



REPUBLIC OF KOSOVO
Ministry of Trade and Industry

INVESTING IN KOSOVO



IPAK
Investment Promotion Agency of Kosovo
Office in Vienna - Implemented by
eciks
Economic Initiative for Kosovo



TOP 10 REASONS TO INVEST IN KOSOVO



Youngest population in Europe



High availability of skilled and cost effective labor



EURO as the official currency



Free access to markets of EU, US and CEFTA



Low taxes



Stabilizing political environment



EU-compatible legislation



Strategic location and developing infrastructure



Sound banking system



Great investment opportunities

Investor Guide

INVESTING IN KOSOVO

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Disclaimer

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General Data

Geography

Land area:	10,908 km ²
Terrain:	Low flood plains throughout central Kosovo, surrounded by mountains to the north, west and south.
Land Use:	52 % agriculture, 39 % forests
Capital:	Prishtina - est. population 200,000

Population

Population:	approximately 1.8 million
Ethnic composition:	90 % Albanians, 5 % Serbs, 2 % Muslim Slavs (Bosniaks, Gorans), 2 % Roma and 1 % Turks
Distribution:	42 % urban, 58 % rural
Diaspora:	over 500,000 people living abroad
Languages:	Albanian, Serbian, English.

Legal Framework

Applicable Law: Laws passed by the Kosovo Assembly enacted on 15 June 2008 and thereafter; Regulations enacted by the United Nations Interim Administration in Kosovo (UNMIK) between 10 June 1999 and 14 June 2008; Laws dated prior to 22 March 1989, enacted before the abolishment of Kosovo's autonomy within the Social Federal Republic of Yugoslavia; and laws dated between 22 March 1989 and 10 June 1999, enacted after the abolishment of Kosovo's autonomy, provided that they are not discriminatory and are required to fill a legal gap.

Regulations available at: www.assembly-kosova.org

Economic Description

Currency: EURO

Gross Domestic Product (GDP): In 2010: €4.259 billion, Per capita: €2,366.

Inflation: On average 3.1 % per annum over the past five years.

Financial Sector: Two tier banking system consisting of Central Bank of the Republic of Kosovo and eight private Banks, 11 Insurance companies and two pension schemes.

Enterprises: over 45,000 active SMEs in 2010, app. 50 % of total SMEs engaged in trade industry. 500 Socially Owned Enterprises of which 400 already privatized.

Budget: In 2011 totalling app. €1.434 billion.

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

Tax System: VAT 16 %, Corporate Profit Tax 10 %, Personal Income Tax progressive max. 10 %.

Free trade: Customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime, Central European Free Trade Agreement – CEFTA and preferential treatment of exported goods in the US market.

Labour market: Average labour cost 330 Euro in 2010, skilled and well educated work force.

Location factors: Competitive, well educated and young workforce, enviable natural resources (mining, agriculture), low taxes and a transparent tax system, customs free access to the markets of CEFTA, EU and USA, Euro as official currency.



2. Declaration of the Government on attracting foreign investment

Dear Investor,

The Government of Kosovo's Vision for the next three years foresees a deep and thorough reform on five vital economic development areas. These Five key strategic areas which will enable the Government to achieve a steady economic growth including maintaining macro-fiscal stability; investments and support to the private sector; development of the public infrastructure; re-vitalizing agriculture and development of the human capital.

During the next three years the Government of Kosovo aims to achieve a steady annual economic growth of 7 to 8%. The Government will increase the efficiency of the public expenditures and will ensure the continuous increase of the revenues. The tax policy in Kosovo is the best in the region. Income taxes are between 0-10% and corporate taxes are 10%. Value added tax is 16%, the lowest in the region. Labor force is the most cost-efficient in the region with the average wage in 2010 around €280 per month. From 2007 Kosovo averaged an economic growth of about 5%.

The Government of Kosovo has recognized that increasing investments and support to the development of the private sector represents the basis for a sustainable economic development of the country.

Kosovo is a place which provides many investment opportunities. It has a good strategic position, it is the lowest cost country in the Eurozone, it has the youngest population in Europe and it has low taxes and cost-efficient labor force. The banking system is one of the most stable in the Region, and privatization of the publicly owned enterprises is in progress which brings lots of great opportunities for foreign Investors. Today, Kosovo has more than 3,000 companies of foreign and mixed ownership. This investment is spread across a wide range of business sectors as well as investment in publicly-owned assets sold by the Government as part of its privatization program.

In addition, Kosovo enjoys recently renewed customs-free access to European Union and the United States through EU Autonomous Trade Preferences and Generalized System of Preferences respectively. This allows all investors to export to EU and US without any customs tariff.

We have identified some of our strongest potential sectors for investors. We believe that Kosovo will be an important market for foreign investors in several sectors, including Business Process Outsourcing (BPO), food processing, energy and mining, wood processing, metals and metal processing, textiles, information technology, tourism and construction.

We have already started to address the issues of business registration, construction licenses, registration of property, the issue of financial loans, investor protection, taxes, reducing the procedures for imports and exports, enforcement of contracts and closing of businesses. In the short term, we have managed to open 22 'one stop shops' throughout Kosovo. These municipal business centers will ease the procedure and shorten the time for business registration. In the mid-term, by 2014, we aim to cut all business licenses by at least 50%.

This reform, certainly, will be accompanied by a legal reform which we create all the necessary conditions for it to happen. Recently we passed the law on Business Associations and Internal Trade which allows potential investors to start a business in just a few days. The government has also drafted a package of 12 basic laws for this year which will set the stage for the deep economic and trade reforms. These laws will amend the Customs Code to harmonize it with the EU Law; regulate internal and external trade of Kosovo; will improve execution procedures and registration of the property rights and will regulate the notary, cadaster, financial reporting.

We assure you that the Government of Kosovo will remain focused in further improving the business climate and in speeding up the regional and European integration of Kosovo. We will provide full support for your business and investment activities in our country and we sincerely welcome you in Kosovo.

Mimoza Kusari-Lila
Deputy Prime Minister for Economy
Minister of Trade and Industry

3

Principal industrial and business sectors



3.1 Agriculture

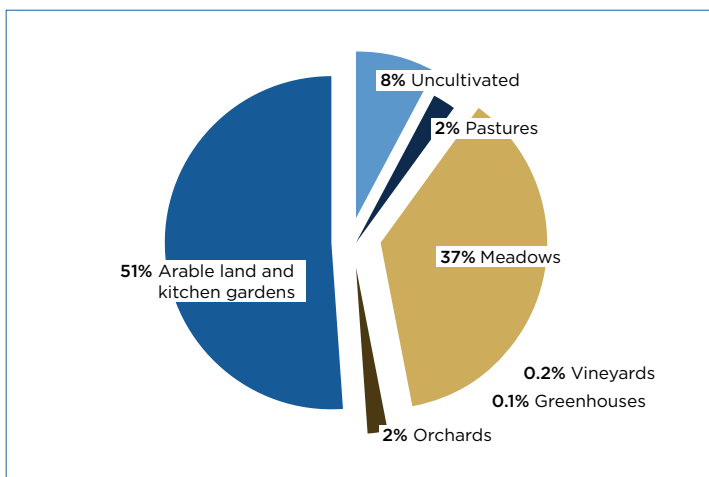
Kosovo is well endowed with agricultural land. Out of a total surface of 1.1 million ha app. 588,000 ha or 53% is cultivable land. Currently some 260,000 ha is used as agricultural land in the different fields as illustrated in graph 1.

With some 60 percent of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Currently, the sector of agriculture contributes 18 percent to the GDP and is the main source of income for the majority of the population. It is one of the most important employment providers in Kosovo and it accounts for 13 percent of the value of exports. Some 70 percent of the local market demand for the agricultural products and processed foodstuff is still being fulfilled by imports.

The arable land in Kosovo is considered to be of good quality. Combined with the temperate climate that prevails throughout the country, very good conditions for the agricultural production exist. This constellation, together with sufficient natural irrigation possibilities, enables Kosovar farmers to achieve high yields per ha in every sub-sector of agriculture. In comparison to other countries, Kosovo additionally offers a very flexible and cost effective labour force and, due to trade liberalization within the CEFTA region, free access to the regional market consisting of 30 million consumers. In addition, Kosovo enjoys a preferential market access to the EU and US markets, with only few products exempted from this preferential treatment.

Based on the area and average yield per ha, certainly the most important fields of agriculture in Kosovo are the vegetable and grain sectors. In October 2009 the US Agency for International Development (USAID), through Booz Allen, conducted a study that revealed new opportunities for growth. Given the natural resource characteristics of the climatic zones that exist in the country, the study showed that a total of 105 crops can feasibly be grown. Further evaluation of factors such as highest production value, economic feasibility and attractiveness, investment, ease of production and ease of market access, has given a list of top 10 agricultural products for Kosovo. This list is shown in table 1.

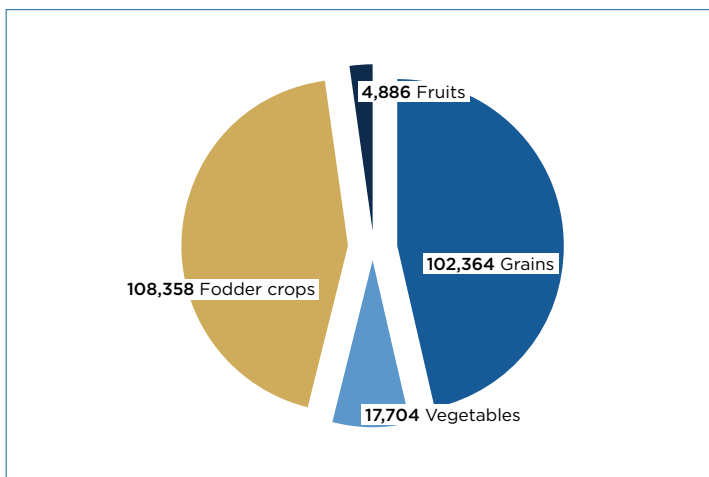
Kosovo is already well known as a producer of different types of grapes. It has substantial



Graph 1: Use of agricultural land in Kosovo

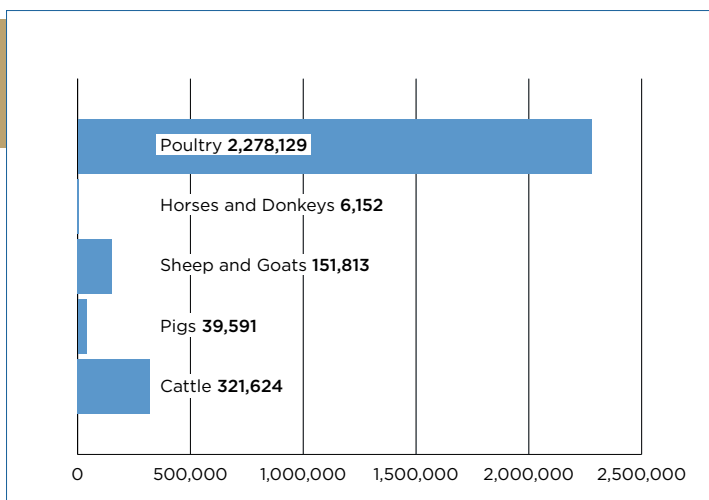
1 Bulbs (flower)	6 Cucumbers/gherkins
2 Lettuce/chicory	7 Currants/gooseberries
3 Asparagus	8 Saffron
4 Apples	9 Cranberries/bilberries
5 Table grape	10 Kiwi fruit

Table 1: Top 10 strategic crops



Graph 2: Structure of crop area in ha

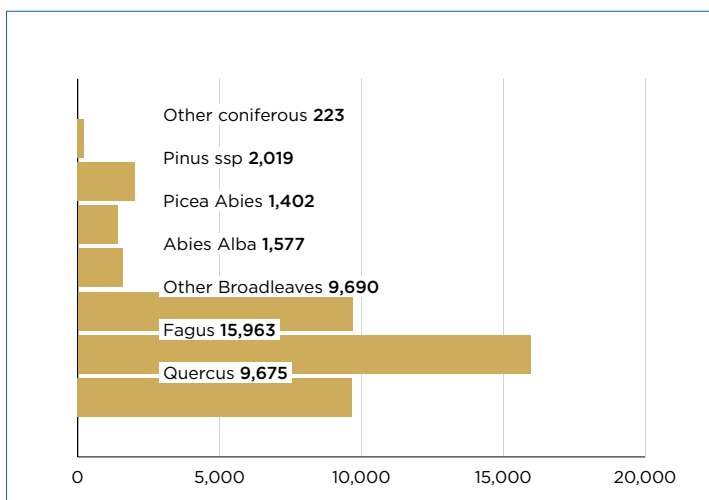
acres of vineyards largely dedicated to the production of Amselfelder branded wine for sale in Germany. Cabernet Franc, Merlot, Prokupac and Gamay are all planted here. The continental climate and the height of 300–400 meters above sea level provide ideal conditions for vineyards and the development and growth of grapes for wine. There are more than 200 sunny days annually to help ripen the grapes, on par with some well known wine production regions. These advantages create very good conditions for the qualitative wine production in Kosovo.



