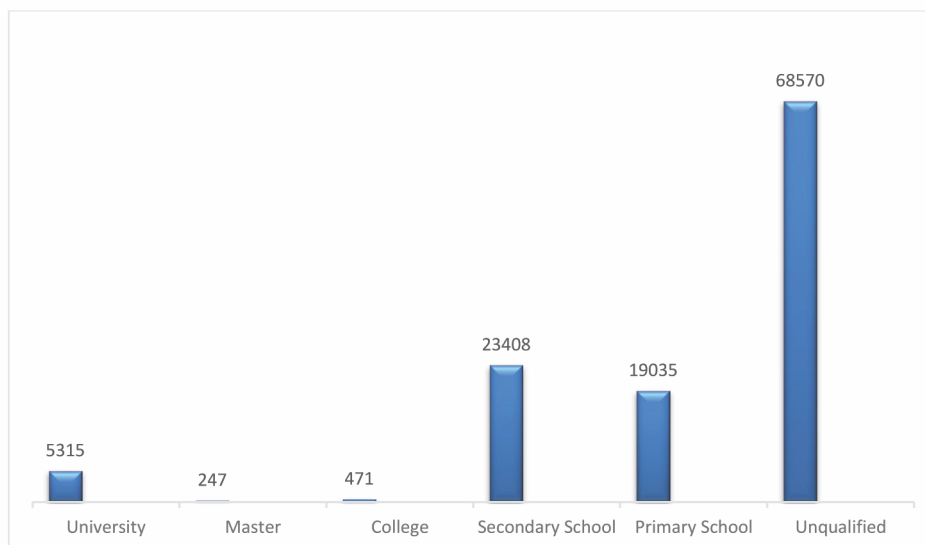
Banking activity is regulated by two laws: Law on Central Bank of Kosovo and Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions.

Other relevant laws can be found at this link: <http://bankassoc-kos.com/sektori-bankar/liqjet-perkatese>.

## Workforce and Labor Market in Kosovo

Kosovo is blessed with a young, skilled, multilingual and motivated labor force with a strong entrepreneurial spirit. Taking into consideration the high availability of the work force and the liberal labor law that governs the local labor market, hiring employees in Kosovo is both efficient and simple.<sup>31</sup>

**Chart 7: Registered Jobseekers by Qualification in 2015**



Source: Kosovo Agency of Statistics

<sup>31</sup> <http://kiesa.rks-gov.net/page.aspx?id=1,28>

There are eight public higher education institutions in Kosovo, located in Pristina, Peja, Gjilan, Gjakova and Mitrovica.

Additionally, there are 30 private higher education institutions. Many of these institutions are collaborating with other universities in the world, such as: Rochester Institute of Technology, University of Sheffield, and Staffordshire University.<sup>32</sup>

**Table 13: Number of students enrolled at University of Pristina, by year**

Year	No. of Students
2011/2012	47 070
2012/2013	47 640
2013/2014	45 879
2014/2015	44 606
2015/2016	40 383

In 2016, across age groups, the employment rate was highest among people aged between 35-44 years old (40.5 percent) and lowest among youth 15-24 years old (11.2 percent).<sup>33</sup>

The employment rate of women between the ages 25 to 44 years old ranges from 14.4% to 17.5 percent. Only 3.5 percent of young women and 9.5 percent of women aged between 55-64 years old were employed. For men (Table 14), the employment rate was the highest for those aged between ages of 35 to 54 years (around 60 percent), and the lowest for young men (12.9 percent).

**Table 14: Number of Persons Employed and Employment Rate, by Gender and Age-Group**

Employment % Age	Male	Female	All
15-24	16,8	5,1	11,2
25-34	52,6	16,5	36,1
35-44	64,7	17,9	40,5
45-54	63,7	17,9	39,1
55-64	52,1	9,9	31,2
<b>Total 15-64</b>	<b>45,6</b>	<b>12,9</b>	<b>29,5</b>

<sup>32</sup> <http://kiesa.rks-gov.net/page.aspx?id=1,29>

<sup>33</sup> KAS Publication "Results of the Kosovo 2015 Labor Force Survey / June 2016"

An examination of the highest educational level attained by the employed shows that nearly 60 percent of them have completed secondary vocational education, whereas more than a quarter (27.5 percent) have completed tertiary education (Table 15).

