Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria - Vlada – Government
Ministria e Tregtisë dhe Industrisë
Ministarstvo Trgovine i Industrije
Ministry of Trade and Industry

KOSOVO MANAGEMENT INSTITUTE
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Research for production of construction materials in Kosovo

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On behalf of the
German Federal Ministry for Economic Cooperation and Development (BMZ)

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List of acronyms and abbreviations

ATP	Autonomous Trade Preference
CAD	Current Account Deficit
CE	European Conformity
CEFTA	Central European Free Trade Agreement
CPF	Country Partnership Framework
DI	Department of Industry
EU	European Union
KBRA	Kosovo Business Registration Agency
KIESA	Kosovo Investment and Enterprise Support Agency
KMI	Kosovo Management Institute
MTI	Ministry of Trade and Industry
TAK	Tax Administration of Kosovo

Executive Summary

This study examines the sector of production of construction products in Kosovo and provides informed insight into the current situation of the sector and the significant barriers as well as opportunities at the sector and sub-sector levels.

The report is divided into following four subsectors: (i) mineral production, (ii) metal production, (iii) wood production and (iv) manufactured bio-chemical production; findings on input and output values of the surveyed companies; on export and import values; on employment data; on assets, investments and innovations; and findings on businesses' perceptions of their future development.

A mixed research methodology was used to analyse qualitative and quantitative data, with the latter serving as the predominant inputs of the analysis. The data utilized for this study concern the time period 2015-2016, and in certain cases 2017, too. The primary data were gathered through the survey with relevant businesses, conducted by the staff of the Kosovo Management Institute (KMI), whereas the secondary ones were extracted from relevant previous studies published by governmental agencies, independent researchers, institutes and international organisations such as World Bank, European Bank for Reconstruction and Development (EBRD), European Commission.

One of the key findings of this research is that there is an enormous opportunity to provide jobs and revenue growth, as there are still untapped potentials within the domestic market, especially; other markets with potential were found to be those in the region followed by those in the European Union (EU). However, this sector seem to be relatively less attractive for the labour force, as there is lack of interest to join it, especially among the youngsters (18-24 years of age) and women. Another essential finding was that the companies that are active in this sector are operating at relatively high levels of capacity utilization, signalling the need for additional (financial) investment in order to enable them to expand their capacities, improve their product quality and skills of their employees in order for them to actualize the identified potentials. Yet, access to finance and the prevailing tax rates were found to be perceived as rather high and unfavourable by most of the businesses. At the same time though, a relatively high level of optimism was identified among the majority of respective businesses.

Overview of the construction material industry in Kosovo

According to the World Bank, although Kosovo's economic growth has outperformed its neighbors, it has not been sufficient to reduce the high rates of unemployment. Its economy has had a consistently higher growth rate in the post-global financial crisis period than the Western Balkan country average. However, Kosovo remains the third-poorest country in Europe. The industry of Kosovo is relatively small by regional standards at 16% of GDP. CAD of 11.5% in 2016 was due to an increase in the trade deficit by 3.2% and driven by domestic demand, imports grew by 6.7%. On the other hand, exports of goods fell by 4.6% as a result of the lower prices of base metals[1].

Kosovo's economy is characterized by low productivity, high unemployment, mismatch between the skills of the young workforce and employer requirements, thin export base, limited foreign direct investment, large degree of informality, and inclusion gaps, such as the extremely low female labor force participation[2]. The country's ranking on the World Bank's Doing Business 2017 report has improved by four places to 60th position out of 190 economies, mainly due to improvements in the areas of paying taxes, starting a business and trading across borders[3]. However, the rule of law and its implementation remain weak in many areas and the level of corruption is perceived to be high.

Based on the report of country industrial development, drafted by MTI and DI in 2015, the upward trend of unemployment continued throughout 2014. Compared with the previous year, the overall unemployment rate rose to 35%, from 31% in the previous year. The situation deteriorated relatively more in the case of men where the unemployment rate rose by 5% points or 17.8%, from 28% in 2013 to 33%. Women still continue to remain relatively in the most disadvantaged position in the labor market, given their relatively high level of unemployment[4].

The European Commission report of 2016, stated that the industrial policy and SMEs implementation of Kosovo's 2013-2017 private sector development strategy were progressing slowly. Recommendations such as the expansion of the collection of SME statistics, communication and

[1] World Bank. Recent Economic Developments. Retrieved from http://www.worldbank.org/en/country/kosovo/overview#3

[2] The business environment in the transition region. Retrieved from www.ebrd.com/documents/strategy-and-policy-coordination/strategy-in-kosovo.pdf

[3] EBRD. Transition report 2016-2017. Retrieved from http://2016.tr-ebrd.com/countries/#

[4] Annual report of industrial development in Kosovo for 2014. Volume III. Retrieved from https://mti.rks-gov.net/desk/inc/media/C0B1B79D-044D-4271-B8DC-B18CF1E170BA.pdf

coordination between the Kosovo Investment and Enterprise Support Agency (KIESA) and relevant ministries have seen no improvement. The main obstacles to SME development and further growth remained limited access to finance, weak legal enforcement of contracts and business regulations, administrative barriers, unfair competition from the informal sector, an inefficient judiciary, and corruption. The development of an export promotion strategy and aftercare program for foreign investments needs to be prioritized. The silence-is-consent principle for business registration and online company registration have not yet been introduced[5].

Based on the same report of country industrial development, and of the sector of construction material production, in 2014 in the subsector of manufactured metal products were registered 668 active enterprises, positioned second in the ranking of the total number of enterprises. It was followed by the companies involved in the production of wood and wood products with 557 active enterprises, and by the companies of non-metallic mineral products production with 527 active enterprises. In terms of employment, the sector in 2008 accounted for more than 22% of the total number of employees in Kosovo's industry work force (as cited in the NERP 2015). Ranked by the turnover, the second largest industrial sector is the production of non-metallic mineral products[6]. The 2015 National Economic Reform Program identified the sector as a potential export market and it is expected that the sector will receive greater attention in the near future. Beside the production of classic bricks which cover over 80% of the local demand, all other products are being imported mainly from the neighboring countries[7]. In 2015 the Ministry of Trade and Industry of Kosovo estimated that roughly 40% of construction materials are being produced domestically. Trade statistics provided by the Kosovo Agency of Statistics show that there is an enormous trade deficit in the construction materials sector in Kosovo. The companies in the sector are also facing enormous problems. Their main concerns are: strong international and regional competition (with high capacity, certified product quality, extensive expertise, marketing tools and lower prices); the lack of the ability to get local quality testing and certification for their products to assure customers that their products/materials meet manufacturing standards; no

[5] European Commission. Kosovo 2016 Report. Retrieved from https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_kosovo.pdf

[6] Annual report of industrial development in Kosovo for 2014. Volume III. Retrieved from https://mti.rks-gov.net/desk/inc/media/C0B1B79D-044D-4271-B8DC-B18CF1E170BA.pdf

[7] The potentials of Brick Manufacturers in Kosovo. Retrieved from http://www.institutigap.org/documents/79608_Brick%20manufacturers%20(2).pdf

control over the products of informal competition which have low prices and quality; customs tax on some imported (processed) raw materials, products or equipment; high electricity costs applied to manufacturers especially during the winter, export barriers, lack of good qualified staff[8]. The value chains are not well developed in this sector. Quite often the supply chain is disrupted and it may come to the bottlenecks. Partially and especially in the service providing sector the supplying companies are in the neighboring countries[9].

Regarding the employment figures in different sectors of production, the data show that the second largest sector by the number of employees is the non-metallic mineral processing sector, which includes 16.8% of the workforce[10]. But, the sector for production of construction materials in Kosovo has remained in its development far beyond the construction sector. The construction sector is one of the most dynamic sectors of the country with a significant contribution to the employment generation and to the GDP of the country. The companies in the construction sector are the fourth biggest employer of the working force in Kosovo. Young people (aged 15-24) represent 27% of the total number of employees in construction companies. Around 39.000 employees received an average salary of 388 Euro monthly[11].

In the European Union, the construction sector generates 10% of its GDP and offers 20 million jobs. Its construction industry has seen for the thirteenth year a continuous and uninterrupted growth. According to the most well-known market experts, the continued high demand for residential construction and civil engineering sectors will lead to growth rates of 3% to the total construction result in EU countries. EU Building Policies aim at an integrated approach covering sustainability, in terms of energy efficiency and resources, and health and safety issues. There is a large market to be covered, including newly constructed buildings and renovation of existing buildings. Given the dynamic and growing construction sector and geographic proximity, the European Union presents good opportunities for Kosovar companies to increase the scope of their activities by entering the international construction market, in

[8] Construction in Kosovo growing opportunities for Kosovo building materials manufacturers (August, 2009). Retrieved from http://pdf.usaid.gov/pdf_docs/PA00HQS2.pdf

[9] Promoting the competitiveness of the private sector in rural areas. Retrieved from https://www.giz.de/en/worldwide/29972.html

[10] Annual report of industrial development in Kosovo for 2014. Volume III. Retrieved from https://mti.rks-gov.net/desk/inc/media/C0B1B79D-044D-4271-B8DC-B18CF1E170BA.pdf

[11] Market assessment for the construction sector (June, 2015). Retrieved from http://www.helvetas-ks.org/eye/wp-content/uploads/2017/03/Market-Assessment-for-the-Construction-Sector-ENG.pdf

the segment of construction materials of the European Union. Companies from the European Union look to Eastern Europe for low-priced raw materials. The cost of transport plays a key role, taking into account the geographic proximity of Kosovo with the EU markets[12].

To help Kosovo move toward more sustainable, export-oriented, and inclusive growth, it is the main strategic objective of the new CPF of the World Bank, where one of the three its main focus areas is enhancing the conditions for accelerated private sector–led growth and employment[13]. But, Kosovo's current growth strategy needs to be focused on creating an environment more conducive to private sector development, equipping its young population with the right skills in order to make them more attractive to the employers, and building up governance and the rule of law to fully reap the benefits of European Union integration, and more[14].

A key long-term challenge for Kosovo will be to increase production and export capacities of its economy. This will require addressing the high level of structural unemployment, disruptions of energy supply, and remaining prolonged administrative barriers and bureaucracies[15].

[12] Potential markets for exporting. Retrieved from. https://mti.rks-gov.net/desk/inc/media/DC677E33-CEAF-45F2-9E00-08C8A4CCBE27.pdf

[13] World Bank. Strategy. Retrieved from http://www.worldbank.org/en/country/kosovo/overview#2

[14] World Bank. Country Context. Retrieved from http://www.worldbank.org/en/country/kosovo/overview#3

[15] The business environment in the transition region. Retrieved from http://ebrd-beeps.com/wp-content/uploads/2015/09/overview.pdf

Research focus

Research problem

Although to date, the sector for production of construction materials in Kosovo has shown significant development for a good range of products, it is dependent on imported materials and raw materials. Furthermore, the companies of this sector are facing enormous problems, such as strong international and regional competition with high capacity and certified product quality; informal competition, high electricity costs applied to producers especially during the winter, export tariffs and barriers, and lack of good qualified staff. Nevertheless, the sector has enormous opportunity to provide jobs and revenue growth within the Kosovo economy. There is the opportunity for locally produced materials to thrive in the domestic market. Over the long-term, the producers in the sector could build opportunities to sell to external markets such as other Balkan countries and Europe. That being said, there is an immediate need to make the sector more competitive, increasing sales, employment, and investment, and to make it more efficient.

Research question

As far as very few studies and reports regarding this sector are available for Kosovo, this study raised this research question: *What would be the main interventions to support growth in the sector of construction material production in Kosovo, in the company and the sector level?*

Research aim

The aim of this research is to provide a detailed profile of the sector for the production of the construction materials in Kosovo; identifying the range of construction materials being produced, the value chains which exist and the level of sales both in domestic and international markets; identifying barriers to growth and opportunities for growth with recommendations on key interventions needed at sector and company levels to support growth in value chains, import substitution and identifying investment opportunities.

Research constrains

The main research constrains which have been faced are listed as below:

- Businesses registered with more activities than conducted in reality;
- The lack of a unified data system between Kosovo Business Registration Agency (KBRA) and TAK;
- There was no possibility to include all business categories (small, medium and large-VIP), because of the lack of other business indicators, such as the annual turnover, and other.
- There was seen a hesitation in (self) reporting of the financial data from the company's representatives.
- Non-competent respondents;
- In the fieldwork, there were evidenced inaccurate addresses and not updated ones in the database of Kosovo Business Registration Agency (KBRA).

Research methodology

We define the companies for the production of the construction materials as all enterprises engaged in the production and assembly of construction inputs, such as cement, bricks and block, precast concrete items, wood products and carpentry, roofing tiles, sheet metal, wood flooring, and the like. However, this research cannot and does not ignore the broader range of construction materials, used in the construction sector.

The approach to this study was primarily quantitative in nature, although it was used a mixed research methodology through quantitative and qualitative methods and analysis of both, primary data, generated during the survey and secondary data generated by the government agencies and other valid studies conducted by World Bank, European Bank for Reconstruction and Development (EBRD), European Commission, etc. We undertook a fundamental analysis of quantitative data available from the questionnaires and some qualitative analysis from its open and unstructured questions.

The sample for this survey consists of 201 active firms, randomly chosen among the four sub-sectors of: (i) mineral production (ii) metal production, (iii) wood production, and (iv) manufactured bio-chemical products, and equally weighted depending on the number of active companies in the database of the Tax Administration of Kosovo.

Therefore, we relied primarily on interviewing the representatives (respondents) of the sector for production of construction materials in Kosovo and the team conducted 201 interviews, in July 2017.

The interviews were conducted after getting the permission from the Ministry of Trade and Industry. The identification of the relevant NACE sub-sectors was based on the database of the Tax Administration of Kosovo, and then it was proposed the sampling methodology, an overall sample size of minimum 200 businesses and its proper sample selection, selected from 4 sectors and 7 subsectors. There were randomly chosen 28-30 representatives from each subsector in every location/municipality of Kosovo.

Before drafting and implementation of the survey, a final design of the questionnaire with trained interviewers was pre-tested and then the fieldwork began.

Qualitative research

A small part of the survey was qualitative by nature, as some questions were unstructured. They were mainly related to (further) opinions, comments, choices or detailed description. The most important part of the qualitative analysis was an in-depth interview with four successful businesses of the different production sectors was conducted in September 2017. The interview was prepared by Kosovo Management Institute (KMI).

Quantitative research

The quantitative research was the most important part of the research. Descriptive analysis together with simple graphics analysis formed the basis of the quantitative analysis of data.

Data collection

A questionnaire was introduced based on the secondary research analysis and the provided template. It had nine sections in order to collect information regarding the companies, data about inputs and production; data about sales; data on exports, on employment and human resources of the company/industry, on investments and level of technology for the company/industry; information about business environment and financial sector, and data for the demographic profile of the respondents. It contained structured questions and a few unstructured questions.

An in-depth interview was also realised with the participation of successful businesses their experiences. As far as there were identified some gaps in official data and information, the survey and in-depth interviews were designed to close this information gaps, especially in;

- The actual main business activity that companies operate;
- Ownership structure and other demographic data related to main owners;
- The number of employees, their gender composition, educational level, etc.;
- Production, turnover, capacity utilization levels were categorized in cases of lack of precise values.

Furthermore, the perception assessments of the businesses for the actual and future situation of the sector and industry were added values of the study related to the official data and information.

Data analysis

All data coming from the interviews were put in an excel document. It was set up a database structure that enabled to assess at any time what data is already in and what is still outstanding. Then, the data was screened for accuracy. This database was exported to SPSS software model 20.00 where all the collected data was analysed. Descriptive analysis was used to describe the basic features of the data and they provided simple summaries about the sample and the measures. Cross-tabulations were used to display the distribution of cases by their values on two or more variables.

Data for the sector of production of construction materials in Kosovo

Mapping of the sector

The producers of construction materials in Kosovo include producers of cement, window & doorframes, steel reinforcements, prefabricated structures, bricks and tiles, roofing materials, plumbing material, etc. This sector is characterized by a complex value chain. It includes both basic manufacturing and supply of construction materials and a range of services provided by private enterprises and public organizations. A simplified representation of this sector value chain include: suppliers of raw materials, producers, sub-contractors, traders of construction materials, construction companies, professional service providers, maintenance services, clients /end-users.