Graph 3: Livestock in Kosovo

Due to its geographical composition, Kosovo also offers very good conditions for livestock farming. Although, still experiencing a livestock recovery process, farming in this sector has made great strides in recent years – both in numbers and yield.

In particular, there are two main factors in favour of livestock investments in Kosovo. Firstly, the country offers very good natural and climatic conditions for various types of livestock farming. Secondly, market demand for livestock farming products is currently much higher than domestic production. The planned revitalisation of the food processing industry will furthermore create greater opportunities for livestock farming in the future.



Graph 4: Forestry - growing stock in 1,000 m³

Currently, the most significant obstacle remaining for Kosovo's meat processing companies is the reopening of export markets. With Kosovo's geographical location and its close proximity to non-EU countries such as Albania, Montenegro, Bosnia and Herzego-

vina, Croatia and Turkey, a short-term pragmatic approach could be to initially focus on meat exports to these destinations, with the possibility of expanding into EU markets in the next stage.

There are numerous agro-industries in Kosovo with high market potential, offering potential investors immediate access to suppliers of primary products, substantial inherited capital, technical capability and promising market prospects. The highly competitive workforce and the custom and tax incentives, further underscore the opportunities available in this business field in Kosovo.

Also taking into consideration the low prices of primary products, this field is very profitable and has the potential to expand into foreign markets. Recognising the potential, some foreign companies have already started to cooperate with local partners and are taking advantage of Kosovo's friendly tax and customs systems allowing them to offer competitive products in European markets.

In order to improve the competitiveness of the agricultural and food processing sector and consequently stimulate the local production, the Government of Kosovo has recently introduced different incentives for farmers and processors. The zero percent customs rate for most agricultural inputs and capital goods, together with VAT exemption on a wide range of agricultural inputs, have been designed to strengthen local production and enable it to further compete with foreign products.

The promotion of the processing businesses, support for exports and simple access to favourable financial means are some additional steps that, together with sufficient investor interest, will turn around this segment of Kosovo's economy and lead to the creation of a large export business.

3.2 Wood processing

Forests and similarly covered surfaces make up around one third of the total territory of Kosovo and represent a resource of special importance for the country's economy. With the annual value of wooden products and other benefits produced by forests reaching EUR 50 – 75 million, this sector represents a livelihood for 10 percent of the Kosovar population.

Due to the sufficient availability of inputs, Kosovo offers great investment possibilities in every single wood processing cycle. The annual allowable amount of felling is currently slightly below 1 million m³ with Beech and Oak being the main species. Potential for foreign investors ranges from doors and windows to a variety of furniture production. There is currently a large pool of companies in Kosovo that would make good outsourcing partners.

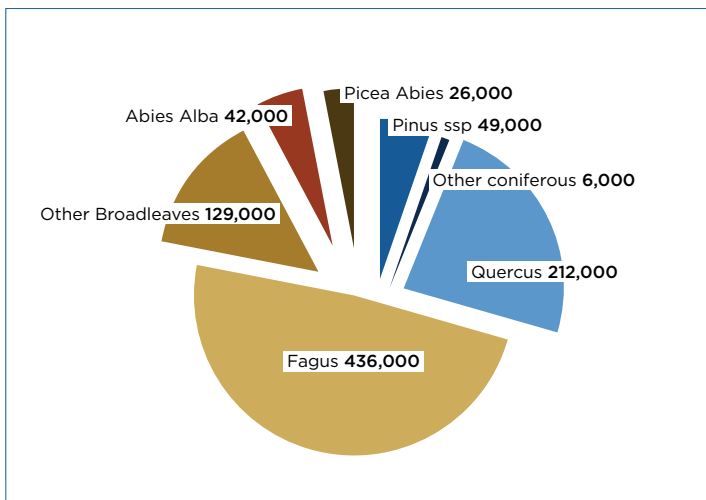
A large amount of traditionally gained experience, great knowledge in wood processing, and a cost effective labour force make the Kosovar wood industry particularly well suited for the manufacturing of hand made luxury products. In addition, most sawmills in Kosovo only saw logs into rough, mixed grade lumber, and are not yet exploring the potential value of waste products, i.e. sawdust and wood chips.

Taking into consideration all these benefits, Kosovo's wood processing industry has experienced significant developments during the past years. Due to better organisation and sufficient service-providing clusters, Kosovar producers have been able to increase the quality and product range, thereby allowing expansion into foreign markets. Currently, Kosovar wood processors supply furniture both for the domestic and international markets (for example hotels) to companies in Germany, the Netherlands, Switzerland and also neighbouring countries.

Through the efforts and engagement of the members of the rich institutional environment of the wood industry, Kosovo offers various incentives that aim to further promote and facilitate primary and secondary wood production. The Kosovar Government has recently approved a zero customs rate for the imports of selected machinery and capital goods related to this sector, while further negotiations for the exception of wood raw material from VAT and customs are currently underway.

3.3 Information Technology and Telecommunications

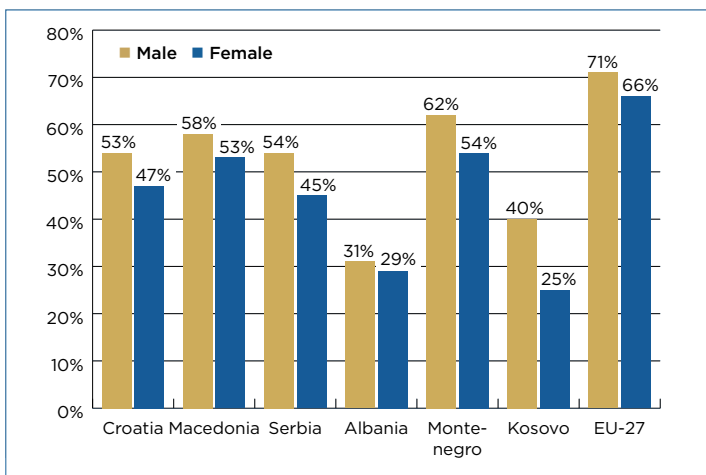
The IT sector in Kosovo, including Internet Service Providers, has experienced a remarkable development since 1999. From being inexistent 10 years ago, Kosovar companies in the IT sector offer today high quality services and the latest technologies to their customers



Graph 5: Annual felling allowance in m³

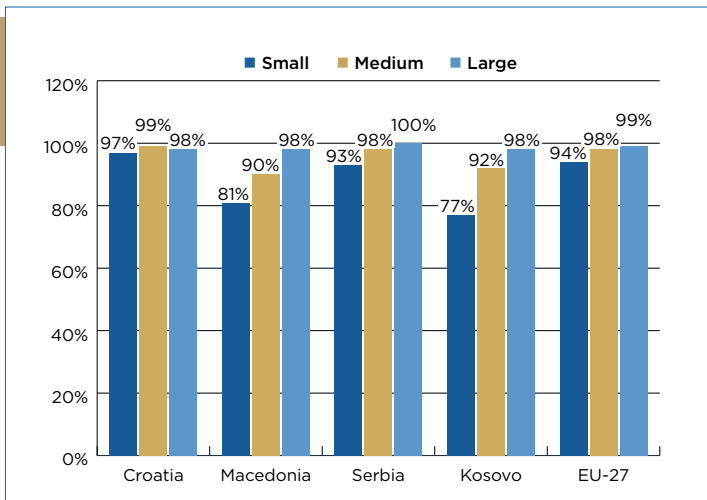
both local as well as to foreign companies who want to outsource their software development and/or call and support centres.

Kosovo has the youngest population in Europe. It is both skilled and multilingual, with English being only just short of an official language due to a high international presence. In addition, many Kosovars who have studied abroad are now returning to Kosovo, bringing with them skills and know-how. Today, public and private education institutions in the IT field, supported by companies such as CISCO or Microsoft, provide education to thousands of young Kosovars while the demand for this form of training is still rising.



Graph 6: Percentage of individuals regularly using internet

Be it the outsourcing of software development, data management, establishment of call and support centres or other consulting services, Kosovar companies offer high quality services at low costs. The recent acquisition of the largest IT company in Kosovo, Pronet, by the Assecio SEE is proof of high opportunities in this sector in Kosovo.



Graph 7: Percentage of enterprises which have internet access

Kosovo has two mobile telephone operators and two virtual mobile operators. The state-owned mobile telephony operator VALA, has currently over 1,200,000 users, while the second private owned mobile telephony operator IPKO – Telekom Slovenian, serves approximately 300,000 users and has a territory coverage of 99 percent. The state owned mobile telephony operator will soon enter the privatisation process and represents an attractive investment opportunity for well established Western telecom companies.

In addition, great opportunities for foreign investors are available for fixed telephony, VoIP, cable TV, etc.

3.4 Construction

During recent years the construction industry has become one of the most important sectors contributing to Kosovo's economic growth. The construction sector in Kosovo has so far utilised several hundred million Euro that were primarily used for the construction of new homes, or for the rehabilitation and development of the road infrastructure.

The construction industry remains a sector with highly promising economic potential for Kosovo. Roughly estimated, in order to meet the existing market demand, in the next few years Kosovo will need some 50,000 new apartments, including the associated infrastructure, such as roads, kindergartens, schools, leisure facilities, restaurants etc.

A further factor which is helping to boost the development of this sector is the demand for road and highway construction. The Government of Kosovo has set itself a goal to connect

the country in three main directions with the most important international road corridors in Macedonia, Albania and Serbia. The construction of a highway, which will connect the northern and central parts of Kosovo with Skopje (Macedonia), is a mid-term goal of the Government. A much more important project represents the building of a highway between Merdare-Kukës-Durrës, which will connect Kosovo with the sea port of Durrës, Albania. This highway will become a part of the Trans European Corridor X that will connect the Adriatic Sea with the Western Europe. The construction work for this highway began in May 2010.

In addition, as a result of an accelerated economic development Kosovo is facing an increased demand for commercial premises such as production facilities, office space and hotels.

3.5 Automotive components industry

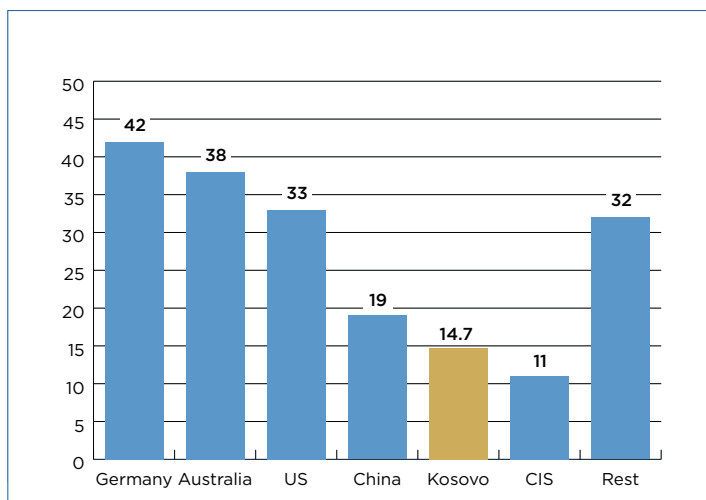
The origins of the automotive components industry in Kosovo date back to the 1960's, when the first large scale auto components manufacturing companies were founded. Although these manufacturing units were primarily established to supply different parts for the production of Yugoslav vehicles, they very quickly penetrated foreign markets and cooperated with well-known European and American automotive component manufacturers. The two best known flagships of automotive component industrialization in Kosovo were the Ramiz Sadiku, which produced primarily car seats and small vehicle parts, and the Shock Absorber Factory Prishtina, which produced shock absorbers for various well-known brands such as British Armstrong, German Susta as well as French Peugeot among others. Between 1989 and 1990 the Shock Absorber Factory produced 3.3 million units each year and employed over 1,500 workers.

With the loss of foreign markets as a result of political circumstances during the 1990's, the Kosovar car component manufacturers were faced with immense financial problems and consequently many of them had to rethink their business philosophy in order to survive in the global market. Although the current output of these enterprises is still considered to be low, re-established links with the traditional partners bode well for a prospective development of this sector. The existing technology, large capacities and ample knowledge allow the automotive component industry to produce and support any Original Equipment Manufacturer [OEM] with parts at a competitive cost.

Furthermore, the trend of shifting production to Central and Eastern Europe makes the Kosovar automotive component industry even more interesting for investors wishing to benefit from increasing opportunities in the region.