**Table 15: Employment Status by Education Attainment**

Level of Education %	Inactive	Employed	Unemployed	All
No School	3.5	0.1	0.7	2.3
Grades I-IX	49.8	15.0	26.7	38.1
Secondary Vocational Education	20.3	36.2	41.3	26.9
Secondary School (Gymnasium)	19.9	21.2	18.2	20.1
Tertiary	6.5	27.5	13.1	12.6
<b>Total 15-64</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Table 16 illustrates that the requirements for getting a job are higher in government positions, where over one half of all employees (58.4%) have completed higher education.

**Table 16: Education Level of the Employed by Type of Employer (15-64)**

Level of Education %	Public Sector, Government	State-Owned Enterprise	Private Company	Private Individual
No School	0.0	0.3	0.1	0.0
Grades I-IX	3.8	4.6	15.7	39.9
Secondary Vocational Education	28.2	28.7	42.2	41.4
Secondary School (Gymnasium)	9.6	20.0	24.6	15.2
Tertiary	58.4	46.7	17.4	3.5
<b>Total 15-64</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

In 2016, the majority of employed people held occupations such as service and sales workers, elementary occupations, professionals and craft and trade workers (Table 17). Nearly half of employed women had professional, technical and associated professional occupations (40,7%), 17,7% were service and sale workers, and 15,4% were engaged in elementary occupations. Men are employed in more sectors, but a larger percentage had

elementary occupations (24,0%), 18,1% worked as service and retail workers, 17,3% as craft and related workers, while 9,9% were professionals (Table 17).

**Table 17: Occupation of Employed Persons by Gender (%)**

<b>Employment by Occupational Category</b>	<b>Male</b>	<b>Female</b>	<b>All</b>
Legislators, Senior Officials and Managers	8,1	5,1	7,5
Professionals	9,9	27,9	13,8
Technicians and Associate Professionals	6,3	11,8	7,5
Clerks	4,5	9,4	5,5
Service and Retail Workers in Shops and Markets	18,1	17,7	18,0
Skilled Agricultural and Fishery Workers	3,6	0,7	3,0
Craft and Related Trade Workers	17,3	11,1	16,0
Plant and Machine Operators and Assemblers	8,2	0,9	6,6
*Elementary Occupations	24,0	15,4	22,1
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: ASK Publication "Results of the Workforce Survey TM4-2016"

\* Elementary occupations include cleaners and helpers, agricultural, forestry and fishery laborers, laborers in mining, construction, manufacturing and transport, food preparation assistants, street and related sales and service workers, refuse workers and other elementary workers.

### **Kosovo Economic Zones<sup>34</sup>**

Kosovo Investment and Enterprise Support Agency (KIESA), operating under the Ministry of Trade and Industry, is also responsible for the development of the private sector, including the development of economic zones.

Economic Zones in Kosovo are regulated by the Law on Economic Zones, No. 04/L-159, published in the Official Gazette of the Republic of Kosovo No. 6/12 March 2013, Pristina, and AI 01/2014, AI 02/2014, AI 03/2014, AI 15/2016 and AI GRK No. 03/2014, in definitions providing for Free Zones, Industrial Parks, Technology Parks, and Business

<sup>34</sup> KIESA / <http://kiesa.rks-gov.net/page.aspx?id=1,64>

Incubators. This law specifies the rights and obligations of developers, users/operators and other subjects that exercise activities related to economic zones, type of activities carried out in economic zones, and ways of moving goods through them, as well as fiscal facilities foreseen within them.

Economic Zones represent a working space component, meaning establishment of a physical infrastructure, that will be complete and ready for engaging in business activity.

Therefore, based on the above-mentioned legislation, six Economic Zones were established, namely:

Business Park of Drenas, Business Park of Mitrovica, Technology Park of Shtime, Industrial Park of Frashër – Mitrovica, Agro-Industrial Zone of Suhareka, Industrial Park of Lipjan, and two (2) Economic Zones, in Gjakova and Prizren.

The Business Park in Drenas was established in 2010, covering a land area of 24 ha. Physical infrastructure construction (roads, electricity, water supply, sewage, etc.) has been completed leading to the moving in of 40 businesses engaging in different activities, ranging from pharmaceutical products, production of elevators, metalworks, wood processing, production of various panels to recycling of plastics. The construction of the physical infrastructure is an investment by the Ministry of Trade and Industry, respectively KIESA.