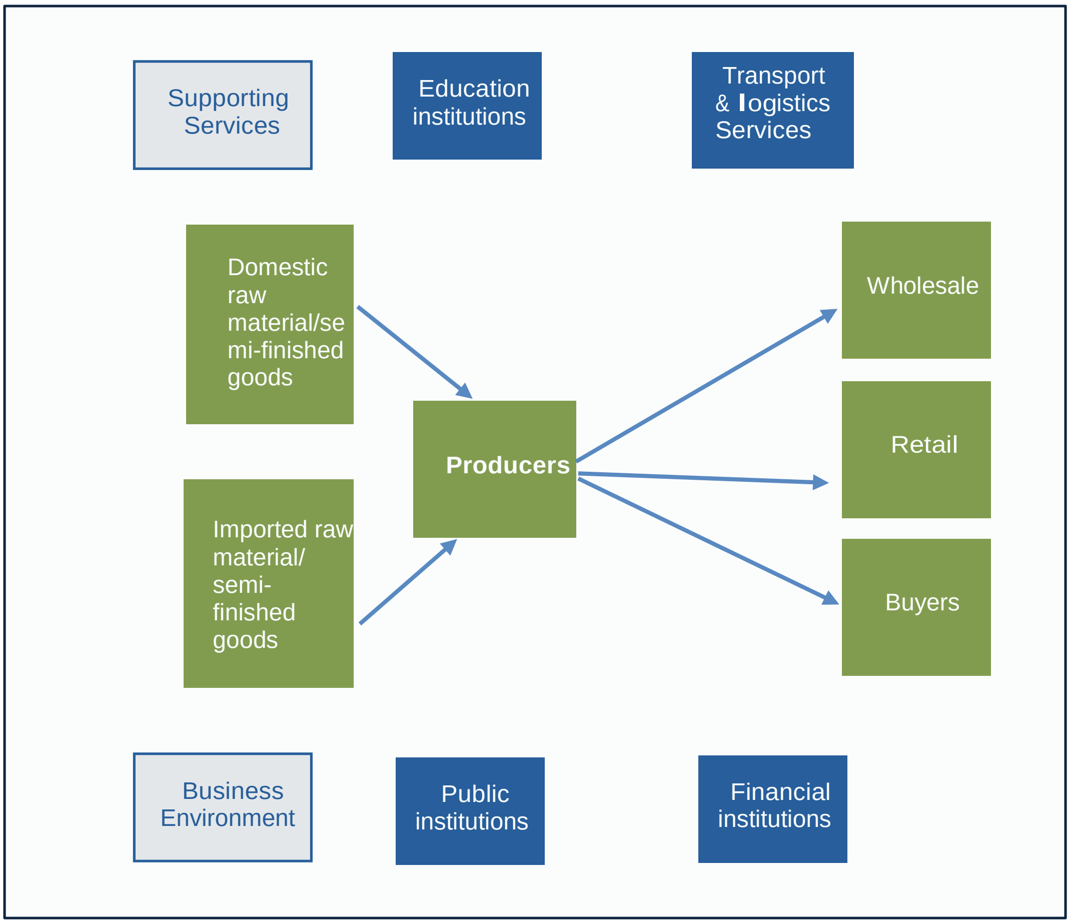


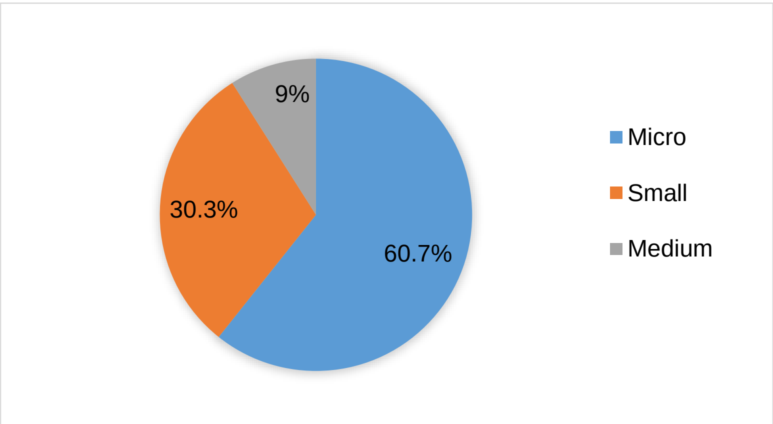
Figure 1 Value chain of the sector for production of construction materials in Kosovo

Figure 1 is a graphical presentation of the participants in the value chain of the construction material production in Kosovo. The arrows in this figure represent the direction of the communication, and, as depicted, there is only "one way communication" between stakeholders, without interaction between different levels of the value chain. Different value chain players could not form integrated production cycles, there is no connection of producers with processors and market. This reduces the ability of the producers to get adequate support from the processors and from market in the production process. Indirect value chain participants for the construction material production are similar. They include the following entities: input providers, raw material providers; marketing organizations; transport and logistic companies; education providers; relevant laboratories directly connected with the value chain, and certification providers.

Data from the survey

According to Kosovo Management Institute (KMI) survey, micro companies with up to nine employees (60.7%) dominated the sample. Small companies with 10-49 employees represented 30.3% of the sample and medium companies with 50-249 employees represented only 9% of the sample. There was no large company, with over 249 employees, presented in the study (Figure 2).

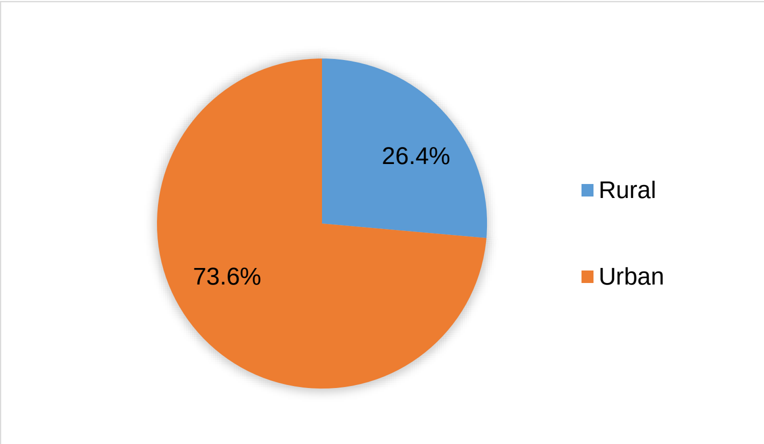
Figure 2 Distribution of companies by size



Source: KMI Survey, 2017

Breakdown of data by region showed that 73.6% of these companies were settled in towns and only 26.4% of them were settled in rural areas (Figure 3).

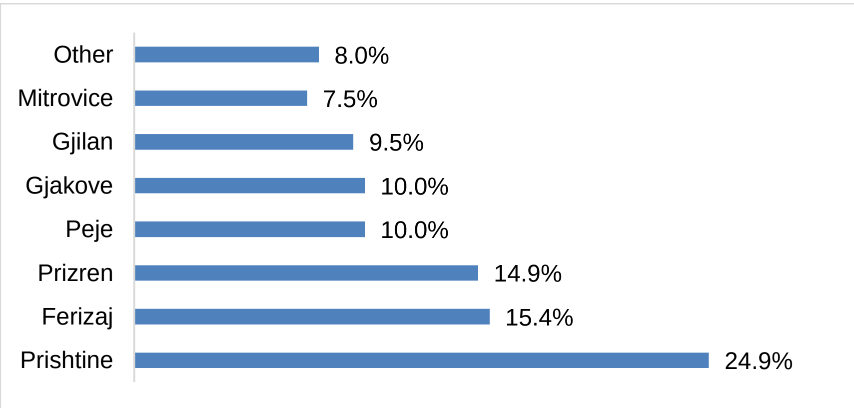
Figure 3 Distribution of settlement



Source: KMI Survey, 2017

One-fourth of businesses were concentrated in Pristine (24.9%). Other business locations correspond to these municipalities: Ferizaj (15.4%), Prizren (14.9%), Peje (10 %), Gjakove (10%), Gjilan (9.5%), Mitrovice (7.5%) and 8% to other municipalities (Figure 4).

Figure 4 Distribution of companies by location



Source: KMI Survey, 2017

Analysing the legal status of the companies resulted that the majority of them (70.1%) were individual businesses and 20.9% of them were limited liability companies (Table 1).

Table 1 Legal status of companies

Business Ownership category	% of the total number of business
Individual business	70.1%
Limited liability company (Llc.)	20.9%
General partnership	3.5%
Limited partnership	3.5%
Joint stock company (SH.A)	1.5%

Source: KMI Survey, 2017

In 76.1 % of cases, the firm's main owner holds more the 90% of the shares, while only 5% of cases the firm's main owner owns less than 50% of the shares (Table 2).

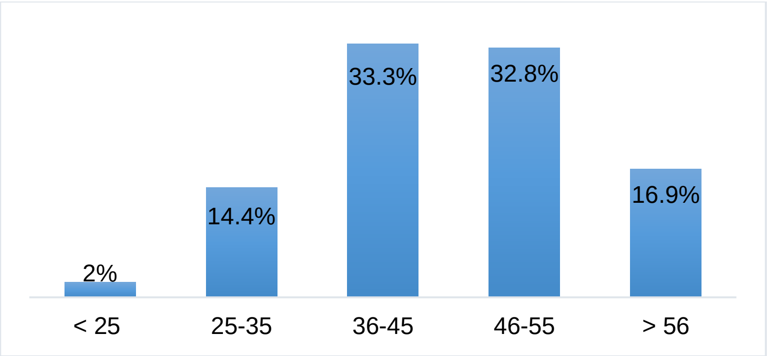
Table 2 Ownership structure

Share of the main owner	Businesses (in %)
More than 90%	76.1
70-90%	5.0
50-70%	13.4
30-50%	5.0

Source: KMI Survey, 2017

The average age of company owners is 44 years old. 66% of them are older than 36 years old, with the oldest being 70 and only 2% of them are younger than 25 years old, with the youngest being 22.

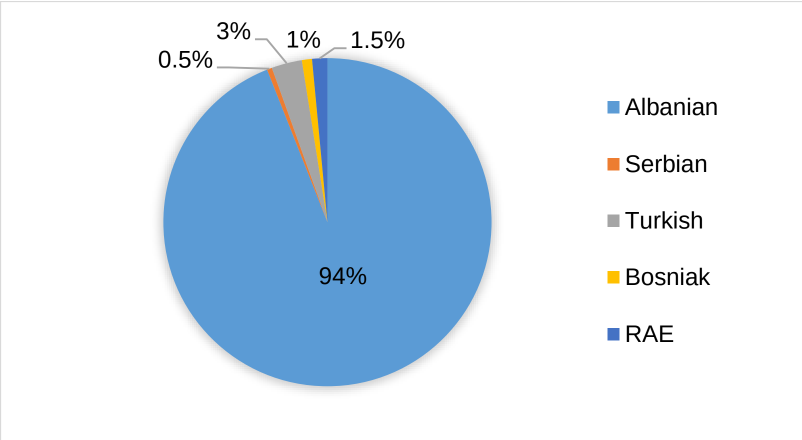
Figure 5 Ownership by age



Source: KMI Survey, 2017

Among the surveyed companies, 94% of the owners are Albanians, 3% are Turkish, and the remainders belong to Serbian, Bosnian, and RAE ethnicities (Figure 6).

Figure 6 Ownership by ethnicity

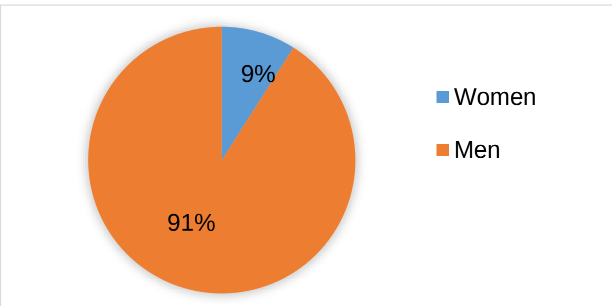


Source: KMI Survey, 2017

The main owners of companies reported to have completed and average of 12 years of education (12.34), equivalent to a secondary school education. More specifically, 29.9% of them have completed the secondary education, and 28.4% of them have more than 12 years of education. Among main owners, the average years of education attained by women is higher (15.5 years) compared to the overall average.

Only 9% of the owners were women (Figure 7), they mostly possessed 30-50% of the shares in the company. Only 27.8% of them had more than 50% of shares (Table 3).

Figure 7 Women ownership



Source: KMI Survey, 2017

Table 3 Women' shares in ownership (n)

				Total
	over 90%	50-70%	30-50%	
Women	3	2	13	18

Source: KMI Survey, 2017

Companies in the sector are domestically owned in 94 % of them and approximately 6 % of them are investments from foreign individuals or private companies (Table 4). To be considered here is the fact that diaspora investment is not considered a foreign investment by the respondents.

Table 4 Ownership by companies

	Frequency (n)	Percentage %
Local individuals or private companies	189	94.03
Foreign individuals or private companies	12	5.97

Source: KMI Survey, 2017

17 of all companies were investments from Diaspora. These companies are mostly owned in less than 50% of the shares (Table 5).

Table 5 Diaspora investments

Percentage of Shares	Frequency (n)	Percentage % in overall sample
More than 50%	3	1.49
More than 30%	8	3.98
Less than 30%	6	2.99
Total	17	8.46

Source: KMI Survey, 2017

Inputs and production

Wood products, concrete stones and elements, steel construction and other elements and manufactured bio-chemical products were the main products the surveyed companies had manufactured during 2016 (Table 6).

Table 6 Main products in 2016

Products	Percentage in overall sample
1. Wood products	29.35% of all companies (n=59)
2. Concrete stones and elements	16.92 of all companies (n=34)
3. Steel construction and other elements	12.44 of all companies (n = 25)
4. Manufactured bio-chemical products	12.44 of all companies (n=25)

Source: KMI Survey, 2017

The origin of raw material and intermediate products is quite diverse. Companies used different types of raw materials, originating from different sources (domestic or imported), even from different sub-sources (the below table does not add up to 100%). Three quarters of companies in the sector use their own raw material and intermediate goods, and 60% of companies obtain supplies from the domestic markets.

Raw material and intermediate goods are mainly supplied by foreign traders (in 61% of cases), and less are purchased from domestic traders and directly from foreign producers (39% and 15.5% of companies, respectively). Companies which supply their own raw material and intermediate goods are able to cover half of their needs. This may suggest that foreign companies play an important supply role for the companies engaged in production of construction materials. There is a not developed supply chain for the sector of production of material construction in Kosovo, foreign traders and producers were found to be important for companies that use imported raw material and intermediate goods, as nearly three quarters (61% and 15.5%) of their needs are met by the above mentioned (Table 7).

Table 7 Origin of the raw materials and semi-finished materials for production in 2016

Supply sources	**% of companies**	**Average share of raw material and semi-finished goods**
Domestic		
1.1 Produced by the company	76.6 (%)	52.6%
1.2 Supply from domestic producers	59.7 (%)	34.3%
Imported		
1.3 Supply from domestic traders	39 (%)	38.5%
1.4 Supply from foreign traders	61 (%)	26.2%
1.5 Imported directly from foreign producers	15.5 (%)	2.4%

Source: KMI Survey, 2017

Three main products/goods imported during 2016 were wood, plastic, cement and aluminium. Their countries of origin were Germany, Albania, Serbia and Macedonia (Table 8).

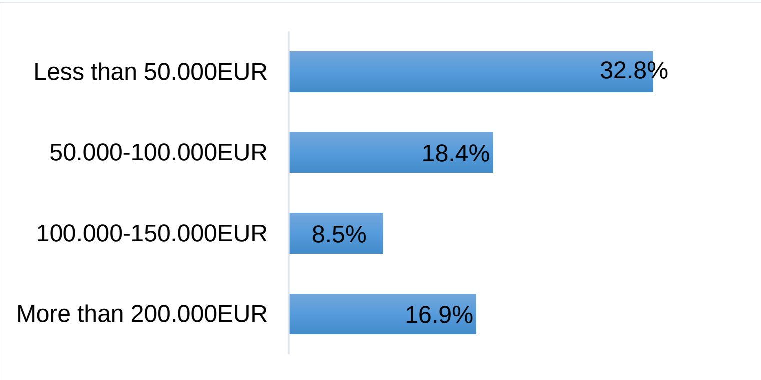
Table 8 Main products imported during 2016 according to the country of origin and the total value

NR	RAW MATERIAL	IMPORTING MARKETS/ COUNTRIES						TOTAL VALUE OF INPUTS
	Semi-finished	First country	Value	Second country	Value	Other countries (specify)	Value	Value
1	Wood	Germany	805.000	Serbia	20.000	Albania	95.000	1.868.000
2	Plastic	Germany	790.000	China	170.000	Turkey	160.000	1.282.000
3	Cement	Albania	250.000	Macedonia	80.000	---	---	806.000
4	Aluminum	Germany	321.000	Albania	150.000	---	---	491.000

Source: KMI Survey, 2017

Firms' reported the cost value of raw materials in 2016 was less than €50,000 for nearly one third of the businesses. More than one quarter of them had spent €50.000-€150.000 (Figure 8). The annual cost value of raw materials, reported by 129 companies out of 201 surveyed ones, was €17.9 million.

Figure 8 Average value of the raw materials



Source: KMI Survey, 2017

The surveyed companies reported also companies' costs incurred wages, energy, water consumption and fuel consumption (Table 9).