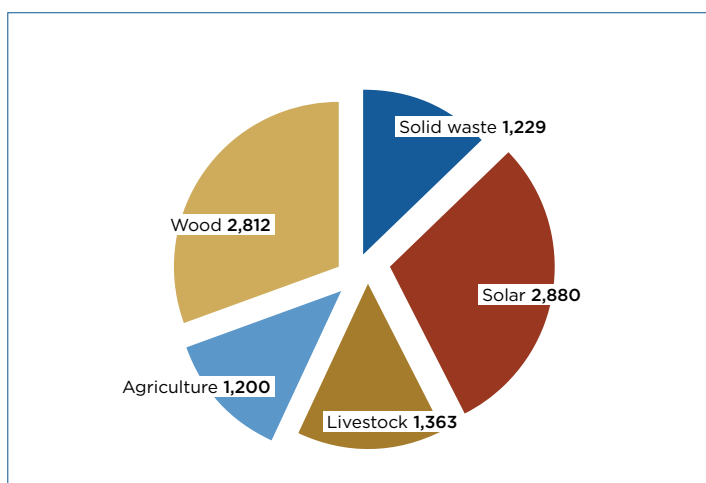
3.6 Mining and energy

Kosovo has an enviable endowment of natural resources. At 14.7 million tonnes, Kosovo possesses the world's fifth-largest proven reserves of lignite. This mineral is of outstanding importance for the country, representing in the long term one of the important factors for the generation of power.



Graph 8: Kosovo lignite reserves compared to the rest of the World (in billion tonnes)

Taking into consideration the high demand for energy in the local and regional markets, the Government of Kosovo is currently finalizing major projects regarding new lignite exploitation and power generation facilities. These projects will offer unique opportunities for companies willing to engage in the energy and/or mining sector(s) in Kosovo.



Graph 9: Theoretical renewable energy resources in Kosovo in GWh/year

Apart from lignite fired energy generation capacities, Kosovo can also offer vast opportunities in the renewable energy sector. Currently some 98 percent of electrical energy is produced through thermal power plants. However consistent with the obligations of the Energy Community Treaty for South-East Europe, where Kosovo is a signatory party, Kosovo will have to cover eight percent of the electrical energy consumption with renewable energy resources by 2016. The Ministry of Energy and Mining of the Republic of Kosovo has already conducted a pre-feasibility study for numerous sites where hydro power plants can be constructed. The expression of interest for these HPPs will be internationally disseminated. In addition, feed-in tariffs

for different renewable energy generation capacities have been put in place. The Kosovo resources for renewable energy are shown in table 2 below.

In order to improve the efficiency of the distribution system, the Government of the Republic of Kosovo is planning further investments in distribution capacities, as well as the privatisation of the currently state-owned energy distribution company which has already been unbundled from the state-owned Kosovo Energy Corporation.

Type of resource	Resource
Biomass, wood	0,9 million m ³
Biomass, livestock	322000 cattle, 152000 sheep/goats
Biomass, agriculture	0,3 million tonnes straw
Solid waste	0,44 million tonnes
Solar energy	1500 - 1650 kwh/m ² /year
Wind energy	Unknown

Table 2: Resources in Kosovo for renewable energy

In the mining sector, and in addition to lignite, base-metal mining has been a mainstay of Kosovo's economy since pre-Roman times. Modern mining in this field began in the 1930's, when the mining complex Trepça was revamped by the British Company "Selection Trust". Zinc, lead, silver, gold, cadmium and bismuth are exploited along Trepça's mineral belt.

The lead and zinc reserves of Kosovo are estimated to be around 48 million tonnes, those of nickel to 16 million tonnes. Chrome reserves amount to 89 million tonnes and bauxite reserves to 13.2 million tonnes.

There are different mines that can either be acquired through the ongoing privatisation procedures or can be revamped by entering joint ventures with private owners. For details regarding the specific mining possibilities within the privatisation process please check the web-site of the Privatisation Agency of the Republic of Kosovo at www.pak-ks.org.

3.7 Textiles

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. At its peak in around 1990, each of the 15 socially owned enterprises (SOEs) engaged in textile production employed more than 1,000 people and sales totalled some 35 million Euro.

Recent developments in the region have frozen the primary trading links of the textile industry, causing lower production rates and resulting in a lack of competitiveness with foreign products. As a result, a major share of former SOE workers has become redundant. A minor part has, however, established private textile companies. Currently there are over 450 private companies engaged in textile production, out of which 90 percent are final product manufacturers. Although the textile industry has experienced a significant recovery during the past years, the majority of businesses are still small and take the form of micro enterprises. Consequently, they cater solely for the Kosovo market and are primarily geared towards a niche market.

Analysis indicates that some 55 to 65 million Euro in exports could be reached, assuming that trading links with former partners can be re-established. There is considerable scope in this sector for investors to recreate a vertically integrated manufacturing cluster so that Kosovo would once again produce finished clothing from thread.

In particular, Kosovo offers three major benefits for investors wishing to revamp one of the existing SOEs or found a new textile manufacturing company. These are:

- A cost effective, well skilled and experienced work force
- A solid base of technology that can be acquired through the ongoing privatisation process
- Numerous subcontracting and outsourcing possibilities

With the existing know-how, cost effective labour force and other comparative advantages that the country offers, including the friendly business and investment environment, the textile industry in Kosovo has therefore the

potential to become highly competitive internationally.

3.8 Tourism

The natural wealth of Kosovo represents high quality tourism resources. The description of Kosovo's potential in tourism is closely related to its geographic position. Kosovo's position in south-eastern Europe, with a central location in the Balkan Peninsula, represents a crossroad which historically dates back to Illyrian and Roman times.

The mountainous south of Kosovo has great potential for winter tourism. One of the most interesting opportunities for foreign investors in this sector is the ski resort Brezovica in the Sharr Mountains. The resort, situated between 1,700 and 2,500 meters above sea level. It offers excellent weather and snow conditions, as well as long ski seasons from November to May.

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.

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 "Sharrprodhimi" for privatisation. The region offers excellent tourism opportunities, such as skiing, eco-tourism, paragliding, mountain biking, rock climbing, trekking, kayaking, horse riding, etc. The Sharrprodhimi 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.

Apart from the above-mentioned tourism resorts, Kosovo is generally rich with mountains, artificial lakes and rivers and therefore also offers prime possibilities for hunting and fishing.

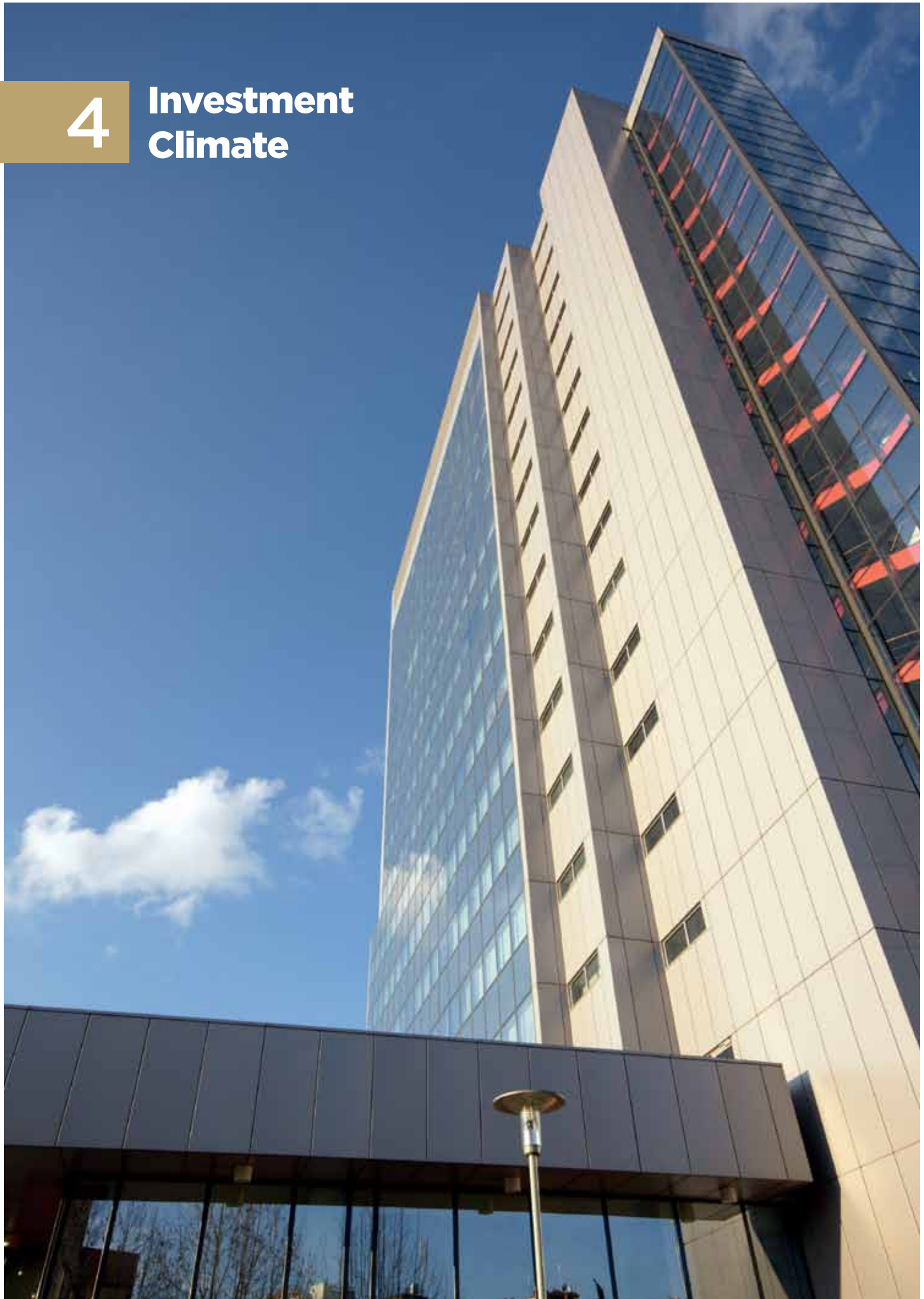
The area of wellness in Kosovo also offers great potential for development. The numer-

ous thermal springs of Kosovo are well known in the region for their healing effects. Foreign investors in this field will find high demand in the regional and domestic market.

The widespread production of rare artisan crafts in Kosovo, such as the Filigree (silver), represents an attraction for foreign tourists. In addition, Kosovo has the potential to develop cultural tourism with numerous religious and other sites with extraordinary cultural and historical value.

4

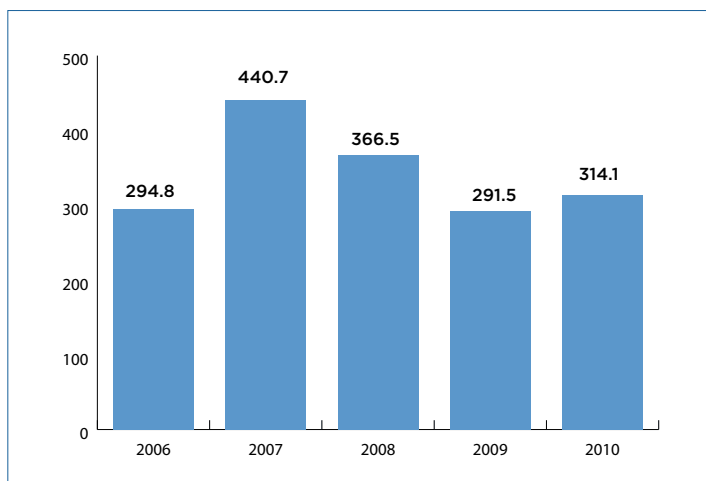
Investment Climate



4.1 FDI Inflows

Taking into consideration the favourable business climate, stable macroeconomic environment and the excellent opportunities across different business sectors, Kosovo is increasingly becoming an attractive place for doing business. As a result, the interest of foreign investors has been increasing steadily throughout recent years. Kosovo has attracted over 1 billion Euro of FDI in the past three years. After a peak in 2007 with 440 million Euro of FDI, a slight decrease has been seen in 2008 and 2009, this mainly due to the impact of the global financial downturn. In 2010 Kosovo had positive growth of FDI inflows reaching 314.16 million Euro.

Apart from investment pioneers such as the Raiffeisen Bank and Procredit, which entered the Kosovar market at the beginning of the transition phase, there are many other foreign companies engaged in a wide range of business sectors. According to the Business Registry data for 2010, there are 3,523 companies of foreign and mixed ownership that have already used the opportunity to invest in Kosovo. The large amount of foreign companies operating in Kosovo is living proof of the opportunities and benefits that the country offers, and also represents a base of quality products and a successful service-providing community.



Graph 10: FDI Inflow in million Euro

Foreign companies in Kosovo	
	
	
	
	
	
	
	
	
	

4.2 Success stories

CONSTRUCTION

Xella International

Xella International Group, part of Haniel Corporation, is the market leader in construction materials with production facilities on all six continents.