The Business Park in Mitrovica was established in 2012, covering a land area of 3.5 ha. Currently, it accommodates 20 businesses engaging in business operations.

The Technology Park of Shtime was established in 2013, covering a land area of 10.70 ha. Ministry of Trade and Industry in cooperation with the Municipality of Shtime invested together in the construction/rehabilitation of physical infrastructure and is currently finalizing the completion of physical infrastructure. Two operational businesses have been accommodated and three other businesses are in the contracting phase.

Industrial Park of Frashër – Mitrovica was established in 2014, covering a land area of 48 ha. Ministry of Trade and Industry in cooperation with the municipality has invested in establishing the physical infrastructure, specifically in leveling the terrain. In 2016, investments are continuing by the Municipality of Mitrovica. Plans for the following years are for MTI to continue to co-invest in and complete the physical infrastructure.

The Agro-Industrial Zone of Suhareka was established in 2015, covering a land area of 28 ha. The first investments in this economic zone started in 2015, initially in electricity and

water supply. In the economic zone, namely "Agro-Industrial Zone", currently there are three (3) contracts signed and five (5) other beneficiaries are in the stage of signing contracts. Investments in physical infrastructure are ongoing this year as well. Plans for the following years are for MTI to continue to co-invest in and complete physical infrastructure. Industrial Park of Lipjan was established in 2016, covering a land area of 56 ha. Ministry of Trade and Industry, together with the Municipality of Lipjan, has started investing in the establishment of physical infrastructure in this economic area - Stage One. Plans for the following years are for MTI to continue to co-invest in and complete the physical infrastructure.

Whereas, in economic zones in Prizren and Gjakova, due to failure to define property issues, work on physical infrastructure construction is yet to begin.

### **Summary of Established Zones:**

Total space of the (6) economic zones is around 170.20 ha.

Number of businesses/investors accommodated in economic zones is 80. Developers of economic zones (municipalities) are in the process of contracting other businesses to be accommodated in economic zones leading to the completion of all economic zone capacities. Activities conducted on the premises of economic zones cover a wide range, such as: metalworks, processing of plastics, paper, wood products, pharmaceuticals, elevators, processing of fruits and vegetables, etc.

Number of employees working in the businesses located in economic zones is around 600-700.

Allocation of space for use, within the economic zones, can be provided to businesses for a period of up to 99 years, with the added facilitation of simplified procedures, both at municipal and central level.

### **New Initiatives for Establishing Economic Zones**

Ministry of Trade and Industry has initiated procedures for the establishment of an Industrial Zone opposite the Business Park of Drenas, and an expropriation elaborate has already been prepared. The Industrial Zone shall provide for a space of over 60 hectares, which can be connected to the Business Park of Drenas, thus creating a space of about 90 hectares in the center of Kosovo.

There were also some initiatives by the Municipalities of Kosovo, such as Viti, Vushtrri, etc.

## **Platform for Dialogue between Government and Investors**

- ✓ Kosovo Government has established the National Council for Economic Development (NCED), whose role is to organize and harmonize activities of state institutions in order to eliminate barriers and address the challenges of doing business in the Republic of Kosovo that impact the improvement of the business and investment environment in the Republic of Kosovo.
- ✓ The National Investment Council (NIC) was established by the Government of Kosovo aiming to coordinate the financing of infrastructure projects in Kosovo, and ensure synergy between different sources of financing, i.e. budget, loans and grants.

Additionally, there are several strategic documents developed by the Government of Kosovo related to economic development and attracting foreign investors, as follows:

- ✓ National Development Strategy as a key document laying out the highest priorities of the Government, which also includes measures affecting trade;
- ✓ Economic Reform Agenda, a key reform agenda agreed by the Kosovo Prime Minister and EU Commissioner, Mr. Hahn.
- ✓ Economic Reform Program - a document providing 20 key measures to deepen the economic dialogue between Kosovo and EU.

In Kosovo, the European Investors Council (EIC) was established in 2014.<sup>35</sup>

The Council was established for the following purposes:

- a) contribute to the improvement of the business and investment environment in Kosovo through an open, constructive and lasting dialog with Kosovo authorities at all levels;
- b) support the alignment of the national legislation in Kosovo's EU integration process, by providing inputs based on the experience of different EU countries;
- c) provide a forum whereby members can formulate and express their opinions, compare experiences, seek answers to common problems, identify best practices, and coordinate a common approach in the dialogue with Kosovo authorities;

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<sup>35</sup> <http://www.eic-ks.eu/>

d) represent, promote and advocate common positions and interests of its members with a view to mitigate investment and business obstacles in Kosovo, consequently resulting with an increase of foreign direct investments;

e) connect and cooperate with other relevant stakeholders, including international organizations, other business organizations, diplomatic missions and similar foreign investor organizations in the region, to share best practices and promote common interests.