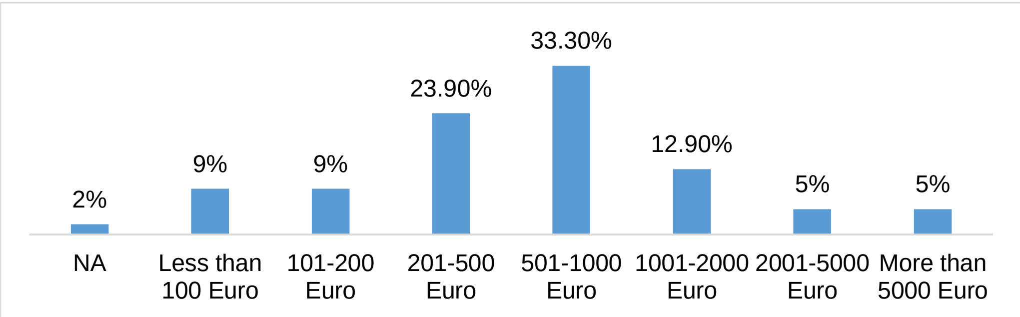
Table 9 Average monthly input costs by company size (in €)

Some Input costs	Raw material and intermediate goods	Energy	Water	Fuel	Wages
Micro (1-9 employees)	9.104	744	68	1.478	259
Small (10-49 employees)	15.276	2.364	166	2.360	274
Medium (50-249 employees)	13.106	2.856	98	2.650	286

Source: KMI Survey, 2017

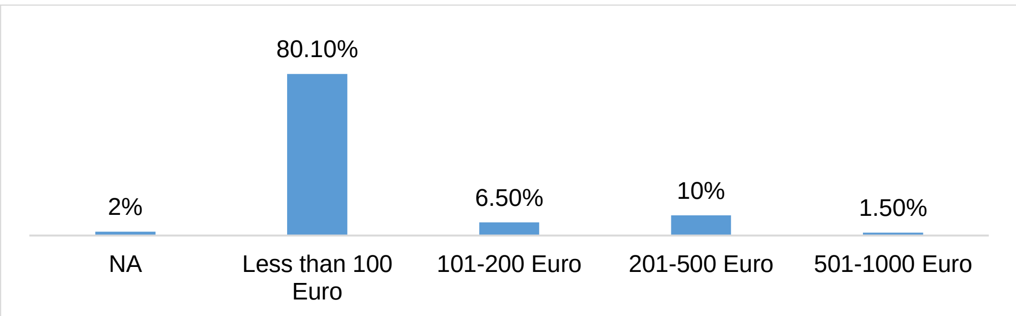
The average value of monthly costs during 2016 for energy, water consumption and fuel were 1411 €, 99 € and 1814 €. Only 18% of the businesses had less than 200 €/month expenses for energy, while 57.2% of them had 201-1000 € monthly expenses on energy consumption. 80.1% of the companies had spent less than 100 €/month in water consumption, and 16.5% of them had spent 201-500 €/month. 29.3% of the companies had spent up to 500 €/month in fuel consumption, while 30.3% of them had spent 501-100 €/month, and the rest more than 1001 €/month, even more than 10000 €/month.

Figure 9 Average monthly cost of energy consumption



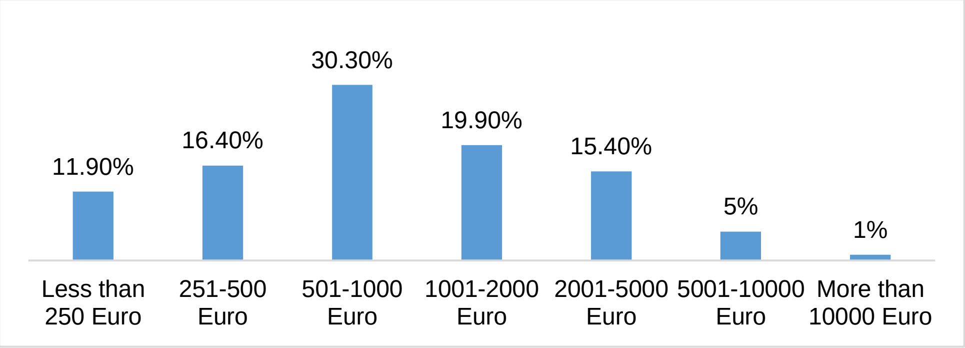
Source: KMI Survey, 2017

Figure 10 Average monthly cost of water consumption



Source: KMI Survey, 2017

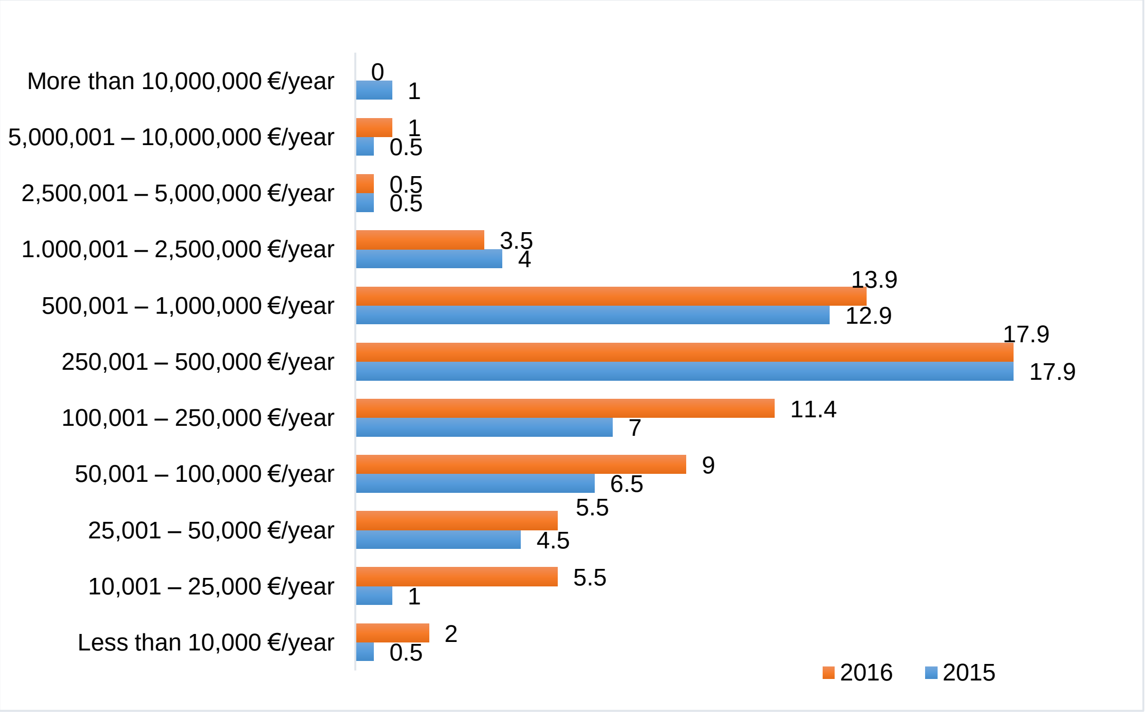
Figure 11 Average monthly cost of fuel consumption



Source: KMI Survey, 2017

Comparing the value of production in 2015 and in 2016, there are very few differences. The most important issue here is a great portion of non-respondents, especially in 2016 (43.8%).

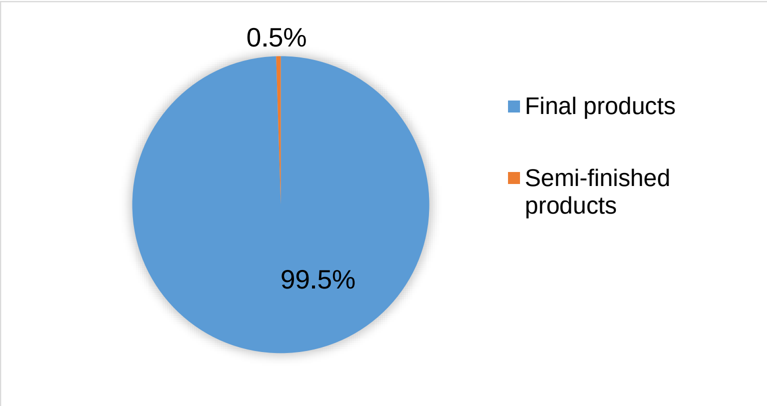
Figure 12 Value of production



Source: KMI Survey, 2017

99.5 % of production are final products and only 0.5 % are semi-finished products.

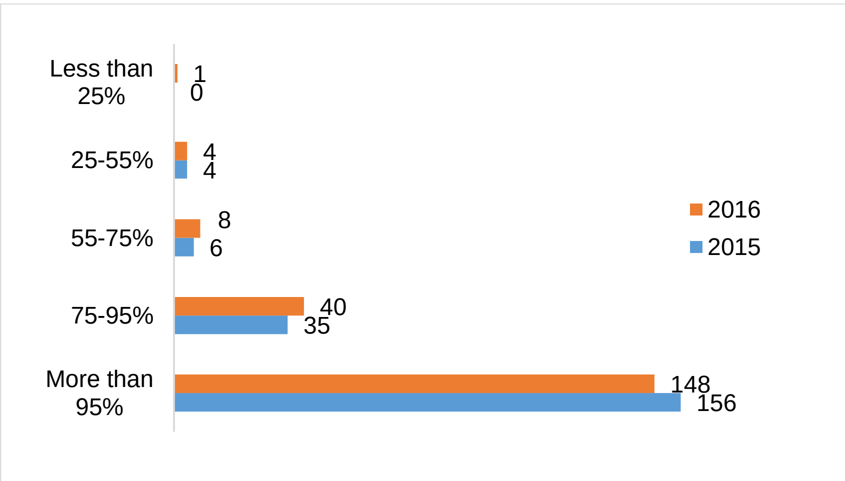
Figure 13 Categories of products



Source: KMI Survey, 2017

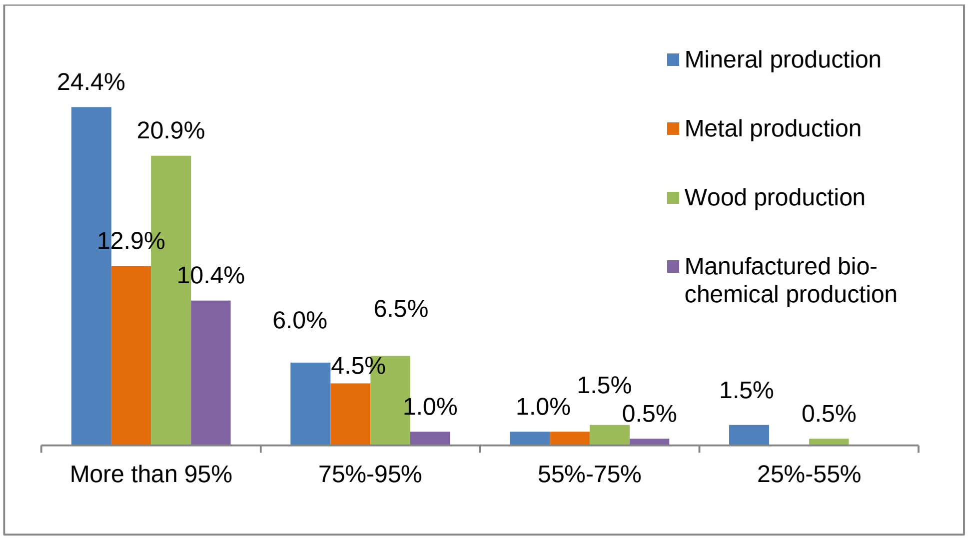
Companies in the sector reported to utilise more than three quarters of their capacity in both years. In 2016, the percentage of companies that realized full capacity-utilisation was 73.6%, a figure that was four percentage points lower in 2015. The number of companies that reported to utilize less than 75% of their capacities decreased by 1.5 percentage points between 2015 and 2016, from 7% to 6.5%. Although, the most important fact is that these companies are working with almost full capacity (Figure 13) and there is a prompt need for machinery and equipment investment, especially in the subsectors of mineral production and wood production (Figure 14).

Figure 14 Capacity utilization in 2015-2016 (n)



Source: KMI Survey, 2017

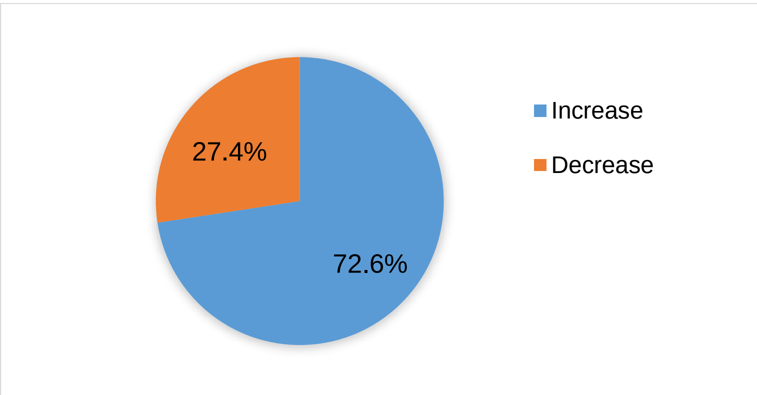
Figure 15 Capacity utilization of subsectors in 2016



Source: KMI Survey, 2017

Evaluating expectations of businesses on the level of income, 72.6% of the business seems very optimistic and declared increase of the level of income during this year compared with the last year (Figure 16).

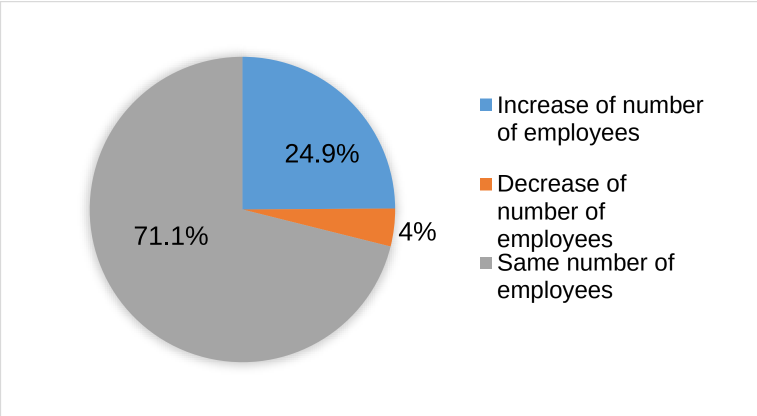
Figure 16 Expected trends of level of income compared to the last year



Source: KMI Survey, 2017

Comparing to the last year, 71.1% of the companies plan to have the same number of employees, only 24.9% plan an increase of the number of employees (Figure 17).

Figure 17 Workforce planning



Source: KMI Survey, 2017

Perception about the future of the sector where businesses operate is not pessimistic, with an estimation of 38.8% of a sector increasing. However, the most part of the businesses (40.3%) evaluate that, there is no change in the sector (Table 10)

Table 10 Perceptions about the future of the sector

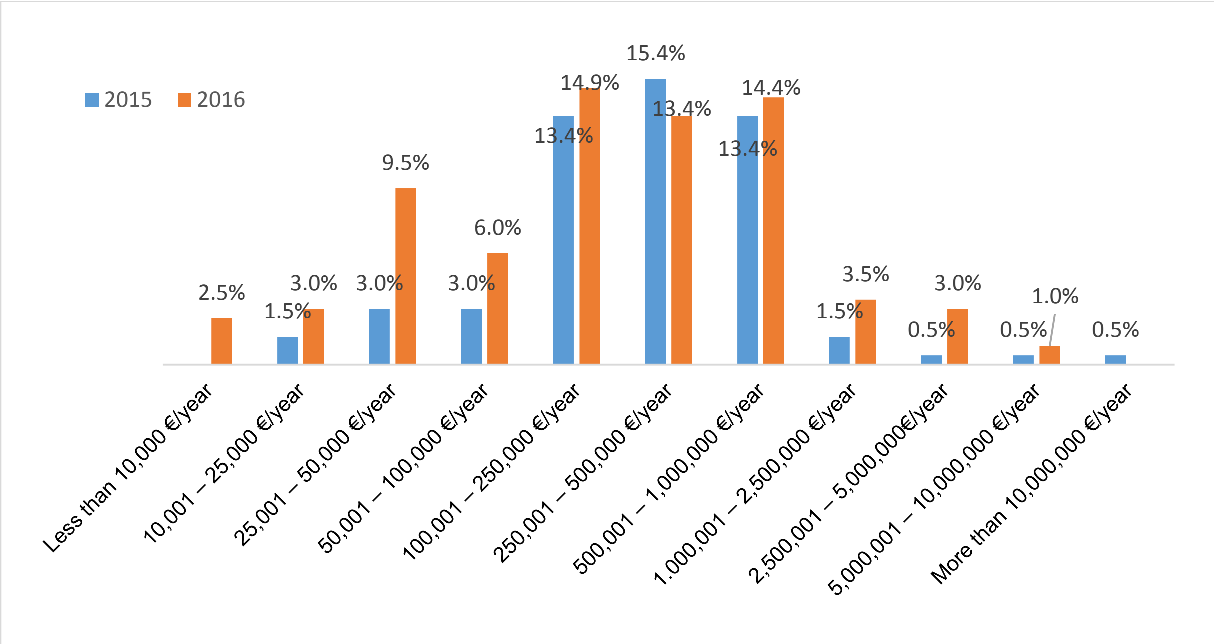
"Sector is increasing"	38.8% of the companies
"Sector is decreasing"	8.5% of the companies
"No changes"	40.3% of the companies
"I don't know"	12.4% of the companies

Source: KMI Survey, 2017

Sales

42.2% of companies in 2015 and 42.7% of companies in 2016 had an average annual turnover €100,001-€1,000,000 (Figure 18). In 2016, the number of companies (21%) with a turnover under €100,000 was tripled compared to those in 2015 (7.5%).