Xella Group opened a silicate production factory in Lipjan, near the Kosovar capital Prishtina in 2006. The value of this Greenfield investment has reached 12 million Euro and represents the most important project of the Xella Group in the Balkan region. Xella Kosovo supplies the entire region with silicate products under the brand name "Silka".

IT

Wertheim / Rrota

The Austrian company Wertheim has outsourced the development of a new software package to Kosovo. This investment foresees the development of a sophisticated software package for managing safe deposit boxes produced by Wertheim. The project is also supported by the Austrian Development Cooperation (ADC), which will take over a part of the investment.

Over 400 branches of banks in Austria, Switzerland, Croatia and Slovakia use Wertheim safe deposit boxes, while the software will from now on be developed by Rrota in Kosovo.

Agriculture

Kolm Pfluger / Etlinger

Kolm Pfluger, an Austrian company producing several varieties of salads and tinned vegetables, as well as supplying trade chains in Austria, has outsourced the production and packing of chilli (Pfefferoni) and other vegetables to Kosovo. The investment is situated in central Kosovo in Shtimlje. This investment is worth 500,000 Euro and is supported by the Austrian Development Cooperation (ADC); more than 150 new jobs have been created in Kosovo.

Mining

Ferronickeli

Newco Ferronickeli is a part of Cunico Resources N.V, a multinational mining and metals company. Cunico Resources N.V is the largest manufacturer of ferronickel in Europe with production plants in Kosovo and Macedonia.

The total investment in Kosovo plant exceeds EUR 100 million. NewCo Ferronickeli is the most successful story of the privatization in Kosovo and as a company plays a crucial role in Kosovo's economy employing more than 1000 employees. The products of Newco Ferronickeli are exported to the European Union and Asia and are contributing substantially to Kosovo exports.

Banking and Insurance

Raiffeisen Bank

Raiffeisen Bank entered Kosovo market in 2001 through acquisition of the American Bank of Kosovo. The Raiffeisen Bank Kosovo has grown to be one of the main actors in the financial system of Kosovo, contributing substantially to the increased financial intermediation at all levels.

Currently Raiffeisen Bank Kosovo is the second largest bank in Kosovo with total assets amounting over 680 Million. Raiffeisen Bank Kosovo employs more than 650 employees.

Telecommunication

IPKO / Telekom Slovenia

Telekom Slovenia acquired the local company IPKO Net, which was the first internet service provider in Kosovo, in 2006. IPKO Net offers a wide range of telecom services to its customers. According to the market share for GSM services it is the second largest telecom company in Kosovo after the state owned telecom.

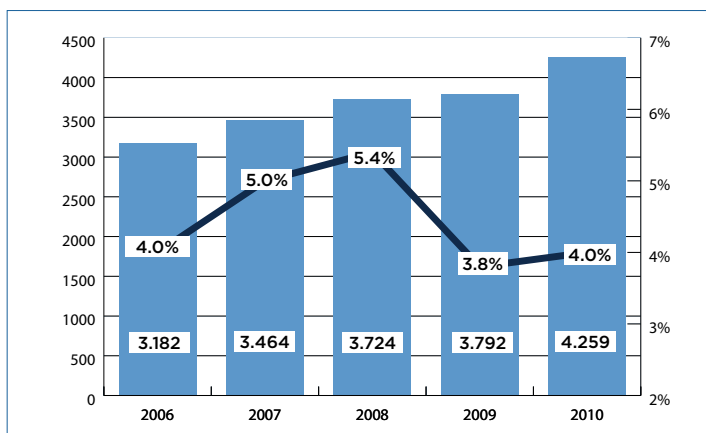
In addition to GSM, the company offers also fixed telephony and internet services, and is the market leader in cable TV.

4.3 Key economic indicators

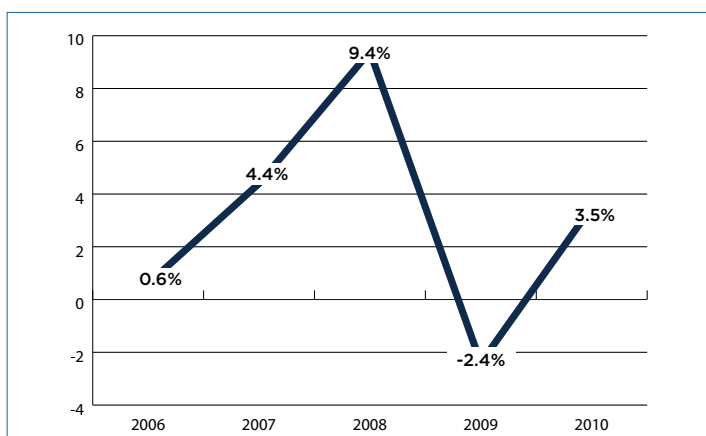
The real development of the economy measured by the gross domestic product (GDP) has been favourable in the past years, showing a positive and continuously increasing trend. Despite the effects of the international financial crisis, Kosovo was one of the few countries in Europe that experienced positive 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, the Kosovo Government runs a stable and forward-looking fiscal policy. The tax revenue base has been widened, thus enabling the Government expenditures to increase and in turn support economic growth.

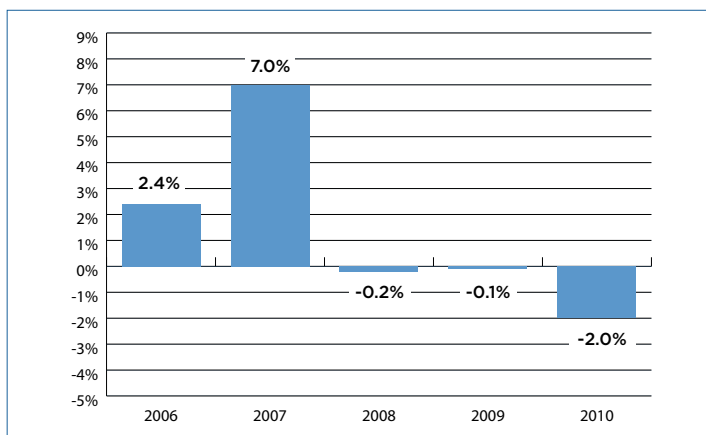
Apart from the favourable economic performance, Kosovo runs a very stable monetary policy. Kosovo is one of the few countries outside the EU-zone that has introduced the Euro as its official currency. The use of the Euro has provided the grounds for low inflation and a stable macroeconomic environment. By eliminating the exchange rate risk, transaction costs have been reduced, thus facilitating the promotion of trade and investment. Due to the absence of monetary instruments resulting from the use of the Euro, Kosovo does not run any monetary policy risk either. Prices are expected to remain stable in the future.



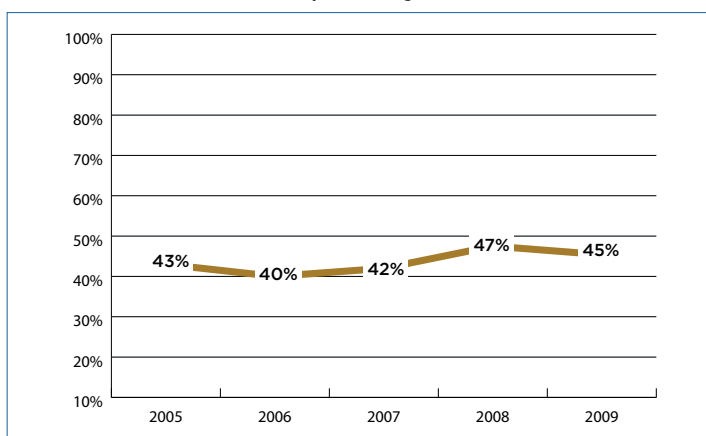
Graph 11: Real GDP in billion Euro and GDP growth



Graph 12: Inflation in Kosovo



Graph 13: Budget balance



Graph 14: Unemployment rate

4.4 Incentives regime

The existing legal framework in Kosovo allows incentives for foreign and local investors. They are up to date and promote the growth of the SME-Sector. Additional incentives that enable Kosovo to cope with developments in the region are in preparation and will be introduced soon.

Current incentives cover the following issues:

4.4.1 Carrying forward of losses

Based on the Law Nr.03/L- 162 on Corporate Income Tax, tax and capital losses can be carried forward for up to seven successive tax periods and shall be available as a deduction against any income in those years.

4.4.2 Special Allowances of new assets

In accordance with the Corporate Income Tax Law Nr.03/L-16, if a taxpayer purchases new capital goods for the purpose of the taxpayer's economic activity between 1 January 2010 and 31 December 2012, a special deduction of ten percent (10%) of the cost of acquisition of the asset shall be allowed in the year in which the asset has been first placed into service. This deduction is available in addition to the normal allowable depreciation deduction.

4.4.3 Avoiding Double Taxation

Based on the Law Nr.03/L-16 on Corporate Income Tax, a resident taxpayer who receives income from business activities outside of Kosovo through a permanent establishment outside of Kosovo, and who pays tax on that income to any state, shall be allowed a tax credit under this regulation in an amount equal to the amount of tax paid to such state.

Any tax credit under the present section is limited to the amount of tax that would be paid under this regulation on the income made in such state.

Any applicable bilateral agreement on the avoidance of double taxation shall supersede the provisions above.

4.4.4 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 certain capital goods, raw materials and agricultural production inputs. For more details visit: www.dogana-ks.org/tarik/. A zero tariff rate is also applied to the export of goods and services.

4.4.5 Investment guarantees

1. The Multilateral Investment Guarantee Agency MIGA (a member of the World Bank Group) guarantees investments in Kosovo up to the value of 20 million Euro.
2. The US Overseas Private Investment Corporation (OPIC) also provides political risk insurance for foreign investors in Kosovo.
3. For investment and credit guarantees from Austria please contact the Austrian Kontrollbank (OeKB) and for Germany the Euler Hermes Kreditversicherung.



5

Currency and the banking system



Kosovo adopted the Euro as its official currency on 1 January 2002. With the use of this stable currency as an official mean of payment, the prerequisites for the development of an efficient financial sector and stable macroeconomic environment were in place. Benefits arising from the introduction of the Euro in Kosovo have been obvious and resulted in low inflation rates and strict financial discipline. In particular, the Euro has given Kosovo a considerable advantage over its competitors in the region by making it more attractive to foreign investment, due to low transaction costs as well as the elimination of exchange rate and currency risk.

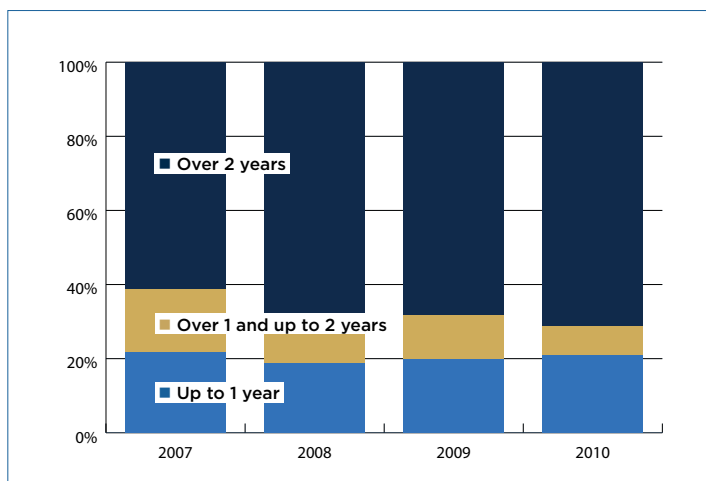
The absence of traditional monetary policy instruments also enabled the establishment of a very strict and efficient regulatory framework, upon which a sound banking system has been developed.

Achievements in the banking sector in Kosovo have been significant in the last five years. They have resulted in the improvement of public confidence in the banking sector and the strengthening of the intermediation function of banks in the Kosovo economy.

Kosovo introduced a two-tier banking system back in 1999. The Central Bank of the Republic of Kosovo also embodies the characteristics of an integrated financial supervisory agency. Its responsibilities cover licensing, regulation and the supervision of financial intermediaries, and it ensures the proper functioning of the payment system.

The financial sector in Kosovo is bank-based and all of Kosovo's banks are private. There are eight registered banks, of which six are in foreign ownership. The Pro Credit Bank established at the initiative of several leading International Financial Institutions, and the Raiffeisen Bank of Austria, hold the largest market share in the sector.

With banking sector assets accounting for 55 percent of GDP at the end of 2010, Kosovo ranks well with the countries of the region. Loans granted by the banking sector of Kosovo for the same period accounted for 33 percent of GDP.



Graph 15: Structure of loans by maturity

In addition, the lowering of interest rates and the shift from short-term to long-term financing in the banking sector of Kosovo has had a very positive impact on overall economic growth enabling intensive long term capital investments.

6

**Labour and
education**



6.1 Labour market

Kosovo is blessed with a young, skilled, multilingual and motivated labour force with a strong entrepreneurial spirit.