## **Success and Failure Stories**

- "IQ to Link" Call Center, with a German investor - a service provider operating in compliance with European standards for data protection and security. The company was registered in Kosovo in 2015, and now employs around 200 young people of 400 projected for employment in this line of service.<sup>36</sup>

In addition to its headquarters in Pristina, IQ to Link has also established offices in Prizren. At this location, the company retains 45 employees.<sup>37</sup>

- Philippos Food Kosovo LLC branch of "Philippos Holding GmbH & Co. KG", with a German-Kosovar investor - whose main activity is food processing, including planting, growing and processing of vegetables, is well under way to boost the economy in Kosovo, and provide financial independence for women. In the first stage of operations, this company managed to hire 600 employees, a number that is continually growing. The largest number of employees are women.<sup>38</sup>
- 'ABIDAT' and 'Imbus AG' are companies involved with information technology. These two German companies brought their business to Kosovo.

On January 15, 2016 ABIDAT started its operations in Pristina. This company has a total of 12 workers. Currently, their operations focus on consulting and development of several projects of great importance, and their main project involves the renown German company, 'SIEMENS'. Additionally, programmers from Kosovo develop software used in transport vehicles, such as automobiles, trains, etc. Near term plans of the IT company are to increase the number of their staff, where by 2017 they plan to have up to 20 employees.

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<sup>36</sup> <http://telegafi.com/hapet-zyrtarisht-ne-prishtine-qendra-per-thirrje-iq-to-link-synon-te-punesoje-deri-ne-430-persona-foto/>

<sup>37</sup> [http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01\\_20Wirtschaft/seite-iq-to-link.html](http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01_20Wirtschaft/seite-iq-to-link.html)

<sup>38</sup> [http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01\\_20Wirtschaft/seite-jaha-company.html](http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01_20Wirtschaft/seite-jaha-company.html)



"Imbus AG" is a German company that provides professional software testing and evaluation. The seat of "Imbus AG" in Peja began operations in July 2016. The percentage of over 50% female employees in the field of IT at his company's headquarters in Peja, and the great motivation of young Kosovars has amazed Rossner. Therefore, he is pleased with the outcome of this investment.<sup>39</sup>

While, as failures go, there is the case of a Turkish company<sup>40</sup> which was interested to invest in Kosovo, however because there were no tax incentives, such as tax holidays, opted out of investing in Kosovo.

### **Obstacles during the investment process in Kosovo**

Knowing the importance of foreign investments for the economic development of the country, Kosovo is not always considered the ideal destination for investing due to some obstacles such as: bureaucratic procedures; corruption & nepotism; political environment; physical infrastructure; poor educational system; ineffective public administration; high degree of informal economy and an ineffective judicial system.

Other obstacles encountered during the investment process are: high interest rate, which is 7-8 percent depending on the instalment and amount of loan; lack of information on investment opportunities in Kosovo; high electricity price for the business sector and improper supply; unfair competition with specific reference to companies in northern Kosovo who do not pay taxes or electricity and, as a result, offer very low prices; lack of qualified staff especially in relation to the industry; lack of subsidies for the sectors that protect the environment; poor state investment protection; lack of financial incentives; lack of fiscal cash registers to a number of petrol pumps; poor efficiency of issuing construction permits; taxes should to be payed after earnings rather than before; unsatisfactory implementation of the contracts. Business partners in Kosovo often do not fulfill their obligations (eg invest), thus causing major problems for foreign investors.

The serious handling of all these obstacles identified by relevant stakeholders that would result in concrete solutions would send a positive signal to potential investors to invest in Kosovo and existing investors to expand their business activity.

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<sup>39</sup> [http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01\\_20Wirtschaft/seite-it-unternehmen.html](http://www.pristina.diplo.de/Vertretung/pristina/sq/05/01_20Wirtschaft/seite-it-unternehmen.html)

<sup>40</sup> For the sake of confidentiality, company name shall be withheld.

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