Figure 18 Volume of sales in 2015-2016



Source: KMI Survey, 2017

In 2016, companies operating in this sector sold mainly in the domestic market. More than 65% of companies sold their products only in Kosovo, and it can be noted that 84.35% of their turnover was collected from domestic markets. 35% of companies, that were active in international markets, reported that about 15.65% of their sales came from exporting.

Comparison of the sale segmentation in domestic and export markets in the two given periods represented a low decrease (0.2%) in foreign market (exports) in 2016 (Table 11).

Table 11 Segmentation in domestic and export markets' sales

Domestic markets (%)	2015	84.15
	2016	84.35
Export markets (%)	2015	15.85
	2016	15.65

Source: KMI Survey, 2017

When asked about the causes of the missing sales in export markets, 28.4% of businesses explained that was because of the lack of intention to export; 25.9% of them claimed that beside the intention to export, there were a lot of obstacles and 14.9% of them were not ready yet (Table 12).

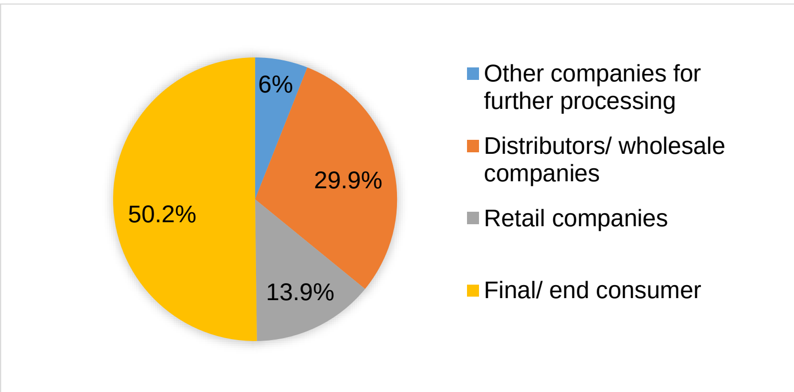
Table 12 Causes of lack of sales in export markets (%)

"I do not intent to export/ it is not part of my business plan."	28.4
"I plan to export in the future because my company is not ready yet."	14.9
"I want to export but there are a lot of obstacles."	25.9
Others	30.8

Source: KMI Survey, 2017

The main clients of the sales in domestic markets in 2016 were final/end consumers (50.2%). More than one quarter of them were distributors/ wholesale companies (29.9%) and 13.9% of the clients were retail companies. Only 6% of the clients were other companies for further processing (Figure 19)

Figure 19 Main clients in domestic markets in 2016



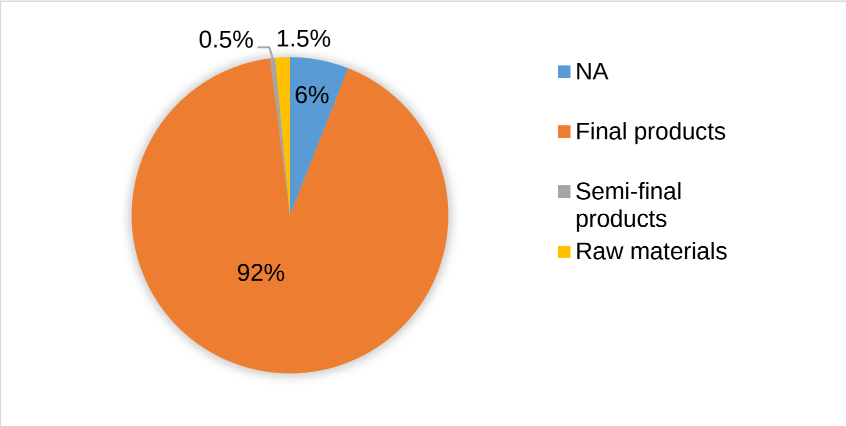
Source: KMI Survey, 2017

However, when the respondents were asked about the kind of products of products sold in domestic markets in 2016, 99.5 % of them were final products and 0.5 % of them were semi-final products.

Exports

92% of the products exported in 2016 were final products, 1.5% of them were raw materials and 0.5 % of them were semi-final products (Figure 20).

Figure 20 Categories of the exported products (2016)



Source: KMI Survey, 2017

The main clients of sales in export markets in 2016 and their respective share compared with the overall sales figures were: distributors/wholesale companies (34.3%), retail companies (11.4%) and 4% of them were other companies for further processing (4%) (Table 13).

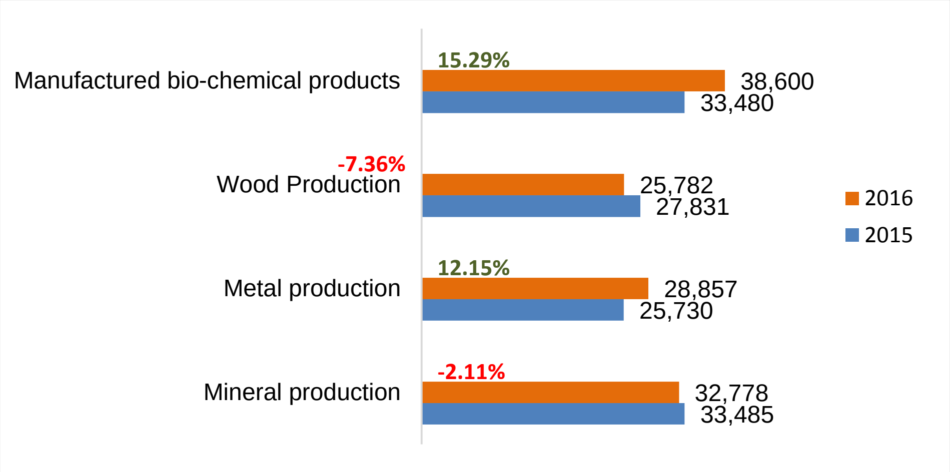
Table 13 Clients of companies' sales in export markets in 2016 (%)

Other companies for further processing	4.0
Distributors/ wholesale companies	34.3
Retail companies	11.4
Final/ end consumer	36.3

Source: KMI Survey, 2017

The data shows substantial increase of average export volumes in 2016 in subsectors of manufactured bio-chemical products (+15.29%) and metal productions (+12.15%) compared to 2015 (Figure 21), while there was a considerable decrease in wood production subsector (-7.36%).

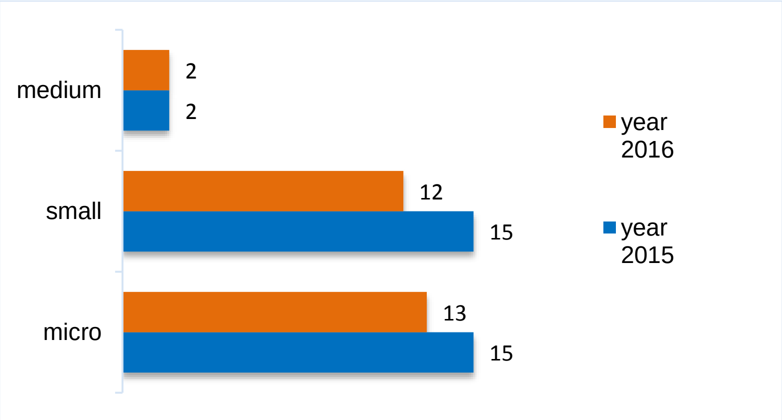
Figure 21 Export volume by subsectors (€) in 2015-2016



Source: KMI Survey, 2017

Disaggregating these data by company size showed that 11% of micro companies, 25% of medium-sized companies and 12 % of small ones exported in 2016.

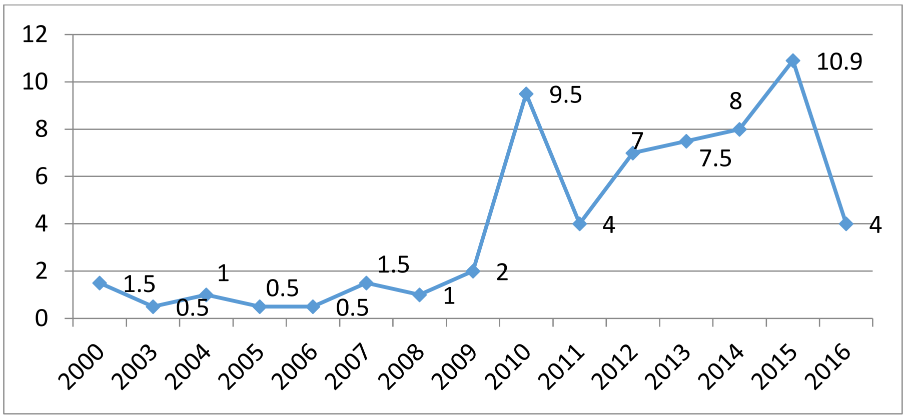
Figure 22 Number of exporting companies in 2015-2016, by their size



Source: KMI Survey, 2017

The surveyed companies started to export products for the first time in 2000 (Figure 23) and based on their declarations, two of the best periods where more companies started exporting were 2015 (10.9% of companies) and 2010 (9.5% of companies). Their average export values in 2015 and 2015 were respectively 28.065 € and 28.407€ with an increase of 1.29%.

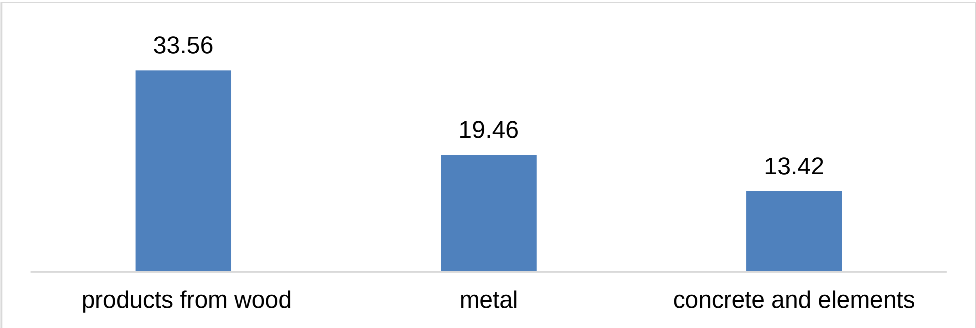
Figure 23 First-time exporting year



Source: KMI Survey, 2017

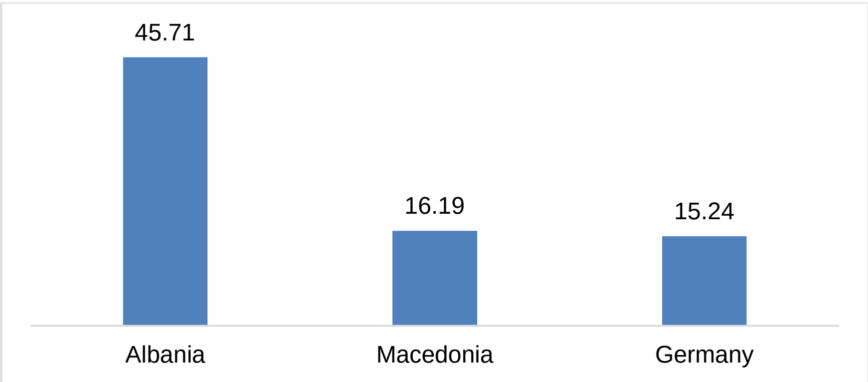
Three main goods exported during 2016 were: wood products (33.56%), metal (19.46%) and concrete and elements (13.42%). The products were exported to Albania (45.71%), Macedonia (16.19%) and Germany (15.24%).

Figure 24 Three main goods exported during 2016



Source: KMI Survey, 2017

Figure 25 Three main countries of exports during 2016



Source: KMI Survey, 2017

Companies that export were asked to rate the strength of several barriers they were faced when exporting, using a ranking scale from 0-10 where 0 implies that the listed issue is not a barrier at all and 10 meaning that it is a heavy barrier. The question was split into first and second main barrier. Findings revealed that exporting companies considered customs procedures and high transportation costs as their main barrier to exporting (Table 14). When asked on the second main barrier one third of companies stated infrastructure in transit countries or importing countries; another one third stated political situation in the importing country and less than one third stated limited possibilities to establish connections with foreign business networks.

Table 14 Barriers faced during export (only exporting companies)

		First main barrier (% of companies)
1	Customs procedures	42.29%
2	Transportation costs	41.79%

		Second main barrier (% of companies)
1	Infrastructure in transit countries or importing countries	34.33%
2	Political situation in the importing country	34.83%
3	Limited possibilities to establish connections with foreign business networks	30.35%
4	Efficiency of customs agents/ intermediaries	24.88%

Source: KMI Survey, 2017

The surveyed companies were also asked to grade the significance of certain barriers (scale: 0 – not a barrier to 10 – large barrier), and the largest impediments to exporting were noted to be international quality standards (sanitary and fito-sanitary and other industrial standards), missing finances, customs clearance procedures and costs of transportation (Table 15).

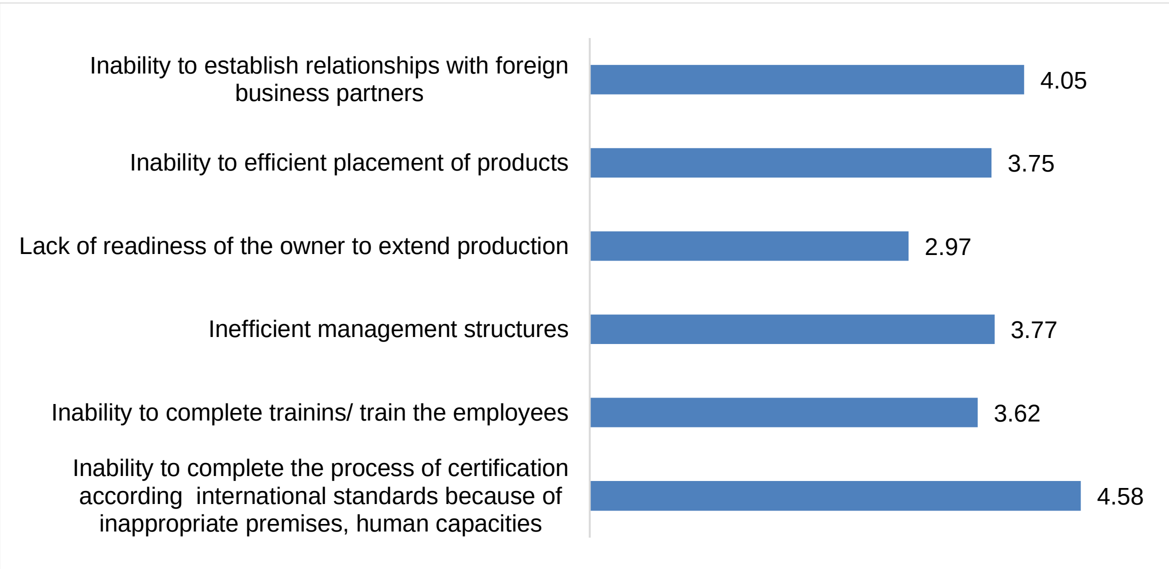
Table 15 Export barriers, average scale (only exporting companies)

International quality standards (sanitary and fitosanitary and other industrial standards)	7.35
Missing finances	7.23
Customs clearance procedures	7.22
Costs of transportation	7.08
Poor efficiency of customs agents/ intermediaries	6.76
Efficiency of administration in transit or importing countries	6.39
Limited possibilities to establish connections with foreign business networks	5.95
Infrastructure in transit countries or importing countries	5.60
Political situation in the importing country	5.58

Source: KMI Survey, 2017

The companies were also asked to grade some internal obstacles for exports, apart from obstacles mentioned previously, through a rating scale of zero to six. The most highly ranked were: inability to complete the process of certification according international standards because of inappropriate premises, human capacities (4.58); inability to establish relationships with foreign business partners (4.05), inefficient management structures (3.77); inability to efficient placement of products (3.75); inability to complete trainings/ train the employees (3.62).