With 70 percent of the population being under the age of 35, Kosovo is considered to have the youngest population in Europe. This young population has a high literacy of foreign languages. Albanian and Serbian are both official languages, and given the long-term presence of a large international community, English has been established as a de-facto third official language. Owing to the large Kosovar Diaspora, German and other European languages are frequently heard.

Taking into consideration the high availability of the work force and the liberal labour law that governs the local labour market, hiring employees in Kosovo is both time saving and simple. According to the “Doing Business 2011” of the World Bank, Kosovo can outperform most of its neighbouring countries when it comes to the simplicity of hiring new employees. The same applies to the cost of making workers redundant which, equal to a salary of 7.2 weeks, is below the regional average.

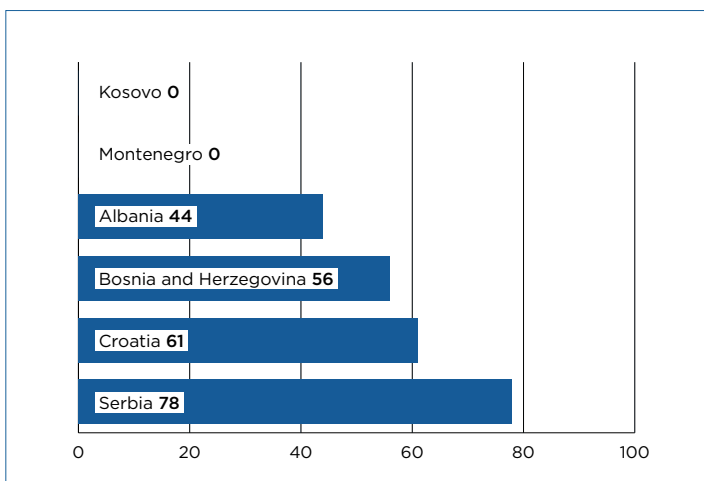
Furthermore, the highly flexible labour market offers a sufficient work force with varied skills and levels of education and training. Although according to the data covering job-seeker statistics the main part of the labour market supply consists of basic skilled labour, there are sufficient quantities of highly educated jobseekers as well.

The main advantage of the Kosovo labour force remains its low cost. With the average monthly labour cost estimated at EUR 330 it is the most competitive in the region.

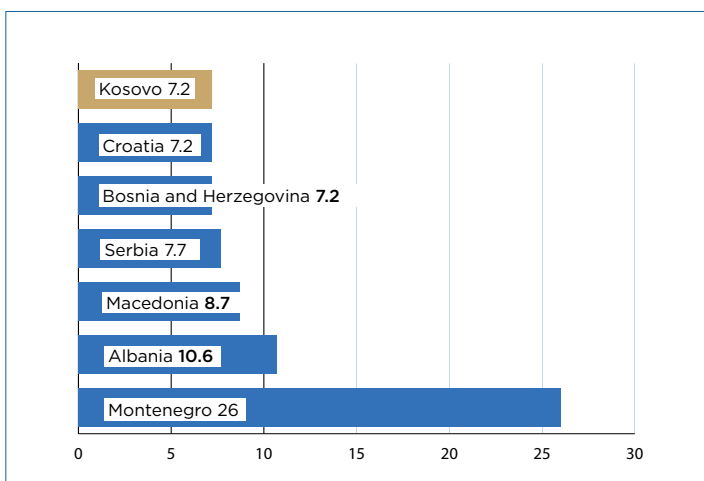
Country	Average monthly labour cost (euro)
Kosovo	330
Macedonia	490
Serbia	566
Croatia	1055
Bosnia and Herzegovina	480

Table 3: Overview of the monthly labour cost in the region - 2010

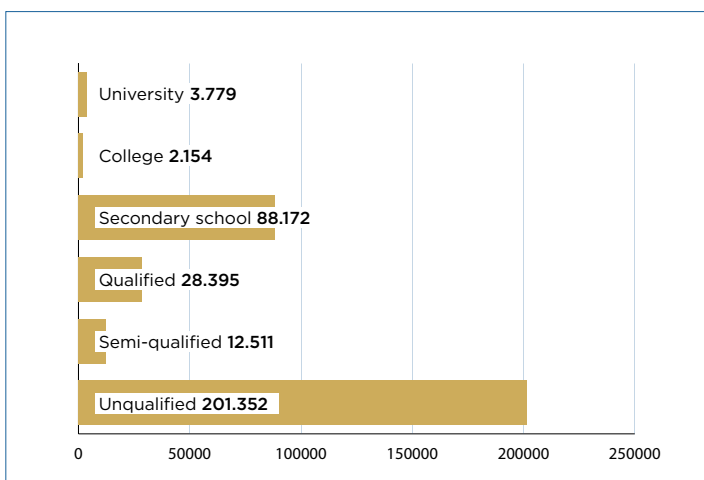
Furthermore, personal income tax in Kosovo is very low at only four percent of the average gross salary, and the wages are unburdened by



Graph 16: Difficulty of hiring index (0-100)



Graph 17: Redundancy costs (week salary)

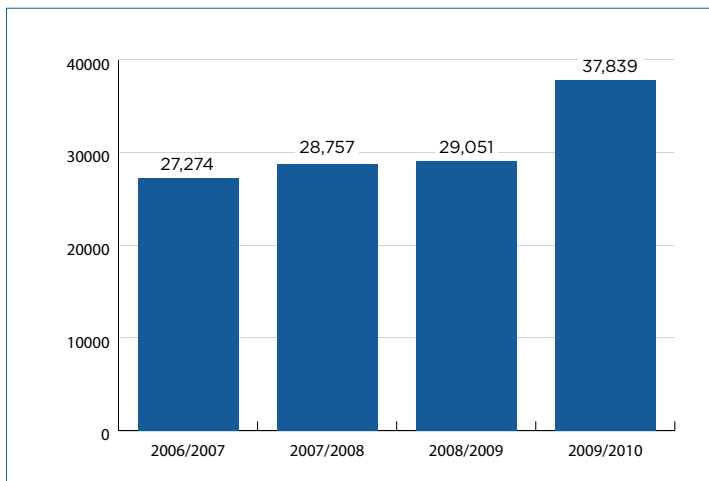


Graph 18: Registered jobseekers (2011)

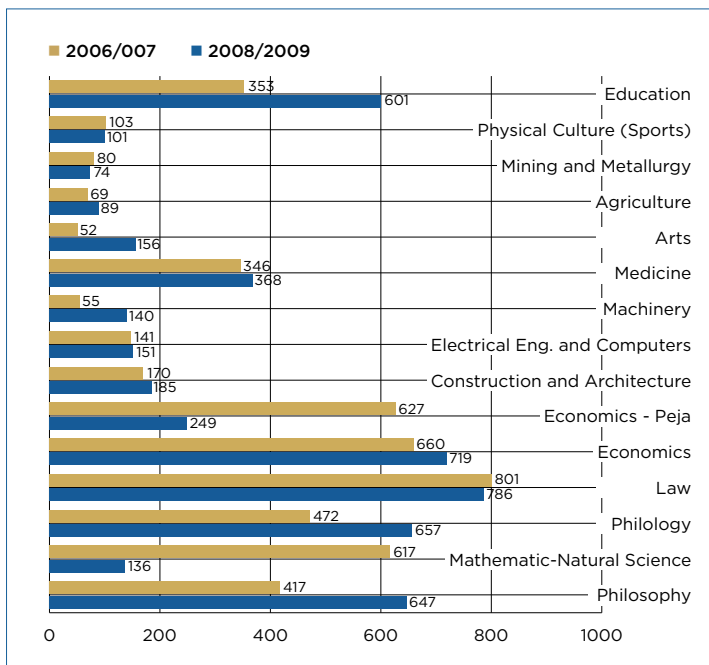
costly social contributions, unlike the salaries in most neighbouring countries. The only mandatory contributions on total gross wages paid are those for individual pension savings accounts, financed by the employer (5 percent) and the employee (5 percent).

Country	Employee	Employer	Total
Kosovo	5%	5%	10%
Macedonia	0%	26.5%	26.5%
Serbia	17.9%	17.9%	35.8%
Croatia	20%	17.2%	37.2%
Bosnia and Herzegovina	31%	10.5%	41.5%
Montenegro	12%	8%	20%

Table 4: Overview of the social contribution rates in the region -2010



Graph 19: Number of students in Prishtina University - by year



Graph 20: Graduated students by field and year

Working in Kosovo as a foreigner

Natural persons, who are not citizens of Kosovo, when wanting to work in Kosovo for more than three months, must apply for a work permit, which is issued by the Ministry of Labour and Social Welfare. Together with the request for the work permit, the employer should also submit a copy of the residence permit, or proof of possessing a valid visa issued by the Kosovo authorities.

6.2 Educational system

The compulsory school and higher education systems in Kosovo are being reformed continuously while landing great importance to their quality, and thus creating the basic preconditions for the development of a knowledge-based society out of the young population. With the ratification of the new university law by the Government back in 2004, Kosovo's higher education authority has introduced educational levels in accordance with the Bologna Declaration.

Great importance has been given to establishing a privately-driven educational system. Currently Kosovo has two state universities and several private universities and colleges, with worldwide known educational institutions among them. As part of the educational reforms, the Ministry of Education, Science and Technology has founded the Public University of Prizren. The curricula of the study fields offered by the University of Prizren are developed based on the mid-term needs of the local economy.

With approximately 40,000 students at the two state universities, and at least 10,000 students at the private universities and colleges, a sufficient stream of highly educated labour is guaranteed. The number of graduates is increasing continuously, with social science graduates over-performing those studying the natural sciences.



7

Trade and customs



7.1 Trade regime

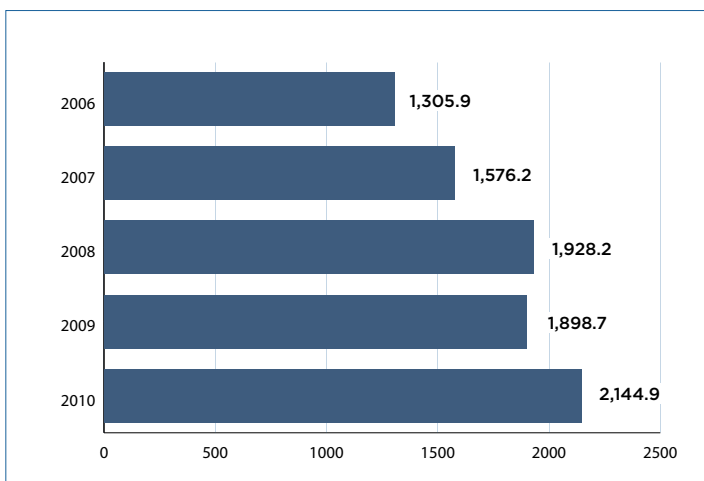
Kosovo has a liberal trade regime and derives three major benefits from trade liberalisation, namely improved export possibilities, a better investment environment, and stable relations with its neighbours.

Committed to establishing principles for the stable development of a pure market economy, since a very early stage of development, Kosovo's government has been working towards establishing a system for the free movement of goods and services throughout the country's borders. As a result, Kosovo currently enjoys free trade within Central European Free Trade Agreement – CEFTA, enabling its businesses and producers of goods to access the regional market comprising of 30 million consumers, free of any customs duties.

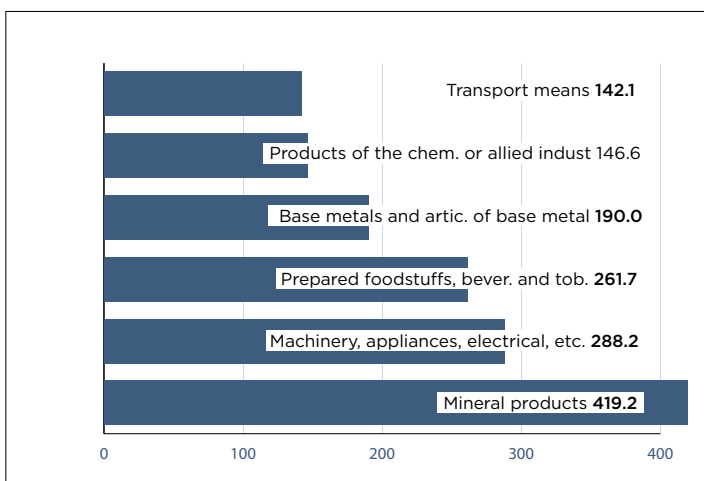
In addition, Kosovo benefits from non-reciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime. Quantitative and qualitative restrictions remain in force only for a very limited number of goods. Furthermore, a significant number of goods produced in Kosovo enjoy a preferential treatment in the US market.

Kosovo is still an import-based economy. Imports have been increasing steadily in recent years (as the figure shows) reaching some 2.14 billion Euro at the end of 2010. The main importing countries in Kosovo are EU-countries followed by CEFTA-members. Even though local production is increasing steadily, Kosovo is still forced to import goods and raw materials that are not offered by the local market. The main imports of commodity goods range therefore from transport means, chemical products and base metals to machinery and mineral products.