Figure 26 Other export barriers



Source: KMI Survey, 2017

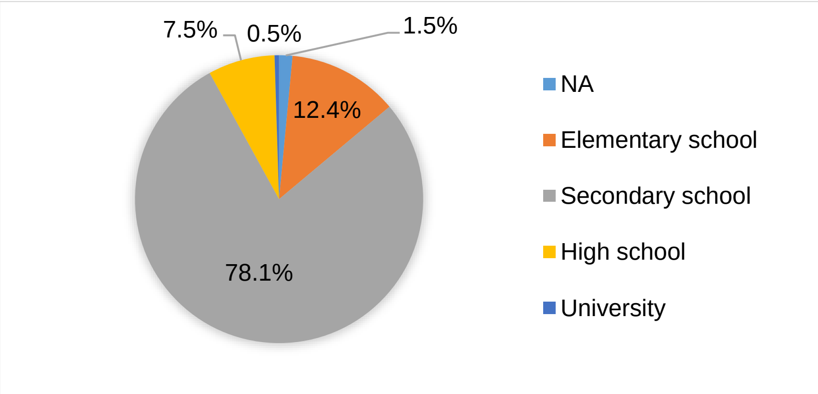
Employment and human resources of the company/ industry

Findings from the survey show that the overall actual number of employees is 3331, 2958 of them are men and 373 are women. There is a higher increase (2.47%) of employees in 2016 than actually (1.77%). The highest increase was that of the women in 2016 (9.09%) compared to that of men of this period. The average number of employees per company actually is 16, compared to the average of 14 workers per company in 2015. On average, employment increased by 103.68% from 2015 to 2017. The average monthly salaries of the employees were 262.97 € in 2015 and 265.57 € in 2016.

The sector of production of construction materials is a men-dominated sector. Less than one third of companies (65 companies in 2015, 64 companies in 2016 and 62 companies in 2017) employ women. As such, the average number of men employees per company is higher than that of women (5 women and 14 men in 2015 and 6 women and 14 men in 2015 and 6 women and 15 men in 2017).

In 2016, for 78.1% of employees, secondary education was their highest level of educational attainment; while 12.4% of employees were reported to have completed primary education (Figure 27). The respondents of the survey claimed that only 1.5% of their employees have completed tertiary education.

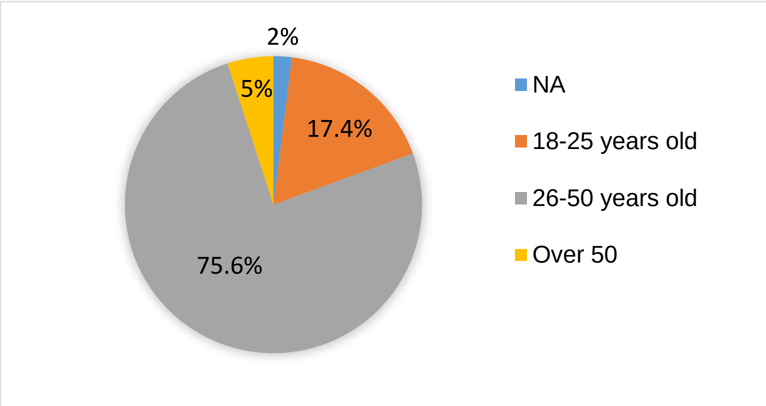
Figure 27 Education level of the employees in 2016



Source: KMI Survey, 2017

This sector is characterised by employment of middle-aged employees: 75.6% of employees belong to the 26-50 years age group (Figure 27). But, it seems that the sector of production of construction materials is not attractive for young people aged (18-25 years old), as youth account for only 17.4% of the employee base of the sector.

Figure 28 Distribution of employees by age, in 2016



Source: KMI Survey, 2017

Moreover, this sector is an important contributor to sustainable employment: almost all companies in the sector employ full-time staff, and the share of fulltime employment accounts for 97% of total employment in the sector (Table 16). Only 3% of companies hire seasonal workers. In 2016, 12.4 % of companies employed non-Albanian employees.

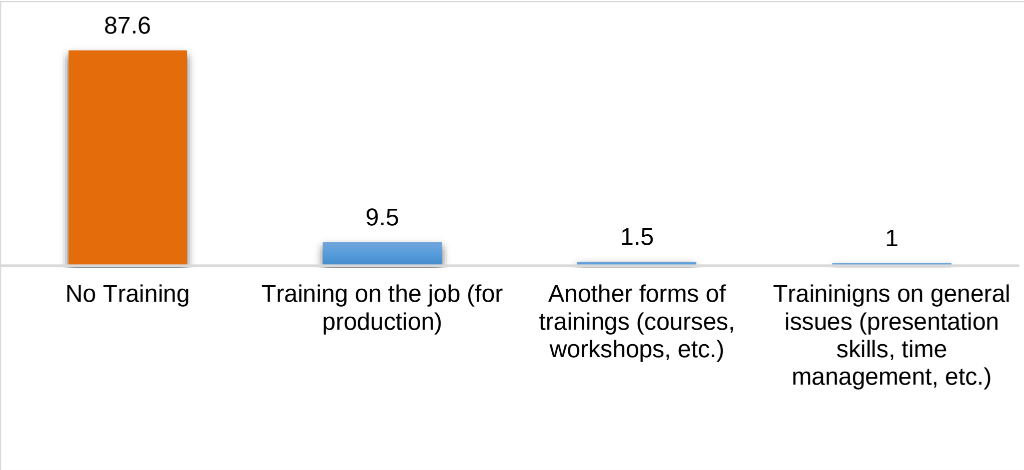
Table 16 Distribution of employees, by type of contracts, in 2016

Type of work contract	%
Full time employees	97
Seasonal workers	3
Total	100

Source: KMI Survey, 2017

Findings from the survey showed that more than three quarters (87.6%) of the companies did not provide trainings for employees. Most of the training (9.5%) were organised in the workplace and were related to enhancing workers' skills in production. 2.5% of surveyed companies in the sector reported to invest in improving managerial and presentation skills of their employees and other forms of trainings (Figure 29).

Figure 29 Development of the workforce

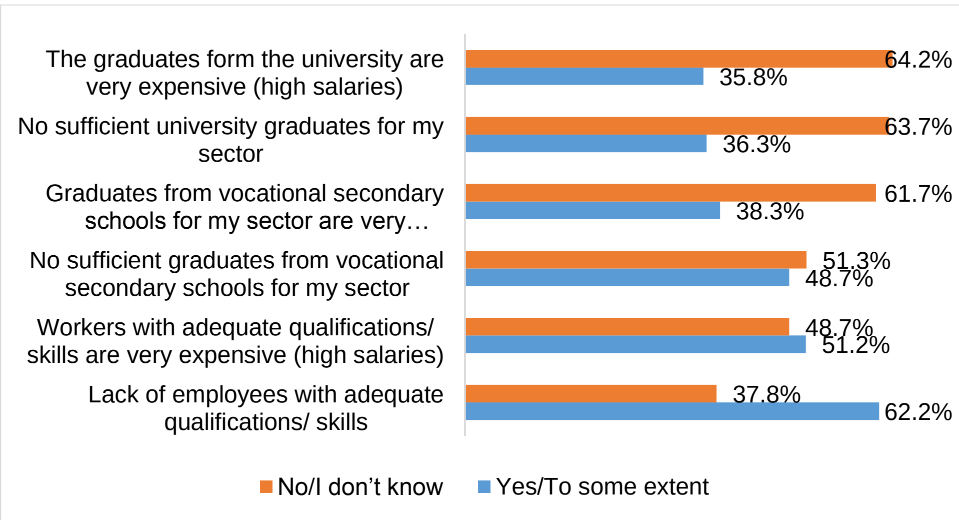


Source: KMI Survey, 2017

Three occupations the businesses claim that are mostly not available are: (i) carpenter, (ii) woodcutter, and (iii) welder. However, 183 out of 201 of the surveyed companies did not respond this question.

The lack of skilled employees was a greater concern than the labour costs of such qualified workers. As may be observed in the figure 28, lack of employees with adequate education/ skills is considered to be a major problem by 62.2% of the surveyed companies, and 48.7% of them claimed no sufficient graduates from vocational secondary schools for the sector. 51.2% of companies claimed that workers with adequate qualifications/ skills are very expensive, while more than one third of the companies claim that graduates from vocational secondary schools for this sector are very expensive (38.3%).

Figure 30 Skill level of the workforce



Source: KMI Survey, 2017

Investments and level of technology

Only machinery and equipment is owned by the majority of surveyed companies, while land and buildings are mostly rented: 63.2% of businesses own their machinery and equipment; 26% of businesses own land and 43.8% of them own buildings (Table 17). For 2016, the total value of assets of surveyed businesses was estimated to have been €47.9 million: the average value of land was €139,550; buildings €98,071 and machinery and equipment €116,237.

Table 17 Ownership of assets

	Land	Buildings	Machinery and equipment
Owned	25.9	43.8	63.2
Rented	73.6	56.2	36.8

Source: KMI Survey, 2017

One fourth of the companies in the sector of production of construction materials invested in a new product in 2016; however remittances are not an important source for investments in the sector: 13.4% of companies that invested in a new product used remittances as a financial source. 23.5% of companies in the sector have undergone some innovative change in techniques, equipment and/or software of existing methods of production, nearly half of them (46.3%) have implemented innovative methods of marketing and 40.7% of companies introduced innovative organizational changes.

32.8% of the businesses declared that the actual level of protection of industrial property hampers companies in development of new products/ services; 26.9% declared that it does, however 34.3% were not informed of this kind of protection.

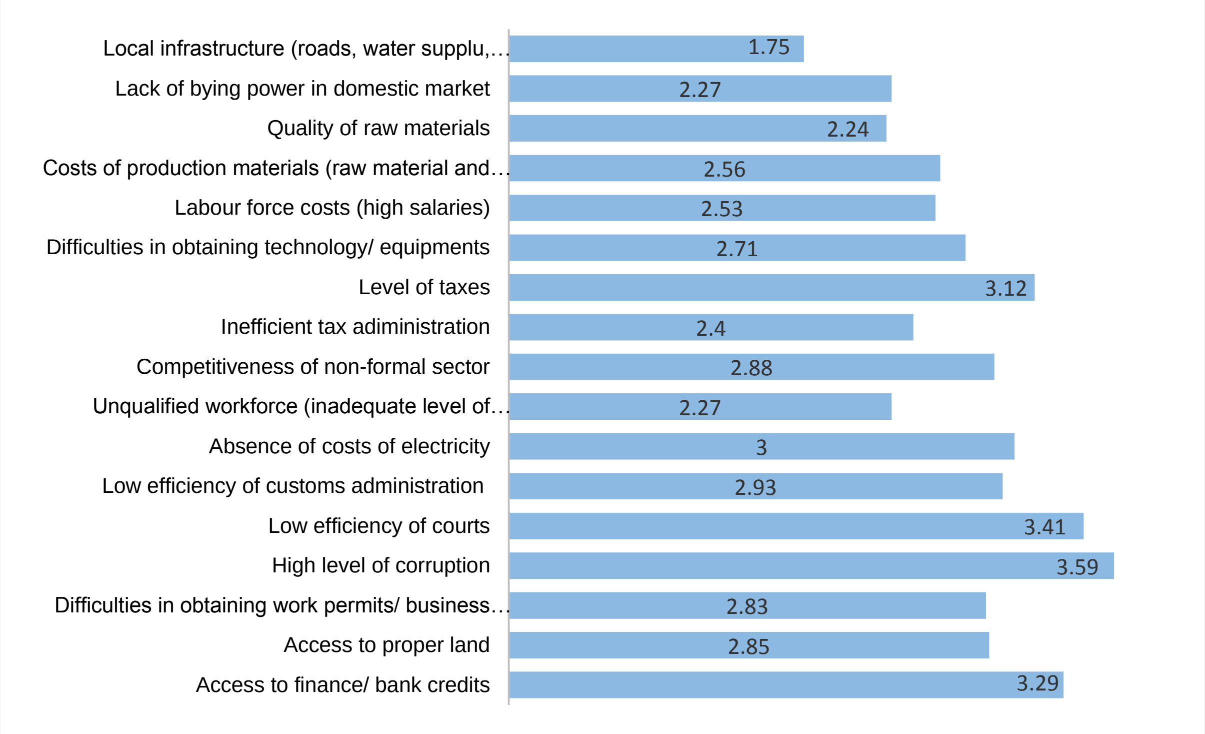
Out of the surveyed businesses, only 7.5% of them had registered patent in Kosovo. Only 13.4 % of the businesses claimed that difficulties in patent registration cause problems in business development. While, only 5.5% of the companies apply total management system according to ISO 9001 standards.

Business environment

The surveyed companies were asked to specify the degree of certain obstacles (scale: 0 – no obstacle at all to 5 – high obstacle), and the largest impediments to business development were noted to be high level of corruption (3.51); the low efficiency of judiciary systems (3.49); access to finance/ bank credits

(3.29). The lowest obstacles were evaluated local infrastructure/roads, water supply, wastewater etc. (1.75); quality of raw materials (2.24) (Figure 31).

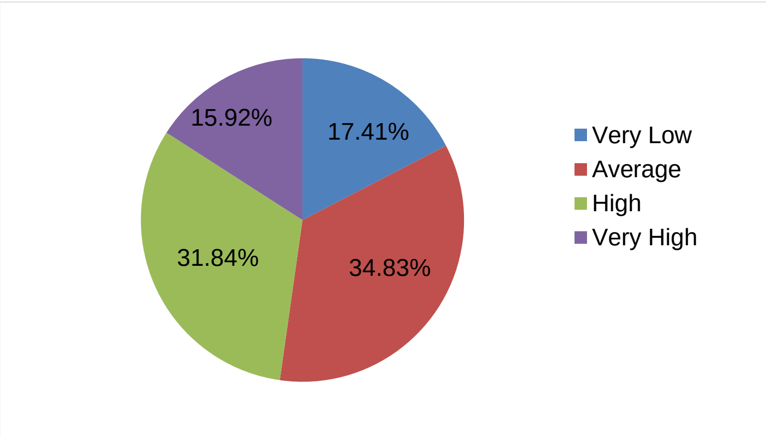
Figure 31 Obstacles to business development



Source: KMI Survey, 2017

About one third of the companies stated the level of taxes in Kosovo as “average”. More than half of them (57.7%) considered it “high” and “very high” compared to 17.4 % of them which considered it “low” and “very low” (Figure 32).

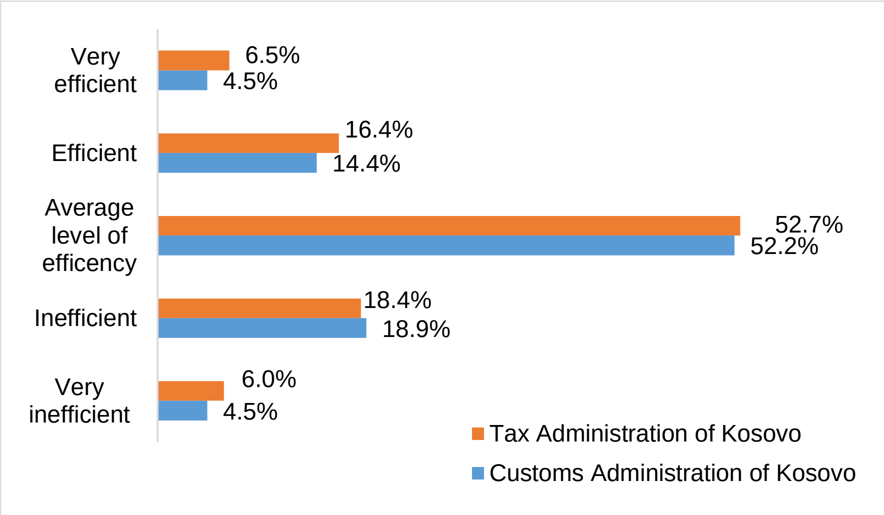
Figure 32 Business perceptions on the level of taxes in Kosovo



Source: KMI Survey, 2017

Overall, companies in the sector perceive the tax and customs administrations as relatively efficient (Figure 33). Three quarters of the companies stated that TAK operates at an "average" level of efficiency, "efficient" or "very efficient". Around 70% of the surveyed companies share the same perception with regard to efficiency of Customs Administration.

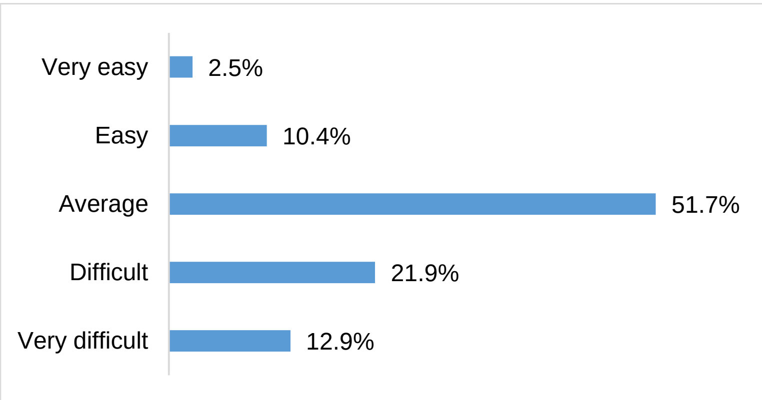
Figure 33 Business perceptions on the performance of Tax Administration & Customs



Source: KMI Survey, 2017

One third of the companies estimated the easiness in financing their businesses as "difficult" or "very difficult", while half of them estimated it as "average" (Figure 34).

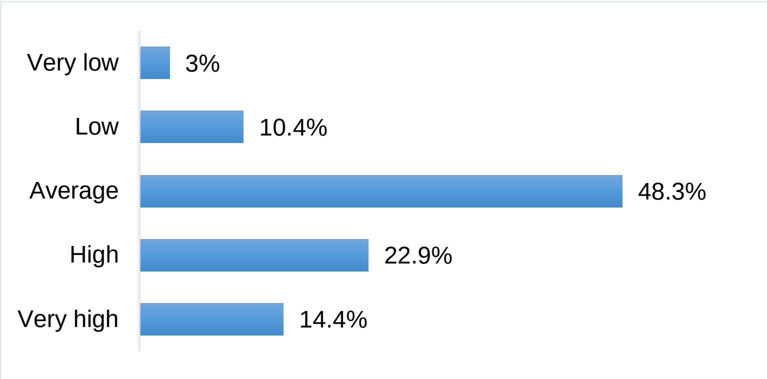
Figure 34 Business perceptions about ease of obtaining finance in the sector



Source: KMI Survey, 2017

The cost of finance is considered "average" by half of the companies. However, more than one third of them stated that interest rates are 'high' or 'very high,' while only 13.4% indicated that interest rates are 'low' or 'very low' (Figure 35).

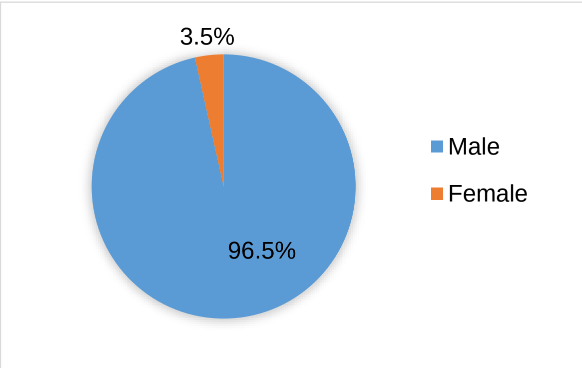
Figure 35 Business perceptions on the cost of financing (level of interest rates) in the sector



Source: KMI Survey, 2017

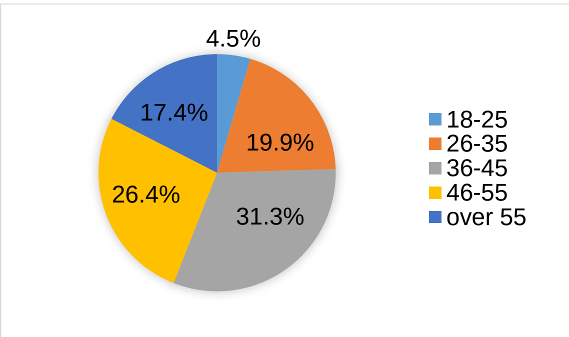
Demography of the respondents

Figure 36 Gender of the respondents



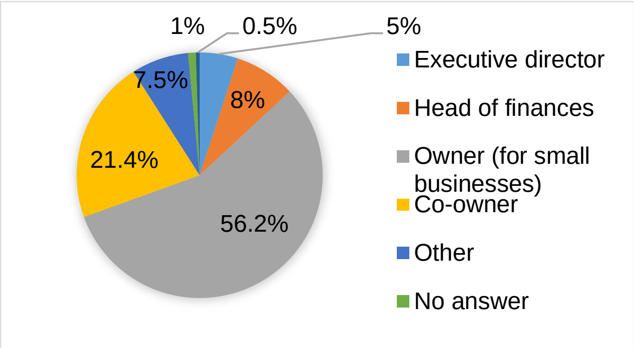
Source: KMI Survey, 2017

Figure 37 Age groups



Source: KMI Survey, 2017

Figure 38 Position in the company



Source: KMI Survey, 2017

Qualitative results

An in-depth interview with four successful businesses of the different production subsectors was conducted in September 2017. The qualitative analysis are presented as below.

1- Profile of a successful business in the wood production subsector in Kosovo

The company was established in 1982 as an individual business. It produces wooden doors and windows for the domestic market but is also exports in Switzerland, Slovenia and Macedonia. The company utilizes quality raw material that is imported mainly from Slovenia.

The business had experienced growth, both in terms of sales and in the number of workers compared to the beginning. It has also presented new products including plastic doors and windows.

This growth and business development is mainly dedicated to the management staff of the directorate and administration, but also to the quality of products. High product quality and customer trust are the main factors of the business growth, securing the good position in the market.

The company owner stated the level of VAT taxes (18%) is high and compared to other sectors, there is a huge informality. The company sell products issuing a regular fiscal invoice, where VAT is included. But, there are businesses in the sector, who usually produce, and they are not registered, they do not pay taxes and can easily sell their products and at lower prices because they are not taxpayers. In general, it is not easy with financing in Kosovo. There has been a lot of diffcult days for the company without having any easiness from the banks. According to the owner, unfair competition and informality are the biggest problems faced in daily business activity. TAK and other responsible institutions should seriously consider these problems.

The employees are qualified and dedicated to the job. Recently, there is organized no training, but usually the trainings were related to management and administration, sales and marketing, etc.

2- Profile of a successful business in the metal production subsector in Kosovo

The company was recently established, in 2015 as limited liablity company (LLC). It produces profiles from metal and aluminium, destinated to sell the products in domestic market and to export them, mainly in Netherlands, Germany, Italy, and Sweden. The company uses raw materials usually imported from Israel, Malaysia, and Turkey.

Although being a new company, there is a continuing need to increase the number of employees, because of the increased requests for export of products in different countries, such as: Netherland, Germany, Austria etc.

The company owners stated that level of taxes in Kosovo is high, and VAT tax for domestic producers is high. So for the same product, the consumer price is higher compared to the price of the imported product. This is a great favor to foreign traders, compared to domestic producers. Regarding the financing issues, there is no easiness in the business aspect, as bussiness entities are treated the same as individuals, and there is not any support from the Banks. The biggest problems faced in daily business activity are high costs of energy consumption, high level of VAT tax, and informal competition.

Skilled and qualified employees are part of the business success. According to the company owners as far as they are qualified, there is no need for training.

3- Profile of a successful business in concrete production subsector in Kosovo

The company was created in 2008 as an individual business. It produces concrete products only for the domestic market. The company also produce some raw material for its production, while other raw materials are imported mainly from Albania and Serbia.

The company growth, in terms of sales, number of employees, and in new products is attributed to the good image the company has built through its high quality products and commitment to customer satisfaction.

The company owners stated that a drop of the level of VAT tax from 18% to 10%-12% would have been a great support of the company, as it issues regular invoces for every sold product. The cost of financing is high as the bank interest rates are high compared to international standards. According to them, the biggest problems faced in daily business activity are delayed payments by our clients and lack of skilled and qualifying employees. And this was the reason of opening the professional academy.

Trainings in the company are organised regularly and this year it is also opened the professional school, named Bau Acedemy, which offers professional development in terms of electrical installers, air conditioning technics, working metal technics, welder etc.

4-Profile of a successful business in the subsector of manufactured bio-chemical products in Kosovo

The company was eastablished in 2008 as a joint albanian and german partnership. It operates in the subsector of manufactured bio-chemical products and produces painting color and lacquers for domestic and export. Main export markets are Switzerland, Germany, Austria and Albania. Raw materials are imported from Germany.

The company has experienced a gradually increase in sales, number of employees as well as in a great range of new products, such as paints for exterior walls, for interior wall, varnishes, decorative products for walls, etc. All the company products are tested and their packages possess detailed instructions for their use.

The success of the business is based on the qualified staff, the proper management. The trust that consumers have for the company products have been the key factors of the business growth and sustainability through these years. The company's employees are qualified, as they frequently attend specific trainings from German experts. And one of the main goals of the company is to invest in new machineries as well as in development of the employees.

The company’s owners stated that the level of taxes are high. They would recommend a lower level e.g. 8%-10% of the VAT tax, while they see no obstacle in financing procedures. Some of the biggest problem in their every day running of their business are informal competiotion and high costs of energy and water consumption.

Conclusions

The profile of the sector of production of construction materials presents a detailed sector data based on firm level data. To provide information at the sectorial level, secondary data are used from the Tax Administration and Kosovo Customs.

Firm level data are based on the 2017 KMI survey, which included 201 companies comprising of 122 micro companies, 61 small companies and 18 medium sized companies. 73.6% of these companies were settled in towns, 70.1% of those were individual businesses and 76.1 % of the owners possessed more the 90% of the shares. 66% of their owners corresponded to two main age groups: 36-45 years old and 46-55 years old; and 94 % of them were Albanians by ethnicity.

The main activity of the sector is the production of different metal products with 84.17% of the sales. Pristina is the municipality with the largest concentration of the companies in this sector.

The companies of this sector produce almost only final products (99.5%). A majority of companies import raw material and then process it further into final products. In 2016, the main imported raw materials were wood, plastic, cement and aluminium, mainly from Germany, Albania, Serbia and Macedonia. However, many of these companies were not able to report an approximate value of imported raw materials for each product and from each country. There is not developed a supply chain for the sector of production of material construction in Kosovo, foreign traders and producers were found to be important for companies that use imported raw material and intermediate goods.

The average value of monthly costs during 2016 were energy 1411€, water 99€ and fuel 1814€. Comparing the value of production in 2015 and in 2016, there were only few differences. There were few differences of the capacity used in production in 2015-2016. Moreover, the most important fact was the full capacity utilization in production in both years, as this could prevent a further growth of the sector.

The comparison of the sales segmentation in domestic and foreign markets in the two given periods represents a little decrease (0.2%) in foreign market (exports) in 2016. 92% of the products exported in 2016 were final products, 1.5% of them were raw materials and 0.5 % of them were semi-final products. These companies had started to export for the first time products in 2000 and based on their declarations two best periods with more companies which started exporting were 2015 (10.9%) and 2010 (9.5%).

The exporting companies considered customs procedures and high transportation costs as their main barrier to exporting. When asked on the second main barrier one third of companies stated infrastructure in transit countries or importing countries; another one third stated political situation in the importing country and less than one third stated limited possibilities to establish connections with foreign business networks.

There was a higher increase (2.47%) of employees in 2016 than actually (1.77%). The highest increase was that of the women in 2016 (9.09%) compared to that of men of this period. The average number of employees per company actually is 16, compared to the average of 14 workers per company in 2015. On average, employment increased by 103.68% from 2015 to 2017. The average monthly salaries of the employees were 262.97 € in 2015 and 265.57 € in 2016.

The sector of production of construction materials is a men-dominated sector. Less than one third of companies (65 companies in 2015, 64 companies in 2016 and 62 companies in 2017) employ women. As such, the average number of men employees per company is higher than that of women (5 women and 14 men in 2015 and 6 women and 14 men in 2015 and 6 women and 15 men in 2017).

In 2016, for 78.1% of employees, secondary education was their highest level of educational attainment. While 12.4% of employees reported to have completed primary education. The sector is characterised by employment of middle-aged employees: 75.6% of employees belong to the 26-50 years age group. And, it seems that the sector of production of construction materials is not attractive for young people aged (18-25 years old), as youth account for only 17.4% of the employee base of the sector. Moreover, this sector is an important contributor to sustainable employment: almost all companies in the sector employ full-time staff, and the share of fulltime employment accounts for 97% of total employment in the sector. More than three quarters (87.6%) of the companies did not provide trainings for employees. Most of the trainings (9.5%) were organised in the workplace and were related to enhancing workers' skills in production. The lack of skilled employees was a greater concern than the labour costs of such qualified workers.

Machinery and equipment was mostly owned by the majority of surveyed companies, while land and buildings were mostly rented: 63.2% of businesses owned their machinery and equipment; 26% of businesses owned land and 43.8% of them owned buildings. For 2016, the total value of assets of surveyed businesses was estimated to have been €47.9 million: the average value of land was €139,550; buildings €98,071 and machinery and equipment €116,237.

Nearly one fourth of the companies in the sector of production of construction materials invested in a new product in 2016. However, remittances were not an important source for investments in the sector as 13.4% of companies that invested in a new product used remittances as a financial source. 23.5% of companies in the sector have undergone some innovative change in techniques, equipment and/or software of existing methods of production, nearly half of them (46.3%) have implemented innovative methods of marketing and 40.7% of companies introduced innovative organizational changes.

32.8% of the businesses declared that the actual level of protection of industrial property hampers companies in development of new products. However 34.3% were not informed of this kind of protection. There were a small number of companies that had registered patent in Kosovo (7.5%). Only 13.4 % of the businesses claimed that difficulties in patent registration cause problems in business development. While, only 5.5% of the companies apply total management system according to ISO 9001 standards.

Perception about the future of the sector where businesses operate is optimistic, 38.8% of the companies stated that sector is increasing. Besides that, 40.3% of the businesses stated about stability in the sector. Estimation of the perception of the businesses about the future of the sector represents a sense of growth and stability. Moreover, based on the workforce planning compared to the previous period, this tendency of growth and stability is going along with a dynamic profile of micro enterprises.

Based on data for 2015 and 2016, all firm level indicators point towards stability and growth in the sector. Businesses in the sector of production of construction materials invest especially in innovations in marketing strategies. Businesses do not perceive taxes as being high, but the cost of financing is an impediment to their business development.

Recommendations

Despite the aforementioned problems, the findings show that producers of the construction material sector have potential for growth. This is based on the growing trend of new buildings and the potential for domestic production to further replace imports in construction materials. The following recommendations for the sector of production of material constructions respond to these needs for a sustainable growth, higher employment and a cost-effective alternative, and yet competitive in the market. This sustainable growth through the increase of production, lower costs because of the economy of scale and the expansion of new markets (export) will require:

- More investments, especially in machinery and equipment, as far as the companies of this sector almost work with full capacity improving access to capital and capacity related to grant application.
- Improved quality in production, as it will create a competitive advantage especially in the foreign markets;
- Total Quality Management system implementation according to ISO 9001 standards that will contribute not only to an improved quality, they are also a requirement to export to EU countries and to ease the export activity generally;
- Providing skilled labour force including more young people (18-24 years old) in order to lower unemployment and increase the quality of their human resources.
- Investing more in marketing and enhancing the image of quality of their products.

These were challenges that these companies themselves should be prepared to face with while the state can support them mainly through:

- Providing financial instruments for the development of their economic activities, as these companies need investments to increase production and to improve the quality of production. In addition to improving the business environment, the Kosovo government together with donors should look at possibilities of establishing credit lines for production activities, which will affect the reduction of interest rates.

- Providing proper fiscal policies and help these companies in import and export procedures, in order to cut costs in time and money. In order for Kosovar products to be competitive domestically and in the region, the Ministry of Trade and Industry should apply measures of reciprocity with neighbouring states, whether tariff or non-tariff. A guide line for the companies of the sector interested in import-export procedures and costs would be helpful. To be noted here, companies should be advised to address formally their concerning about export-import procedures. Furthermore, TAK offers online and free service for any advice and request.
- The Energy Regulatory Office should revise the winter tariff policy and reduce energy costs for the manufacturing sector;
- Providing proper employment policies and helping more young and educated people to be included in the labour market of this sector. The Ministry of Education, Science and Technology in cooperation with the Ministry of Labour and Social Welfare should assess industrial needs for certain professions and develop policies and strategies to acquire as soon as possible the missing specialists, which would help economic development of the country. In addition, in order to increase the quality of graduates, the Ministry, together with universities and vocational schools, should review curriculum programs so that they relate to the practical needs and the skills required by the market.

Research protocol

Objectives

The overall objective of this study is to provide a detailed profile of the sector for the production of the construction materials in Kosovo, to identify the range of construction materials being produced, the value chains which exist and level of sales both in domestic and export markets, identify barriers to growth and opportunities for growth with recommendations on key interventions needed at sector and company levels to support growth in value chains and import substitution and identify investment opportunities.

Background and Rationale

Although, to date the sector for production of construction materials in Kosovo has shown significant development for a good range of products, beside the production of classic bricks, which covers over 80% of the local demand, all other products, are more or less being imported mainly from the neighbouring countries. These companies are facing enormous problems. Their main concerns are: strong international and regional competition with high capacity, certified product quality, extensive expertise, marketing tools; products of informal competition; customs tax on some imported raw materials, products or equipment; high electricity costs applied to producers especially during the winter; export barriers; lack of good qualified staff. The value chains are not well developed in the sector. Quite often the supply chain is disrupted and it may come to the bottlenecks. Partially and especially in the service providing sector the supplying companies are in the neighbouring countries.

Procedures

A. Research Design

The approach to this study was primarily quantitative in nature, although it was used a mixed research methodology through quantitative and qualitative methods and analyse of both, primary data, generated during the survey and secondary data generated by the government agencies, other valid studies etc. We undertook fundamental analysis of quantitative data available from the questionnaires and some qualitative analysis from its open and unstructured questions.