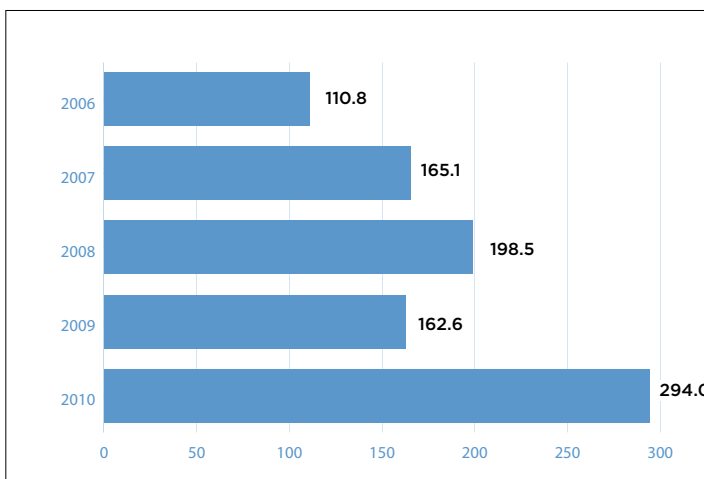
Recognising the opportunities that the local market is offering, and benefiting from various cross-sector incentives introduced by the Government, local production has grown exponentially in recent years. Not only does local demand continuously rely on local production but Kosovo is increasing its exports to its main trade partners, EU-countries and CEFTA-members. At the end of 2010, exports reached 294 million, an increase of 81 percent in comparison to 2009. The main exports of Kosovo comprise mainly base metals and mineral products, as well as vegetables and prepared foodstuff.



Graph 21: Imports in Kosovo – by year in million Euro

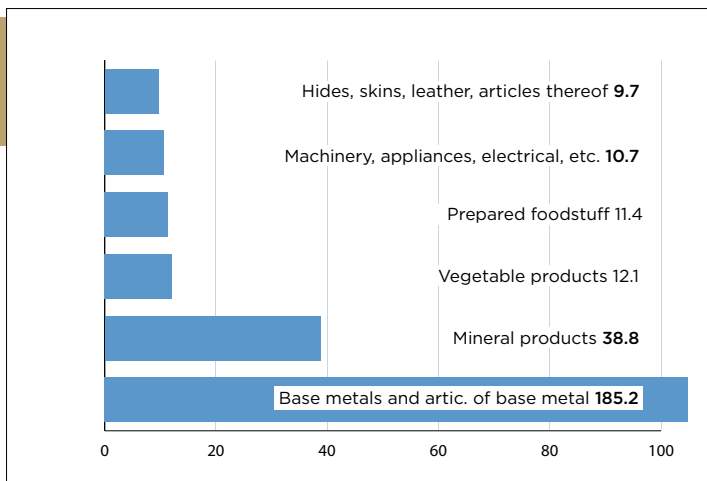


Graph 22: Top 6 Imports by commodity (2010) in million Euro



Graph 23: Exports from Kosovo – by year in million Euro

Given that the country has a very favourable business climate, a modern legal framework and a cost effective work force, and taking into consideration that there is still immense opportunity for local producers to fulfil market demand and also approach the regional market, local production as well as exports are expected to increase further in the future.



Graph 24: Top 6 Exports by commodity (2009) in million Euro

7.2 Customs regime

Kosovo is an independent customs entity with a liberal trade regime.

Custom duties and border taxes are regulated by the Customs and Excise Code of Kosovo, Law No. 03/L-109.

- **Customs:** A flat rate of 10 percent is imposed on imports and zero percent on exports. Exemptions exist for imports of raw materials, a range of capital and intermediary goods, but also for pharmaceutical goods, which are zero rated.
- **Excise tax:** Is levied as a certain percent of the value of the goods or represents a fixed amount per specified quantity, is applied to coffee, soft drinks, beer, wines, alcohol, spirits, liquors and other spirit beverages, cigarettes, other tobacco products, cars, petrol, diesel for motor engines and kerosene.
- Details on customs rates and excise taxes applied to specific goods can be found under: www.dogana-ks.org/tarik/index.htm

The Customs Code is based on the EU custom code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System. It additionally allows the use of a number of business friendly trade-facilitating instruments such as:

- **Bounded warehousing** – allowing storage in customs warehouses for non-domestic goods, without import duties being imposed. Under this procedure the goods may undergo any form of handling intended to preserve them, improve their appearance or marketable quality or prepare them for distribution or resale.
- **Inward processing relief** – allowing non-domestic goods which are intended for re-export from Kosovo to be used in Kosovo in one or more processing operations without such goods being subject to customs duties. This offers a great opportunity for outsourcing projects.
- **Processing under customs control** - The procedure for processing under customs control allows goods which are not domestic goods to be used in Kosovo in operations which alter their nature or state, without being subject to import duties or commercial policy measures, and shall allow the products resulting from such operations to be released for free circulation at the rate of import duty appropriate to them.
- **Transit** – permitting the movement of the goods, which do not originate in Kosovo from one point within Kosovo to another, without such goods being subject to customs duties.
- **Temporary admission** – allowing the use in Kosovo, with total or partial relief from import duties, of goods which are non-domestic goods and intended for re-export without having undergone any change except normal depreciation.
- **Outward processing** – allowing for domestic goods to be temporarily exported in order to undergo any processing operations, with the products resulting from such operations to be released for free circulation with total or partial relief from import duties.

For details concerning the import of goods please contact Kosovo Customs at www.dogana-ks.org.

7.3 Transport and distribution

Located in the heart of the Balkans, Kosovo serves as a connecting bridge between the countries of South Eastern Europe. Through its unique geographical position and its liberal trade regime, it offers instant access to the interesting and growing market in the Balkans and Central Europe, comprising 100 million potential customers.

Kosovo's capital Prishtina is within one hour's driving time to any neighbouring country (Albania, Montenegro, Macedonia, and Serbia), thereby providing a connection for all countries in the region.

Road network

The road network consisting of 630 km of main roads has been rebuilt to a high extent during the past years, but some completely new roads have also been constructed. With the construction of the highway that will connect Kosovo with Albania on one side and with Serbia on the other, Kosovo is becoming an important gateway in the corridor that will connect the Adriatic Sea with Western Europe.

Railway

The railway network in Kosovo has a combined length of 330 km. It covers the entire territory, connecting both the south with north and east with west. On the south side as well as the north side the railway line provides access to the international railway network. The ongoing rehabilitation and modernisation of Kosovo railways provides a solid base to satisfy the growing demand on logistical services. The project for the construction of the new line that will connect the capital of Kosovo, Prishtina, to the port of Durres in Albania is under development.

Air communication

Besides the road and railway network, Kosovo has a modern international airport. With over one million passengers per year, Prishtina International Airport is ranked among the most frequented airports of the region, serving several international airlines and offering flights to the most important European centres. Prishtina International Airport has been given with concession to the Limak-Airport de Lyon for a period of 20 years, in exchange



Graph 25: Travelling distances from Prishtina to major regional centres

for Euro 100 million investments in modernisation and expansion of the Airport. This should help the Prishtina International Airport to become a regional hub in the near future.

8

Setting up a business in the country



8.1 Business types

Businesses operating in Kosovo must be registered with the Ministry of Trade and Industry's Business Registration Unit (www.arbk.org).

Registering a business in Kosovo is both simple and inexpensive. The cost of registration is 5 Euro for a personal business and 20 Euro for all other business forms.

All business and trade names are listed with the Registry of Business Organization and Trade Names and the basic information regarding registered companies can be transparently and freely accessed via the internet.

Six procedures are required to start a business in Kosovo:	
Step 1	Depositing the required capital minimum
Step 2	Payment of the registration fees to the commercial registry
Step 3	Application at the Business Registry and issuance of the registration certificate
Step 4	Application for municipality licence
Step 5	Obtaining the fiscal number from the Kosovo Tax Administration
Step 6	Obtaining the VAT-number from the Kosovo Tax Administration

With six steps needed to start a business, Kosovo compares well with other countries in South East Europe.

8.2 Legal framework

On 17 February 2008 Kosovo declared its independence, becoming the latest state to emerge following the disintegration of Yugoslavia. The declaration of independence established Kosovo as a democratic, secular and multi-ethnic Republic promoting the rights of all communities. In April 2008 the Assembly of the Republic of Kosovo adopted the country's constitution that entered into force in June 2008.

Kosovo's legal system has been continuously re-built since 1999. While other countries in the region have to undergo the difficult and complicated procedure of making more than 80,000 laws compatible with European Union regulations, Kosovo's legislation is already EU-compatible.

The legislation in force includes:

- Laws and regulations issued by the Assembly of the Republic of Kosovo
- The regulations promulgated by the Special Representative of the Secretary-General during the United Nations Interim Mission in Kosovo;
- The law in force in Kosovo on 22 March 1989

Every law is available also in English and can be found in electronic form at: www.assemblyofkosovo.org

Protection of Foreign Investment

In order to put in place certain legal guarantees that are necessary to encourage foreign investment, in April 2006 the Government of Kosovo promulgated a Law on Foreign Investment (Law No. 02/L-33). According to this regulation a foreign investor, defined as a physical person who is not a habitual resident of Kosovo or 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 enterprises will be treated no less favourably than similar domestic enterprises. In particular the right vested to a foreign investor are:

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

Public-Private-Partnerships and Concessions

The Law No. 03/L-090 on Public-Private-Partnerships and Concessions provides the legal framework for granting public-private partnerships and concessions. The law governs the rights to utilize and/or exploit publicly owned infrastructure and/or provide public services in all economic and social sectors including: energy, health, education, transportation, waste, production activities etc.

According to this law a public-private-partnership and/or concession can be granted for a maximum of 40 years. The duration of such agreement for additional period can be extended but cannot exceed more than one

	single person enterprise	general partnership	limited partnership	limited liability company	joint stock company
Start-up requirements	None	General partnership memorandum	limited partnership memorandum	Memorandum of association	Memorandum of association
Founding documents	Registration form Rent contract for premises	Registration form General partnership Memorandum Rent contract for premises	Registration form limited partnership memorandum Rent contract for premises	Registration form Charter Rent contract for premises	Registration form Charter Rent contract for premises
Size	Small - one owner	Small - two or more owners	Small- two or more owners	Middle	Large - unlimited
Minimum capital	None	None	None	€ 1,000	€ 25,500
Partners	None	At least 2	At least one general and one limited partner	Regardless	Regardless
Liability	Full liability	Full liability	General partner - full liability	Limited liability or fully liable to the extent of unpaid stocks	Limited liability or full liability to the extent of unpaid stock

Table 5: Characteristics of business types in Kosovo

quarter of the initial duration stated in the agreement. There is a special unit “Partnership Kosovo”, within the Ministry of Economy of the Republic of Kosovo, which is responsible for Public-Private-Partnership. More details can be found at: www.pppkosova.org.

Legal Forms of Enterprises

Similar to common practices in EU countries, only certain types of business can be registered in Kosovo. According to the Law on Business Organisation (Law No. 02/L-123) these types are: a single person enterprise, a general partnership, a limited liability company, a limited partnership and a joint stock company. The characteristics of each type are listed in the table above.

In accordance with the clauses of the Foreign Investment Law, foreign companies are permitted to engage in any business activity open

to domestic business. Additionally, there is no restriction regarding the share of capital that foreign entities are allowed to hold. Therefore, foreign entities may establish subsidiary enterprises and branches in the same manner and to the same extent as similar domestic business organizations.

Contracts Enforcement

Legal procedures concerning the enforcement of contracts are regulated by the Law on Contested Procedure (Civil Procedure Law) and the Law on Execution. In general, the municipal courts have jurisdiction to enforce contracts, with the exception of matters falling within the jurisdiction of the Commercial Court, which is responsible for enforcement.

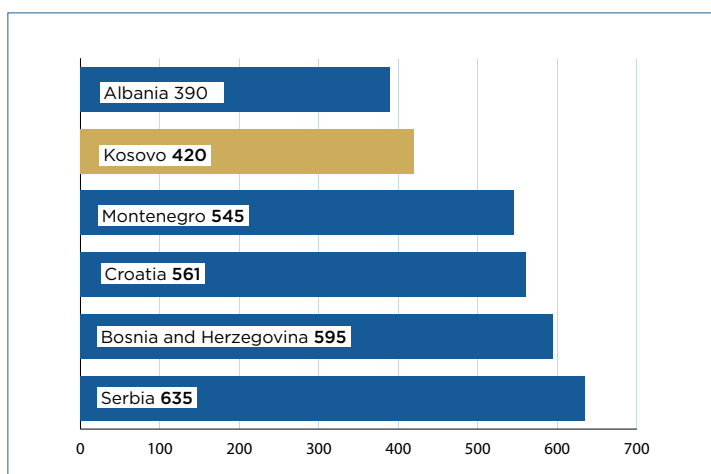
Trade Marks

The Law on Trademarks (Law No. 02/L-54) provides the protection of trademarks and commercial designations in accordance with the requirements of international conventions and the law and practice of the EU and its member states.