Therefore, we relied primarily on interviewing the representatives (respondents) of the sector for production of construction materials in Kosovo and the team conducted 201 interviews, in July 2017. Before drafting and implementation of the survey, a final design of the questionnaire with trained interviewers was pre-tested and then they began with the fieldwork.

B. Sample

The interviews were realised after getting the permission from the Ministry of Trade and Industry. The identification of the relevant NACE sub-sectors was based on the database of the Tax Administration of Kosovo, and then it was proposed the sampling methodology, an overall sample size of minimum 200 businesses and its proper sample selection, selected from 4 sectors and 7 subsectors. There were randomly chosen 28-30 representatives from each subsector in every location/municipality of Kosovo.

C. Measurement / Instrumentation

The questionnaire was introduced based on the provided questionnaire and later reviews. It had nine sections in order to collect information regarding the companies, data about inputs and production; data about sales; data on exports, on employment and human resources of the company/industry, on investments and level of technology for the company/industry; information about business environment and financial sector, and data for the demographic profile of the respondents. It contained structured questions and a few unstructured questions.

D. Data Analysis

All data coming from the interviews was put in an excel document and set up a database structure. This database was exported to SPSS software model 20.00 where all the collected data was analysed. Descriptive analysis was used to describe the basic features of the data and they provided simple summaries about the sample and the measures. Cross-tabulations were used to display the distribution of cases by their values on two or more variables.

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Appendices

Appendix 1: Inventory of the policy of market developments

List of institutions relevant for the sector of production of construction materials

- Ministry of Trade and Industry: Kosovo Business Registration Agency (KBRA) for business registration information on trade and other business related issues
- Ministry of Finance: information regarding tax policy
- Tax Administration Authority: tax payment
- Municipal "one-stop-shops": business information sources and provision of counselling services
- Kosovo Customs: information on customs duties and procedures
- Investment Promotion Agency: information for foreign investors
- Kosovo Chamber of Commerce: information source- business networks, fairs, trade missions, business-to-business (B2B) meetings, trainings
- Kosovo Business Alliance: information source- business networks, fairs
- International Chambers of Commerce (German, British, Turkish, etc.): information source- business networks, information for foreign investors
- Association of Constructers and Producers of Construction Materials, The Clay-Based Construction Materials Manufacturers Association, Kosovo Association of Architects: business networks, fairs, trade missions, advocacy for the sector.
- Public Vocational educational and Training Institutions

Legal framework relevant for the sector of production of construction materials

Law No.02/L-123 on Business Organizations
Law No.2004/18 on Internal Trade
Law No. 02/L-33 on Foreign Investment
Law No. 02/L-5 on Support to Small and Medium Enterprises
Law No.04-L-047 on Safeguard Measures on Imports
Law No. 04/L-006 on amending and supplementing of the Law No.02/L-123 on business organisations
Law No. 04/L-005 on amending and supplementing the Law No. 2004/18 on internal trade
Law No.03/L –229 on Protection of Competition
Law No. 04/L-226 on Amending and Supplementing Law No. 03-L-229 on Protection of Competition
Law No. 03/L-031 on amendment and supplementation of Law no. 02-L-5 on supporting the small and medium enterprises
Law on Amending and Supplementing Customs and Excise Code No. 03/L- 109 04/L-099
Law on Tax Administration and Procedures 2004/48
Law on Value Added Tax 03/L-114
Law on Personal Income Tax 03/L-161
Law No. 03/L-161 on Amending and Supplementing the Law on Personal Income Tax
Law No. 03/L-162 on Corporate Income Tax
Law on Amending and Supplementing the Law No. 03/L-162 on Corporate Income Tax 04/L-103
Law on Amending and Supplementing the Law No. 03/L – 204 on Property Tax 04/L-100
Law No. 03/L-204 on Taxes on Immovable Property
Law No. 04/L-048 on External Trade
Regulation on the Autonomous Trade Measures
Administrative instruction no. 14 /2013 on Registration, Licensing, and Administrative Enforcement procedures
Customs and Excise Code of Kosovo: Code No. 03/L-109

Law No. 03/L-163 on Mines and Minerals
Law No. 04/L-161 on Occupational Health and Safety
Law No. 04/L-014 on Accounting, Financial Reporting and Audit

List of taxes, custom duties and pension contributions

The tax system includes personal income tax, corporate income tax, value added tax (VAT) and excise tax. The process of establishing the tax legislation in Kosovo started in April 2000 with the introduction of Regulation "On Tax Administration and Procedures". This Regulation was followed by the introduction of Presumptive Tax in May 2002. VAT was firstly set up in May 2001 and personal income tax in February 2002. A modern system of collection of corporate income tax, personal income tax and withholding tax on dividends, interest, and payments for determined services was introduced by the end of 2004, which has been subject to subsequent amendments.

Corporate Income Tax
Corporate Income Tax is governed by law no. 05/L-029 "On Corporate Income Tax" which replaced Law no. 03/L-162. The New Law is in force from 1 September 2015. Companies conducting business in Kosovo are subject to corporate income tax at a rate of 10%. Previously, the corporate income tax rate was levied at 20%. Taxpayers (except for insurance companies) with annual gross income up to EUR 50,000 (VAT threshold) may choose between payment of the tax on gross income or corporate income tax. The rates of the tax on gross income are:
(i) three percent (3%) of income resulting from activities of trade, transport, agricultural and similar commercial activities;
(ii) nine percent (9%) of income resulting from services, professional/vocational activities, entertainment and similar activities;
(iii) ten percent (10%) of net rent income (gross rent income less 10% allowance as provided by the legislation), reduced by any amount withheld at source.

Depreciation
The owner of the asset is entitled to depreciation allowances. In case of a financial lease, depreciation may be claimed by the lessee, being the person who bears the risk of the loss or destruction of the asset. For fiscal purposes, assets are categorized in three groups and depreciation rates are applied, using the straight-line method, on the historical value of each individual asset.
Category 1 - Buildings and other construction structures considered to depreciate at a rate of 5%.
Category 2 - Automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computers and similar office furniture, and equipment are considered to depreciate at a rate of 20%.
Category 3 - Plant and machinery, rolling stock and locomotives used for rail transport, airplanes, ships and all other tangible assets are considered to depreciate at a rate of 10%.

Withholding Taxes
Interest and royalties are subject to a final withholding tax at 10% rate.
Rent payments are subject to withholding tax at 9% rate.

Double Taxation Avoidance Treaties
Kosovo tax authorities have not officially abolished the tax treaties that were signed by the former Yugoslavia. On the other hand, they have not accepted the direct application of these tax treaties.
Tax Administration of Kosovo, has published the following information regarding the double tax treaties:
- Albania in force from 1 January 2006 (an updated version applicable from 1 January 2016)
- Belgium in force from 23 February 2010 and applicable from 13 April 2012
- Germany in force and applicable from 02 September 2011
- Finland in force and applicable from 02 September 2011
- Macedonia in force from 06 June 2011 and applicable from 1 January 2014

· Hungary in force from 13 January 2014 and applicable from 1 January 2015

· Slovenia in force from 14 April 2014(applicable from 1 January 2015)

· The United Kingdom of Great Britain and Northern Ireland in force from 09 July 2015 and applicable from 1 January 2016

· The Netherlands in force from former Yugoslavia from 06 February 1983 and yet in process with Kosovo

· Turkey in force from 08 November 2012 and applicable from 1 January 2016

The agreement with Czech Republic for the avoidance of double taxation is published in the Official Gazette on 27 March 2014. However, this information is not yet published in the website of Tax Administration of Kosovo.

VAT Law In Kosovo

Under VAT Law, a taxable person is any person who is, or is required to be registered for VAT, and who, carries out in Kosovo, independently, any economic activity in a regular or non-regular manner, whatever the purpose or results of that economic activity is. Every taxable person is required to be registered for VAT from the moment when total, exceed the threshold of EUR 30,000 within a calendar year. Foreign entities are subject to VAT registration, from the beginning of their economic activity in Kosovo, regardless of the VAT threshold.

Taxable transactions include the supply of goods and services in Kosovo by a taxable person, as well as the importation of goods to Kosovo.

From 1 September 2015 the standard rate of VAT is 18% (previously 16%). However, the New Law has introduced a reduced rate of 8% for some supplies.

Some of VAT Exemptions on Importation:

· The release of goods for free circulation, if the supply of such goods effected on the territory of Kosovo by a taxable person are in all circumstances exempt from VAT;

· The re-importation of goods by the person who exported them, of goods in an unchanged condition in which they were exported, provided that such goods are exempt from customs duties in accordance with Customs legislation;

· Production lines and machinery for use in production process;

· Raw materials used for the production process;

· Information technology equipment (after meeting certain criteria);

Some of VAT Exemption on Exportation:

· The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of the vendor;

· The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of a customer not established within the territory of Kosovo, with the exception of goods transported by the customer himself for the equipping, fuelling and provisioning of pleasure boats and private aircraft or any other means of transport for private use.

Customs Duties

Customs duties are charged according to imported goods‘ classification in a 6-digit Harmonized System. The tariff nomenclature provides for a customs rate of 10% for all goods imported into Kosovo.

Pension Contributions

As per law no. 04/L-101, dated 8 May 2012 “On Pensions Funds of Kosovo” both of the employer and the employee must pay pension contributions at the level of five percent (5%) of the gross monthly salary. Also the employer and the employee may voluntarily contribute an additional amount up to a total of ten percent (10%) of monthly salary for a total maximum of fifteen percent (15%) of the gross salary.

Taxes on individual business activities

Individuals who carry on independent business activities and are not required to be registered as taxable persons for VAT purposes are subject to the tax on business activity. Such tax is paid

quarterly, within 15 April, 15 July, 15 October of the current year and 15 January of the subsequent fiscal year.
For taxpayers with an annual gross income from business activities up to EUR 50,000 who are not required to, and do not choose to keep the books and records, the tax amount is:
· three percent (3%) of each quarter's gross income resulting from activities of trade, transport, agricultural and similar commercial activities, but not less than EUR 37.5 per quarter; and
· nine percent (9%) of each quarter's gross income resulting from provision of the services, professional/vocational business activities, entertainment and similar activities, but not less than EUR 37.5 per quarter.

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 % and one % of the market value of the property.

List of licences and documents for the sector of production of construction materials construction

Permits and certificates
- Business Certificate
- VAT registration
- Registration of employees for the pension scheme with TAK
- Fire protection clearance
- Clearance for water
- Electricity connection

Import documents
- Single Administrative Document (i.e. customs declaration)
- Commercial Invoice
- Certificate of Origin (for Countries Kosovo has free trade or any other agreement which covers exemptions based on rules of origin).

Export documents
- Single Administrative Document (i.e. customs declaration);
- Commercial Invoice

Trade regulations and free trade agreements

Kosovo is part of CEFTA since 2007, and also benefits from Autonomous Trade Preference (ATP) with EU, customs-free trade with the US, and trade connections with Japan, Norway and Turkey. Kosovo has a liberal trade regime, from which derive three major benefits, namely improved export possibilities, a better investment environment, and stable relations with its neighbours. The Customs Code is based on the EU Customs Code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System.

- CEFTA: 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 facilitating the free movement of goods and services throughout the country's borders. As a result, Kosovo currently enjoys free trade within the Central European Free Trade Agreement (CEFTA) enabling its producers to access the regional market comprising 28 million consumers, free of any customs duties.

- Autonomous Trade Preference (ATP): In addition, Kosovo benefits from nonreciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference Regime EU Council Resolution (ATP) (2007/2000).

- United States: Duty-free trade to the US market.

- Japan and Norway: Trade connections with Japan and Norway, quantitative and qualitative restrictions remain in force only for a very limited number of goods.

- Turkey: Kosovo also has an agreement of free trade with Turkey, which will come into power once it is ratified by the Turkish Parliament.

Labour Law and other regulations

Employment in Kosovo is governed by the law no. 03/L-212 "On Labour" published in the Official Gazette no. 90/2010 and entered into force on 15 December 2010 ("Kosovo Labour Law"), law no. 04/L-101 "On Pension Funds of Kosovo" published in the Official Gazette no.10/2012 and entered into force on 30 March 2012 and the law no. 04/L-168 "On mending and Supplementing the law no. 04/L-101 "On Pension Funds of Kosovo" published in the Official Gazette no. 08/2013 and entered into force on 23 April 2013 (Pension LAW) and other normative acts issued by Kosovo's legislative bodies in order to regulate different features of the employment area based on the rapid social and economic changes that occur.

Kosovo has a highly flexible labour market with a low tax wedge and low rigidities in terms of hiring and firing of workers. The personal income tax rate system is a progressive tax system with a 0-10% tax rate. In addition to that, only a pension contribution of 5% of the total wage is paid by the employer (whilst another 5% of the wage is paid by the worker). Since 2011, Kosovo has introduced a minimum wage of €170, or €130 for individuals aged under 35. Since 2011 employment relations are regulated by the Law on Labour (No. 03/L-212) which takes into account the ILO Conventions, EU Legislation and the fundamental principles of free labour market and economy.
Since 2013, occupational health and safety are regulated by the Law on Occupational Health and Safety (No. 04/L-161).

Given the greater health and safety risks that workers in the sector of production of construction materials may face, the Law on Health and Safety Law is very important.

Industrial property and patenting in Kosovo

Industrial Property Rights are administered and registered at the Industrial Property Agency, within the Ministry of Trade and Industry.

Trademarks: are regulated by the Law on Trademarks (Law No. 04/L-026).
The right holder of a registered trademark will, after registration, have exclusive rights in relation to the goods and services covered by the registration. The holder of trademark shall be entitled to prevent third parties to use without his permission. In particular, these rights are: to use the trademark, to authorize another to use the trademark or to obtain legal remedy for a violation of the trademark. Trademark is registered for a period of 10 years and can be renewed for an unlimited time.

Industrial design: is regulated by the Law on Industrial Design (Law No.04/L- 028). By industrial design right is protected the design to the extent that is new and has individual character. Protection of industrial design lasts 5 years and can be extended to a maximum of 25 years.

Patents: are regulated by the Law on Patents (Law No. 04/L-029). A patent shall be granted for any invention, in any field of technology that is new, involves an inventive step and is susceptible in the industry. A patent right is granted for the duration of 20 years.

Industry specific standards

Implemented by the Kosovo Standards Agency, sector standards aim to regulate calculation methods, testing and measurements for construction products and works. Regulation of the construction products standards falls under the responsibility of the Ministry of Trade and Industry. The Law on Construction Products No. 04/L-181 was adopted by the Assembly in July 2013. Until 2013 the market was regulated by the Law No. 02/L-14 on construction products passed in 2005 under the UNMIK administration. As stated by the National Economic Reform Program, Kosovo was planning to adopt 1,600 new standards with priority on construction products by the end of 2015.
Law No. 02/L-62 on Inspectorate of Construction Products, passed in 2005 under the UNMIK Administration aimed to regulate the inspection of all construction products to be incorporated permanently in construction works. The Ministry of Trade and Industry has invested in the physical infrastructure of the inspectorate - a building of 4500 m2 has been completed and equipped to standards - but the institution is not operational at the moment. An updated law was drafted extending the responsibilities of the Inspectorate to conformity checks of the constructions products at the border. Accreditation of testing laboratories falls under the responsibility of the Kosovo Accreditation Directorate in compliance with the Administrative Direction No.9/2004 amended by Administrative Direction No. 2008/11.

Environmental regulations

All construction waste that is not hazardous waste must be treated according to the Law on Waste No. 04/L-060 and Administrative Instruction No. 05/07.
The management of hazardous construction waste, mainly asbestos cement products and compact fluorescent camps containing Mercury, is regulated by to secondary acts of the Law on Waste: Administrative Instruction No. 07/2009 for management of wastes containing asbestos and the Administrative Instruction 02/2011 on waste management of fluorescent tubes containing mercury. Currently in Kosovo there is no legally compliant option for the treatment and/or disposal of hazardous materials.

Cost of finance in the sector of production of construction materials and requirements for loans

As of July 2017, the effective interest rate on new loans was 6.4% (Central Bank of Kosovo, 2017). The effective interest rate on investment loans (with maturity up to five years) is lower at 5.8%.

Requirements for loans
Business Registration Certificate issued by the Ministry of Trade and Industry, VAT Certificate and a document called ‘Information about the businesses’
Financial data for at least 12 months
List of company’s inventory and equipment, a copy of the property deed and “ownership list” of collateral evidence.

Appendix 2: Mapping of interventions in the sector

The research for this mapping was carried out in September 2017. Data for this mapping was gathered from as many sources as possible, including a variety of documentary pieces and published analyses. All data collection was aimed towards preparing an overview the past and current development interventions implemented by local and international institutions in the sector of construction materials' production until now. At the same time this mapping addressed the need to identify and include lessons learned and recommendations for future interventions.