Any signs, particularly words, including personal names, designs, letters, numerals, audio marks, three-dimensional configurations, including the shape of goods or their wrapping or other packaging, including colours, or combinations of colours, that are capable of distinguishing the goods or services of one undertaking from those of other undertakings may be protected as trademarks in Kosovo.

Trademarks are to be registered at the Patent and Trademark office. The proprietor of a reg-

Graph 26: Enforcing contracts in days



istered trademark will after registration have exclusive rights in relation to the goods or services covered by the registration. In particular these rights are:

- a. to use the trademark;
- b. to authorize another to use the trademark;
- c. to consent to the use of the trademark; or
- d. to obtain judicial remedy for a violation of the trademark

Industrial Design

Industrial Design can be protected in Kosovo under the clauses of the Law on Industrial Design (Law No. 02/L-45). Industrial design is protected by the Law up to the point that it is still an innovation, and has a specific character. The design of a product is considered to be an innovation if not identical to a design previously available to the public, and that the design has a specific character if the consumers' impression differs from the impression left by any other design that was previously available to the public.

Industrial design protection can be obtained by issuing a decision on the industrial design registration and the recording thereof in the register. Application for industrial design registration is to be submitted to the Patent and Trademarks Office. Protection of the industrial design lasts five years and can be extended to a maximum of 25 years.

Patents

Patent related matters in Kosovo are governed by the Patent Law (No.2004/49). According to this law, an invention shall be patentable if it is new, involves a inventive step and is industrially applicable. Patentable inventions are protected by patents in accordance with the provisions of the above mentioned Law. A patent right is granted for the duration of 20 years.

The application for a patent is to be submitted to the Patent Office and shall contain:

- a. a request for the grant of a patent,
- b. a description of the invention,
- c. one or more claims,
- d. any drawings referred to in the description or the claims,
- e. an abstract of the invention.

Standardisation

The certification of products, processing, services, quality and personnel systems, are regulated by the Law on Standardisation (No. 03/L-144). Under this Law, the institution responsible for the issuing, application and determination of standards is the Kosovo Standardisation Agency (KSA). Standards issued by KSA are equally determined and applicable for all legal and physical, domestic and foreign persons that do business within the territory of Kosovo.

By implementing standards based on EU and international practices, KSA aims to:

1. increase the level of safety for products and processes, in the function of requirements to protect and improve the quality of life, health safety, environment and consumer protection, by ensuring common rules;
2. promote quality of products, processes and different services according to defined standards;
3. ensure rational use of materials and energy and efficiency in performance;
4. help to abolish the technical barriers in international trade.

8.3 Taxation

Kosovo's tax policies are streamlined and efficient. Unlike many other countries in the region, Kosovo has laid out a taxation system that is simple and that reduces the tax burden for individuals and businesses. Compliance is straightforward and taxes are few. Furthermore, the Government is introducing tax incentives to support domestic production.

Corporate tax

Depending on annual income, domestic legal entities and permanent establishments of foreign legal entities are taxed as follows (Law Nr.03/L- 162):

Annual income € 0 - € 5,000	37.5 € / quarter
Annual income € 5,001 - € 50,000	3-10% of income
Annual income € 50,000	10% of profit

Corporate income tax is paid quarterly in advance, based on quarterly net income or profit predictions.

Value added tax

Value added tax (Law Nr.03/L- 146) is applied to all importers and businesses with an annual turnover in excess of 50,000 Euro. The VAT rate stands at 16 percent and is levied on all goods and services, with exemption for certain agricultural and capital goods (on which VAT is zero percent). Exporters receive full VAT reimbursement for exported goods.

Personal income tax

Personal income tax (Law Nr.03/L-161) applies to natural persons receiving income from Kosovo sources and also to foreign incomes, received by Kosovo residents. The rate of personal income tax depends on annual income and ranges from zero percent to 10 percent.

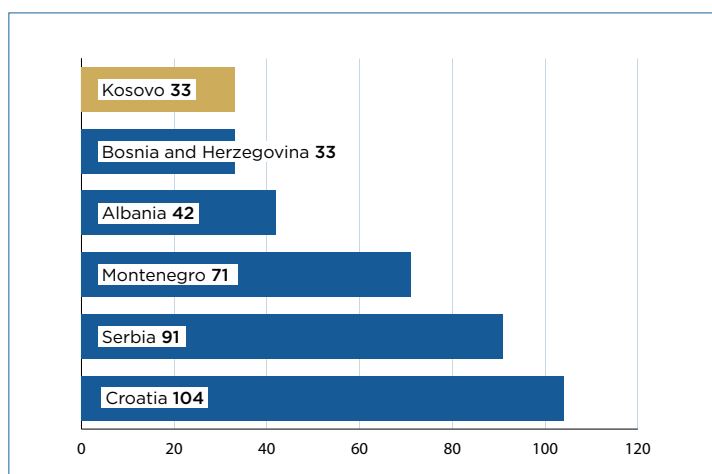
Annual income € 0 - € 960	0%
Annual income € 960 - € 3,000	4% of the amount over € 960
Annual income € 3,001 - € 5,400	€ 81.6 + 8% of the amount over € 3,000
Annual income € 5,401 - above	€ 273.6 + 10% of the amount over € 5,400

Specific tax code on depreciation

According to article 15 of the Law Nr.03/L-162 on Corporate Income Tax the amount allowed as a depreciation deduction for the tax period is to be determined by applying the

Table 6: Comparison of Tax Systems in the region - 2010

Country	VAT	Corporate profit tax	Personal income Tax
Kosovo	16%	10%	0-10%
Macedonia	18%	10%	10%
Serbia	18%	10%	10-20%
Bosnia and Herzegovina	17%	10%	0-10%
Croatia	17%	20%	12-40%
Montenegro	17%	9%	9%



Graph 27: Registering property in days

following percentages to the capital accounts under the reducing balance method:

- (a) Category 1: Buildings; five percent (5%);
- (b) Category 2: Vehicles and office equipment; twenty percent (20%); and
- (c) Category 3: Machinery and heavy transport vehicles; fifteen percent (15%)

Property taxes

Property tax was introduced in 2003 and is collected at the local government level by Municipal administration.

The Municipal Assembly of each municipality defines tax rates on property on an annual basis. The tax rates range between 0.05 percent and one percent of the market value of the property for each of the following property categories:

- Residential property
- Commercial property
- Industrial property
- Agricultural property
- Immovable abandoned property and uninhabited buildings

Accounting practices

Kosovo has a modern financial reporting system based on International Accounting Standards. In 2001, with the UNMIK Regulation No.2001/30, the Board on Standards for Financial Reporting was established and to date, 18 accounting standards in conformity with IAS have been issued. According to this regulation, all business organisations with an annual turnover in excess of 100,000 EUR or total assets worth in excess of 50,000 EUR are obliged to prepare four statutory financial statements on an annual basis (Balance sheet, income statement, cash flow statement, and changes in equity, and accompanying notes, along with a tax return). Businesses with a turnover below 100,000 EUR are required only to prepare a tax return.

The overview of the comparison of the Kosovo tax system with its neighbouring countries is shown in the table 6.

The Government of Kosovo is currently preparing tax incentives and tax breaks for foreign and local investors. More information can be obtained by contacting the Investment Promotion Agency of Kosovo.

8.4 Land acquisition and related matters

Land in Kosovo is categorised as agricultural or construction land.

Publicly owned land for construction can be acquired for private development, only by the decision of the municipality and/or Ministry of Environment, or privatisation procedures. In contrast, construction land that is not publicly or socially owned can be acquired from private individuals. IPAK runs on its web page an online database of locations and buildings available for foreign investors.

Registering property in Kosovo is both quick and simple. Due to efficient property registers and cadastral systems, the total duration for registering a property is below the regional average. A construction licence issued by the respective Municipality is always required for construction purposes.

Information on the particular Land and/or existing pledges can be obtained from the Municipalities where the property is registered in the municipal register. For details visit www.komunat-ks.net

Land leasing

According to the Law on Local Self Government Nr. 03/L-040, the municipalities in Kosovo have the right to lease movable and immovable property. The lease can be granted for a term of ten years with an extension opportunity of up to 99 years.

8.5 Industrial parks

Industrial property in Kosovo can be acquired for business purposes in two different ways. Foreign companies can freely buy land and buildings through the ongoing privatisation procedures. For information on current privatisation opportunities contact the Privatisation Agency of Kosovo. Investors can also freely obtain a lease for land from the responsible municipality for a term of 10 years with a long term extension opportunity (see www.komunat-ks.net for details on 30 municipalities across Kosovo).

Industrial Parks

The industrial park initiative was launched by the Ministry of Trade and Industry as a concrete measure to boost business in Kosovo.

It has been identified that business growth is hindered by a lack of good quality and reliable

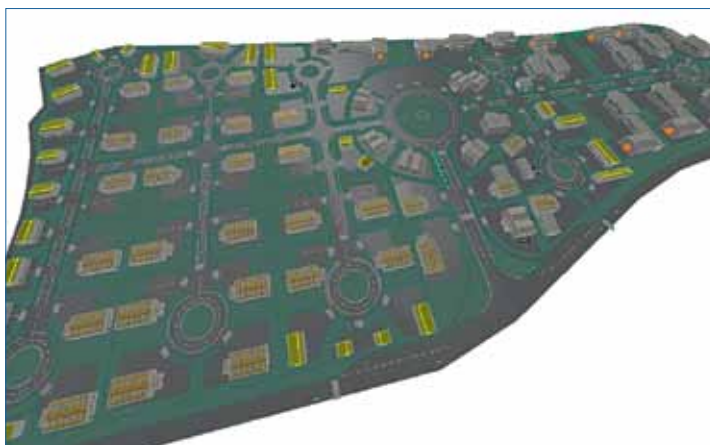


Photo: Drenas Industrial Park

amenities. The concept of the industrial park is relatively simple, aiming to provide high quality facilities and infrastructure at a competitive market price, from which businesses can operate effectively and efficiently.

In addition to providing a solid base from which to operate, additional effects such as business clustering may also take place thus facilitating exchange of business knowledge and transfer of know-how, and developing synergies to further accelerate business development and growth.

The “Drenas Industrial Park” covers an area of 24 hectares, in which 781 local and foreign enterprises will be placed. Three sizes of plots are available, 1,000m², 3,000m² and 6,000m².

Drenas Industrial Park is situated alongside the highway connection between Prishtina and Peja. It lies 21 km away from the Kosovo capital Prishtina, five km away from Prishtina International Airport, seven km from the nearest railway station and 280 km from the port in Durrës. Businesses that will be located in this industrial park will therefore have a unique possibility to serve the local market from a very central position. In an area populated with one million inhabitants, the location can offer a sufficient supply of labour force. It further enables investors to enjoy the bureaucracy of a small city and the services of a big city.

In addition, due to the proximity of regional roads, there is also a possibility to swiftly access any neighbouring country by road transport within one hour.

Details concerning industrial parks are available from the SME-Agency, which is a part of the Ministry of Trade and Industry of the Republic of Kosovo (www.sme-ks.org).

8.6 Utility costs and availability

Fuel

The fuel supply is sufficient in all regions of Kosovo. Measured at a ratio of one fuel station per 1,000 inhabitants, Kosovo has one of the highest fuel station densities in Europe.

Tariffs for fuel	
Description	EUR/Lit
Diesel	1.24
Petrol	1.24

Prices: March 2011

Telecommunication

The telecommunication sector in Kosovo is dominated by the Post and Telecommunications of Kosovo (PTK). The PTK was incorporated in 2005 and is still a fully state owned enterprise. It provides various telecommunication services ranging from post and fixed telephony to mobile telephony and internet. The PTK will be privatised soon and represents a great investment opportunity for Western telecom companies.

The fixed network currently consists of 135,000 telephone connections. Additionally, there are 600 pay phones located in public areas as well as 470 in post offices. A second fixed phone licence was issued in 2006 to the private company and internet provider IpkoNet.

GSM-services in Kosovo are provided currently by Vala, a subsidiary of PTK, and IPKO, a company owned by Slovenian Telecom, which has acquired the second mobile operator licence in Kosovo and started operations in late 2007. Vala has over 1,200,000 subscribers, mostly using the pre-paid system, whereas IPKO has gained over 300,000 subscribers within four years of its establishment.

In addition to the 120 post offices belonging to the PTK, Kosovo has a wide variety of in-

ternational courier service providers operating in its territory (UPS, TNT, FEDEX, DHL). As a consequence, quick and reliable shipping possibilities to different international destinations are available.

Kosovo has four licensed internet-providers of which three are private (IPKO Net, Kujtesa, VIP Trading) and one state owned (DardaNet, a subsidiary of PTK). The high competition in this sector, caused in main by the high share of privately owned businesses, has produced a very wide internet coverage, comprehensive product packages and low prices for internet services. The society of internet users is estimated to have around 500.000 members.

Energy, water and sewage

Kosovo uses 220 V energy network and the plug socket system corresponds to the German standard.

A public water supply system as well as sewage services are established throughout the country. The cost for energy and water supply can be taken from the table below:

Tariffs for Water Supply and Energy	
Description	Cost EUR
Water Supply	0.32 - 0.76 /m ³
Energy	0.046 - 0.084 Euro/kWh
Sewage	0.04 - 0.09/ m ³

Prices: March 2011

Table 7: Tariffs for Fixed telephone, Mobile, Internet

Tariffs for Fixed telephone, Mobile, Internet			
Description	Within the network	To other local	International
Fixed telephone (PTK)	0.01	From 0.05	From 0.26
Mobile Phone (VALA)	0.02-0.09	From 0.18	From 0.36
Mobile phone (IPKO)	0.05-0.10	From 0.10	From 0.44
Fixed telephone (IPKO)	0.001	From 0.05	From 0.10

Prices: March 2011



9

Quality
of life



Hotels: Kosovo has plenty of hotels spread throughout its territory. The hotels are usually two to four-star rated and the prices range from between 30 and 100 Euro per night. The most known hotels of the capital Prishtina are Hotel Prishtina, Hotel Baci, Hotel Pejton, Hotel Emerald, Hotel Afa, Hotel Royal, Hotel Victory and Hotel Gorenje. The newer and more modern hotels usually operate at full capacity. Booking prior to travel is therefore advisable.

Money: The Euro is the official currency in Kosovo and the majority of payments are usually made in cash. However, many major shops, restaurants and hotels are equipped with electronic payment devices, thus enabling payments to be made with credit cards and other means of electronic payment.

There is no restriction on the amount of cash that may be imported into Kosovo. However, amounts greater than 10,000 Euro must be declared at the border.

Communication: Kosovo has a developed telecommunication system. There are 600 pay phones located in the public areas as well 470 in the post offices. GSM providers are Vala, IPKO, D3 and Z-Mobile and roaming is offered for the majority of international telephone service providers. For longer stays in Kosovo the purchase of a local pre-paid number is recommended. Prishtina and other larger cities have numerous Internet Cafés. Some parts of the city are also covered by a WLAN network.

Traffic: Traffic in Kosovo keeps to the right, and an EU driving licence is sufficient. The major and smaller roads are to a large extent rehabilitated and offer good connections to neighbouring countries. Currently Kosovo is also building a highway that will connect Kosovo to Albania to the south side and Serbia to the north. There are numerous "rental car" companies and daily charges range from between 20 and 75 Euro depending on the class of vehicle. Rental car companies with premises at Prishtina Airport are Europcar, Sixt, Auto Shkodra and LTG. For travel in the city, a taxi is recommended (EUR 1.5 - for 1km ride).

The international green insurance card is still not valid in Kosovo. Foreigners travelling by car must therefore obtain additional insurance at the Kosovo border crossover. No toll fees are levied for the use of the road network.

Health care: There are six regional hospitals situated in the major towns of Kosovo. These are supported by health houses in each of the 30 municipalities. Apart from the Public Health System there are numerous private hospitals. Due to the higher quality of their equipment and sanitation, private health institutions are more favourable.

Adequately equipped pharmacies may be found in every town throughout Kosovo, some of which are open 24 hours.

Gastronomy: In restaurants, bistros, cafés and hotels, a good variety of meals and beverages are offered (Balkans, Italian cuisine). Furthermore, there are numerous restaurants located in Prishtina and other larger towns offering international cuisine (Thai, Indian, Chinese, Mexican, etc.). The fish restaurants in Vërmicë and Istog with their unique trout specialities are also major attractions.

Groceries: The supply of groceries is very good. Smaller shops can be found at each street corner. Supermarkets with ever-increasing assortments are usually located in the suburbs.

Map material: There are several good road maps and city plans, available at kiosks and fuel stations.

Cultural attractions: The cultural heritage in Kosovo is very rich, especially in the south and west of Kosovo, including the Dukagjin region and towns of Peja, Gjakova, and Prizren. The small fortresses such as the Albanian "Kullas", mills and bridges, the mosques, the Catholic and Orthodox churches, and the Turkish baths, the castles and archaeological settlements, all make up a part of the extraordinarily rich history of the region.

Kosovo presents a rich ethno-cultural, material and spiritual heritage treasure-house of various historical periods. With their unique characteristics, features, and qualities, each culture has contributed its diverse values to the cultural heritage of Kosovo.

In the figurative-applicative establishment (composition) of Kosovo, the influence of Illyrian, Byzantine, Helen, Roman, Western and Eastern, and Ottoman cultures are present.

For detailed attractions in Kosovar cities please visit www.kosovoguide.com and www.visitkosova.org.

10

About Investment Promotion Agency in Kosovo and its office in Vienna



Our vision, mission and our services

The Investment Promotion Agency of Kosovo was established as an Executive Agency under the administration of the Ministry of Trade and Industry, regulated by the Law on Foreign Investments no 02/L-33, article 19.

In November 2006 the Economic Initiative for Kosova (EClKS), with financial support from the Austrian Federal Ministry of Foreign Affairs through the Austrian Development Cooperation, opened the first official representation of Kosovo abroad. The Vienna Office of the Investment Promotion Agency of Kosovo provides existing and potential foreign investors from German-speaking countries (Austria, Germany, and Switzerland) with free-of-charge services on a confidential basis.

Vision

To support the economic development of Kosovo by stimulating and facilitating foreign direct investments which will have a direct impact in reducing unemployment and increasing the social welfare of our citizens.

Mission

Improve the image of Kosovo and attract investments through a proactive marketing campaign and through offering free-of-charge information and services to foreign potential investors.

Services

One stop shop for all investors - free of charge services:

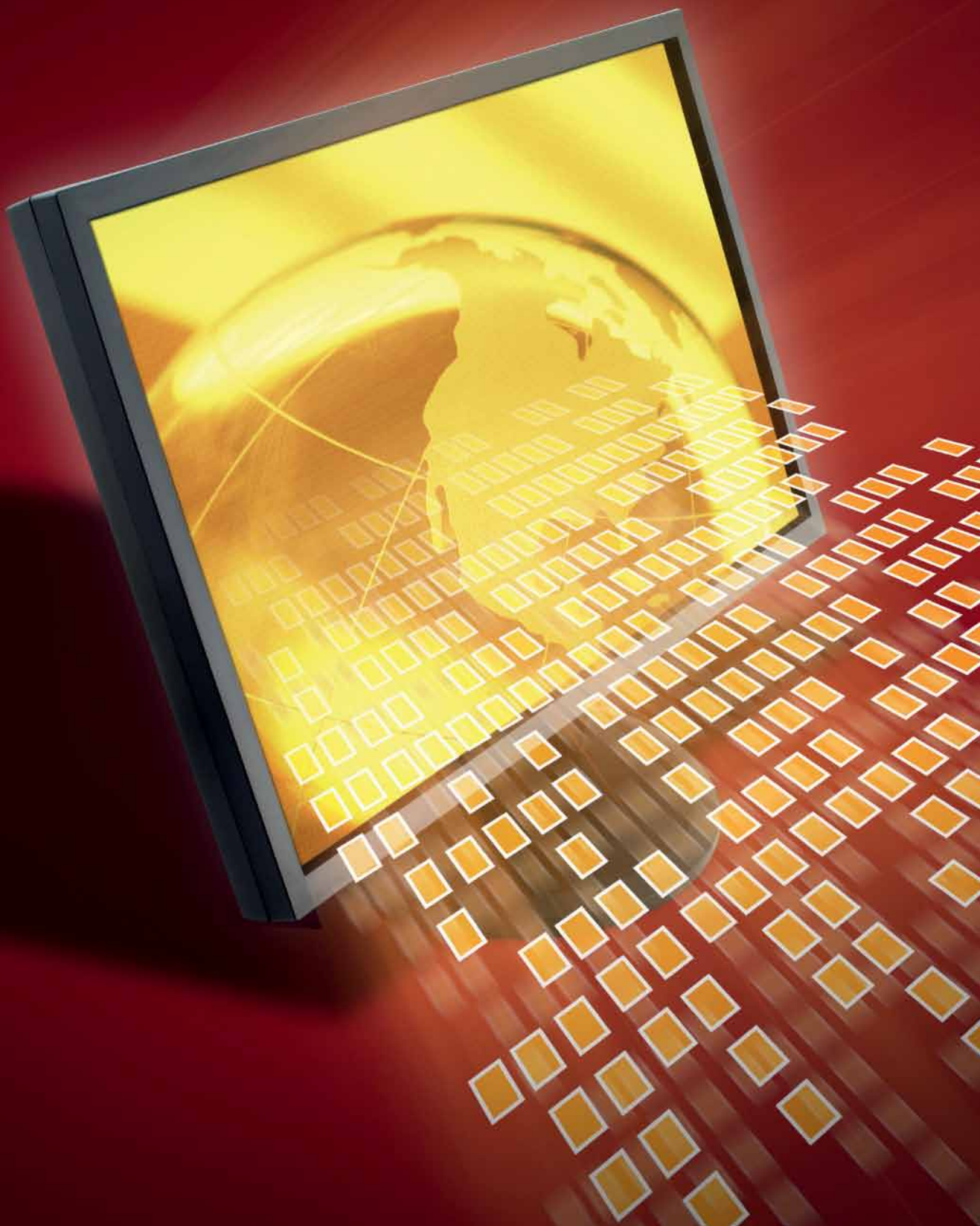
- Collection and dissemination of information and assistance during all phases of investments
- Providing of information on the general business environment and specific industries
- Provision of information on Taxation, Employment, Customs, Real Estate and other relevant laws and regulations Advice on business service providers: financial, consulting etc
- Assistance with registration, licensing, work permits, and other documentation
- Linking potential investors to Brown-field, Greenfield, and JV opportunities, including site visit organization
- Assistance in dealing with administration on all levels
- After care services

Contact

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E-Mail: info@ipak-vienna.org
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11.1 Websites of Kosovo Institutions

Assembly of the Republic of Kosovo
www.assembly-kosova.org

The Office of the Prime Minister of the Republic of Kosovo
www.kryeministri-ks.net

Ministry of Trade and Industry of the Republic of Kosovo
www.mti-ks.org

Ministry of Economic Development of the Republic of Kosovo
mem.rks-gov.net

Ministry of Finance of the Republic of Kosovo
www.mef-rks.org

Ministry of Science, Education and Technology of the Republic of Kosovo
www.masht-gov.net

Ministry of Agriculture, Forestry and Rural Development of the Republic of Kosovo
www.ks-gov.net/mbpzhr

Ministry of Labour and Social Welfare of the Republic of Kosovo
www.ks-gov.net/mpms

Ministry of Infrastructure of the Republic of Kosovo
www.mtpt.org

Ministry of Environment and Spatial Planning of the Republic of Kosovo
www.mmph-ks.org/

Ministry of Public Services of the Republic of Kosovo
www.ks-gov.net/map

Ministry of Justice
www.md-ks.org

Central Bank of the Republic of Kosovo
www.bqk-kos.org

The Kosovo Registry of Business Organizations and Trade Names
www.arbk.org

Kosovo Privatisation Agency
www.pak-ks.org

Kosovo Customs
www.dogana-ks.org

Statistical Office of Kosovo
www.ks-gov.net/esk

Society of Certified Accountants and Auditors of Kosovo
www.scaak-ks.org

The Kosovo Pension Saving Trust
www.kpst.org

Energy Regulatory Office
www.ero-ks.org

Telecommunication Regulatory Authority
www.art-ks.org

11.2 Websites of International Institutions in Kosovo

European Commission in Kosovo
www.delpn.ec.europa.eu

International Civilian Office / EU Special Representative
www.ico-kos.org

EULEX Kosovo
www.eulex-kosovo.eu

World Bank - Kosovo
www.worldbank.org/kosovo

International Monetary Fund - IMF
www.imf.org/kosovo

United States Agency for International Development – Prishtina Office
www.usaid.gov/kosovo

11.3 Business support Institutions

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Kosovo Chamber of Commerce

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Web: www.oek-kcc.org

American Chamber of Commerce Kosovo

Fehmi Agani 36/3
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Fax: +381 38 248 012
Email: info@amchamksv.org
Web: www.amchamksv.org

Aleanca Kosovare e Bizneseve

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Email: alenacosovarebizneseve@gmail.com
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SME – Agency of Kosova

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