The sector of construction materials in Kosovo is characterized by a complex value chain. It includes both basic manufacturing and supply of construction materials and a range of services provided by private enterprises and public organizations. A simplified representation of this sector value chain include: suppliers of raw materials, producers, sub-contractors, traders of construction materials, construction companies, professional service providers, maintenance services, clients /end-users.

Facilitating access to practical experience for VET students for the professions of technicians and machine operators.

This intervention was aimed at equipping future employees with practical skills, in order to increase employment opportunities for young graduates and to provide the sector with a quality workforce. In regard to the VET sector, the Ministry of Education, Science and Technology drafted in 2013 a Strategy for improvement of professional practice in Kosovo 2013-2020. This document has not been followed up by any of the mechanisms envisaged that would facilitate the collaboration between vocational schools and the local economic environment.

One of the measure of the National Economic Reform Program also referred to the "promotion of professional practice" and it included: operationalizing of the Council for Vocational Education and Training (CVET) and formal consultation mechanisms between VET schools, businesses and labor market institutions; reviewing the curricula to ensure that all programs and schools implement professional practice as well as increasing the number of businesses and other organizations that provide professional practice.

According to this intervention, in order to boost internship and apprenticeship programs, several hiring incentives for employers might be used, one of them is the social clauses in public works contracts. Social clauses required contractors to provide employment to some members of the workforce from the ranks of the long-term unemployed or to provide opportunities for apprentices. An example of such a program is Beautiful Kosovo which in the first year generated 1,905 short term employments including for 1,391 persons registered as long term unemployed.

The Strategy for improvement of professional practice foresees the development of criteria and incentives for host enterprises. Nevertheless, as cited in the NERP 2015 document the MTEF 2012-2014 showed limited fiscal space available in Kosovo and therefore the fiscal space for new expenditures such as fiscal or financial incentives for professional practice host enterprises was limited, at least in the short- to medium-term.

Kosovo Education Strategic Plan (KESP) 2011-2016 recognized among other priorities, the need to increase the opportunities for the professional practice of Vocational Education and Training (VET) students in enterprises. The Strategy for improvement of professional practice in Kosovo 2013-2020 was approved in January 2014 a year after it was drafted and submitted. The lack of practical experience is an issues also for higher education graduates. Therefore, the strategy of improvement of professional practice should be extended beyond the VET schools to higher-education institutions.

Improving the penetration of female professionals in the construction sector

Attracting women into the sector of production of construction materials remains a difficult challenge. Due to the engineering nature and sometimes difficult working conditions demanded by the sector, most women work either in administrative positions, qualified position and professional positions. Kosovo Women's Network Association, active since 2000 and Women's Business Association SHE-ERA established in 1999, are two of the association with long tradition in Kosovo. With expertise and support from women associations with a long tradition in Kosovo, a Network of Young Women Professionals in Engineering, Construction and Architecture should be established.

Reducing the extent of informal economy

The National Strategy 2014-2018 set a goal to reduce the extent of informal economy by 5 % between 2014 and 2018, and thus increasing the tax base by around 52 million euros.

Regulating the land market

The Law No.04/L-040 on Land Regulation was adopted by the Assembly in January 2012. The land market continues to be constrained by lack of clarity over ownership and difficulty on valuing the land.

Improving the energy efficiency

Since April 2011, Kosovo has a National Energy Efficiency Action Plan for the period 2010 – 2018. The new Directive of the European Union for Energy Efficiency 2011/017217 sets 17% energy saving by 2020 as an objective. In that vein, the Government adopted the Energy Efficiency law and also a second National Energy Efficiency Action Plan for 2013- 2015. The approved energy savings indicative target was 9% until 2018. Article 11 of the Law on Energy Efficiency states that the Ministry should support the measures defined in the Kosovo Energy Efficiency Plan. This support includes seeking financial support from the Kosovo Budget, from international organizations which run programs for promoting energy efficiency and, where possible, from the inclusion of energy efficiency funding in bilateral co-operation agreements. Kosovo Energy Efficiency Agency (KEEA) has many projects financially supported by foreign and international donors, including but not limited to EU, WB, kfW, UNDP, GIZ and EBRD.

Given the present unreliable electricity supply, wood burning stoves are extensively used, but many of these are inefficient in the way they convert energy. Consequently, large numbers of trees are being cut down each year to provide for heating in winter and they are not being replaced. Energy performance is not monitored or enforced and often results in excessive energy consumption.

Appendix 3: Questionnaire

---

1. Identification number of respondent __ __ __ __ __

Sector_________________

2. Size of the company *(to be filled at the end)*
   1. Micro [up to 9 employees]
   2. Small [10 - 49 employees]
   3. Medium [50 - 249 employees]
   4. Large [over 249 employees]

3. Settlement 1. Rural 2. Town

4. Specify location and municipality _______________

A Company information

1. Which are three main products of your company and their percentage in the overall sale?

Products/	Percentage in overall sales (total 100%)
2.	
2.	
3.	

2. Please specify the ownership status of your company?

Individual business	1
General partnership	2
Limited partnership	3
Limited liability company (Llc.)	4
Joint stock company (SH.A)	5

2a. Age of the owner? __ __ (years)

2b. Please encircle the ethnicity of the owner (of main owner, if many)?

1. Albanian
2. Serbian
3. Turkish
4. Bosnian
5. RAE
6. Gorani

2c.What is the share of the main shareholder of the company? __ __ (%) ***(If company is not a sole ownership)***

2d. Level of education of the owner (main)?
   ___ ___ (years of education)
   88. Don't know
   99. Refuse to declare

3. Is there any women among company owners?
   1. Yes 2. No ***(if no – go to question A-6)***

4. If yes, what is the level of their education? (***If more women are owners, put the average level of education)***
   ___ ___ (years)
   88. I don't know
   99. Refuse to answer

5. If Yes, what is their share in the company? __ __ (%)

6. Can you specify the distribution of the company share?

	A-6a	A-6b
local individuals or private companies	1. Yes 2. No	__ __ __(%)
Foreign individuals or private companies	1. Yes 2. No	__ __ __(%)

7. If foreign individuals or private companies, how much of it are diaspora investments ______ (%)

B: Data about inputs and production of companies/ industries

1. Please specify the origin of the raw materials and semi-finished materials for your production?

Origin of the raw materials and semi-finished materials		
Domestic		
1.1 Produced by the company	1. Yes 2. No	— — — (%)
1.2 Supply from domestic producers	1. Yes 2. No	— — — (%)
Imported		
1.3 Supply from domestic traders	1. Yes 2. No	— — — (%)
1.4 Supply from foreign traders	1. Yes 2. No	— — — (%)
1.5 Imported directly from foreign producers	1. Yes 2. No	— — — (%)
1.6 others, please specify ___________________	1. Yes 2. No	— — — (%)

2. Please specify 3 main products/ goods imported during 2016 according to the country of origin, their share in % regarding importing markets/ countries and the approximate value of the products/ goods***) (if company is not importing proceed with question B3)***

Nr	Raw material/ Semi-finished	Importing Markets/ countries						Total value of inputs
		First country	Value	Second country	Value	Other countries (specify)	Value	Value
1								
2								
3								

3. What was the average value of the raw materials and of the semi-finished goods during 2016?

a) Average value of the raw materials _________ (€)

4. What was the average monthly cost of your company for the items below in 2016?

a. Electricity — — — — (€)
b. Water — — — — (€)
c. Fuel — — — — (€)
d. others, please specify_________________ — — — — (€)

5. What was the overall value of your company production in 2015 and 2016?
a. Value 2015 _________________ €/ per year
b. Value 2016 _________________ €/per year
99. No answer

5.a Please tell us which range corresponds to the production value of your company in 2015 and 2016? (***If the respondent hasn't answered the question B-5)***

	2015	2016
1. up to 10,000 €/year		
2. 10,001 – 25,000 €/ year		
3. 25,001 – 50,000 €/ year		
4. 50,001 – 100,000 €/ year		
5. 100,001 – 250,000 €/ year		

6. 250,001 – 500,000 €/ year		
7. 500,001 – 1,000,000 €/ year		
8. 1.000,001 – 2,500,000 €/ year		
9. 2,500,001 – 5,000,000 €/ year		
10. 5,000,001 – 10,000,000 €/ year		
11. Over 10,000,000 €/ year		
99. No answer		

6. What kind of products you produce?
   a. final products __ __ __ (%)
   b. semi-finished products __ __ __ (%)

7. Thinking about products sold during 2015 and 2016, can you provide to us with the degree of company's capacities used (***if additional explanation required: use of capacities means usage of all installed capacities)***
   a. 2015 __ __ __ (%)
   b. 2016 __ __ __ (%)

8. Which are your expectations for the level of income during this year compared with the last year?
a. Increase for ____%
b. Decrease for ____%
c. Rather similar

9. Comparing with the last year, this year you plan:
a. Increase of number of employees for _____(persons)
b. Decrease of number of employees for _____(persons)
c. Same number of employees

10. What are your perceptions about the industry you operate in?

a. Sector is increasing
b. Sector is decreasing
c. No changes
88. I don't know

C: Data about sales

1.Please specify the level of sales of your company in years 2015 and 2016
a. 2015 __ __ __ EUR
b. 2016 __ __ __ EUR
99. No answer

2. Please specify which range corresponds to the overall income value of your company in 2015 and 2016? (***If the respondent hasn't answered the question C-1)***

	2015	2016
1. up to 10,000 €/year		
2. 10,001 – 25,000 €/ year		
3. 25,001 – 50,000 €/ year		
4. 50,001 – 100,000 €/ year		
5. 100,001 – 250,000 €/ year		
6. 250,001 – 500,000 €/ year		
7. 500,001 – 1,000,000 €/ year		
8. 1.000,001 – 2,500,000 €/ year		
9. 2,500,001 – 5,000,000 €/ year		
10. 5,000,001 – 10,000,000 €/ year		
11. Over 10,000,000 €/ year		
99. no answer		

3. Based on your previous answer can you specify the sale segmentation in domestic and foreign markets?

	2015	2016
Domestic sales	a. __ __ __ (%)	a. __ __ __ (%)
Foreign sales	b. __ __ __ (%)	b. __ __ __ (%)

4. Can you specify which of the following statements correspond to the missing sales in the export markets?
   1. I do not intent to export/ it is not part of my business plan

2. I plan to export in the future but my company is not ready yet
3. I want to export but there are lot of obstacles.

5. Who were the clients of your sales in domestic market in 2016 and what was the share of the sales compared with the overall sale figures?

Byers		
5.1 Other companies for further processing	1. Yes 2. No	__ __ __ %
5.2 Distributors/ wholesale companies	1. Yes 2. No	__ __ __ %
5.3 Retail companies	1. Yes 2. No	__ __ __ %
5.4 final/ end consumer	1. Yes 2. No	__ __ __ %

6. What kind of products/ services have you sold in domestic market in 2016?
 a. Final products/ services __ __ __ (%)
 b. Semi-final products __ __ __ (%)
 c. Raw materials __ __ __ (%)

D: Data on exports

1. What kind of products/ services have you exported in 2016?
 a. Final products/ services __ __ __ (%)
 b. Semi-final products __ __ __ (%)
 c. Raw material __ __ __ (%)

2. Who were the clients of your sales in export markets in 2016 and what was the share of the sales compared with the overall sales figures (put "0" if there are no sales to the byers?

Byers		
Other companies for further processing	1. Yes 2. No	__ __ __ %
Distributors/ wholesale companies	1. Yes 2. No	__ __ __ %
Retail companies	1. Yes 2. No	__ __ __ %
final/ end consumer	1. Yes 2. No	__ __ __ %

3. What year your company started to export for the first time products/ services?
 __ __ __ __ (year)
 88. Don't know (spontaneous)

4. What was the overall export value of your company in 2015 and 2016?
 a. 2015 __ __ __ __ __ __(€)
 b. 2016 __ __ __ __ __ __(€)
 88. Don't know (spontaneous)

5. Please specify three main goods exported during 2016 according to the countries, share in % according to the export markets/ countries as well as potential markets for the export of these products

Nr.	Products/ service	Export markets/ countries						Potential export markets	
		First country	Value	Second country	Value	Other countries (specify)	Value	First country	Other countries (specify)
1									
2									
3									

6. What was the biggest obstacle you faced during exporting? (***Do not read the list. Notify the answer below and code***)
 ____

7. What was the second biggest obstacle that you faced during exporting? (***Do not read the list. Notify the answer below and code***)

____

	First mentioned	Second mentioned
Costs of transportation	1	1
International quality standards (sanitary and fitosanitary and other industrial standards	2	2
Lack of export loans/ credits	3	3
High costs of bank guarantees	4	4
Customs clearance procedures	5	5
Efficiency of customs administration in transit or importing countries	6	6
Efficiency of customs agents/ intermediaries	7	7
Political situation in the importing country	8	8
Limited possibilities to establish connections with foreign business networks	9	9
Infrastructure in transit countries or importing countries	10	10
Other (specify)	97	97
I don t know	88	88
Refuse	99	99

8. Apart of obstacles just mentioned, please rate if the following issues hamper your export activities. Please rate from 0(zero) – 10 (ten) where "0"= is not a obstacle and 10 = major obstacle.

	Rating
Costs of transportation	
International quality standards (sanitary and fitosanitary and other industrial standards	
Missing finances	
High costs of bank guarantees	
Customs clearance procedures	
Efficiency of administration in transit or importing countries	
Poor efficiency of customs agents/ intermediaries	
Political situation in the importing country	
Limited possibilities to establish connections with foreign business networks	
Infrastructure in transit countries or importing countries	

9. Related to internal obstacles in the company which affects export, can you mention which was the biggest obstacle you faced? (***Do not read the list, write the answer and code***) ____

10. and what is the second obstacle? ***(Do not read the list, write the answer and code)***

____

	First mentioned	Second mentioned
Inability to complete the process of certification according international standards (*because of inappropriate premises, human capacities)*	1	1
Inability to complete training/ train the employees	2	2
Inefficient management structures	3	3
Lack of readiness of the owner to extend production	4	4
Inability to efficient placement of products	5	5
Inability to establish relationships with foreign business partners	6	6
Other (specify) _____________	97	97
Don't know	88	88
Refusing to answer	99	99

11. Apart of obstacles mentioned above, please specify if the issues below reflect obstacles for exports. Please rate between 0 – 6, where "0" means not an obstacle at all and "6" very big obstacle

	Rating
Inability to complete the process of certification according international standards *because of inappropriate premises, human capacities*	
Inability to complete training/ train the employees	
Inefficient management structures	
Lack of readiness of the owner to extend production	
Inability to efficient placement of products	
Inability to establish relationships with foreign business partners	

E: Employment and human resources of the company/ industry

1.What is the overall actual and gender specific number of employees:

	Number of employees	
Year	Man	Women
a. 2015	__ __ __(#)	__ __ __(#)
b. 2016	__ __ __(#)	__ __ __(#)

c. Actual __ __ __(#) __ __ __(#)

2.What was the distribution of employees in 2016 according to these specifications?

a. Full time employee __ __ __ (%)
b. Part time employee __ __ __ (%)
c. Seasonal workers __ __ __ (%)

3.Age distribution of employees in 2016?

a. between 18-25 years __ __ __ (%)
b. between 26-50 years __ __ __ (%)
c. over 50 years __ __ __ (%)

4. What is the number of employed minorities (non-Albanians) in 2016?

1. YES, please specify the number of employees __ __ (nr.), and select their nationality

1.1.1 Albanian
1.1.2 Serbian
1.1.3 Turkish
1.1.4 Bosnian
1.1.5 RAE
1.1.6 Gorani

2. No

5. What was the value of salaries for an average single month in 2015 and 2016?
a. 2015 __ __ __ __ (€)
b. 2016 __ __ __ __ (€)

6. What was the education level of the employees in 2016?

		Man	Women
a.	Elementary school	__ __ __ (#)	__ __ __ (#)
b.	Secondary school	__ __ __ (#)	__ __ __ (#)
c.	High school	__ __ __ (#)	__ __ __ (#)
d.	University	__ __ __ (#)	__ __ __ (#)
e.	Post graduate degree	__ __ __ (#)	__ __ __ (#)

7. Does your company provide trainings for employees?
Yes
No ***(if NO, proceed to the question E-8)***

8. In 2016 how many employees according to the gender have taken part in training?

Training	Man	Women
a. Training on the job (for production)	__ __ __ (#)	__ __ __ (#)
b. Another forms of trainings (courses, workshops, etc.)	__ __ __ (#)	__ __ __ (#)
c. Training on general issues (presentation skills, time management, etc.)	__ __ __ (#)	__ __ __ (#)

9. Please specify three occupations that are mostly not available.

10. Do you think that companies from your industry face the problems stated below?

	Yes	To some extent	No	I don't know
a. Lack of employees with adequate qualifications/ skills	1	2	3	88
b. Workers with adequate qualifications/ skills are very expensive (high salaries)	1	2	3	88
c. No sufficient graduates from vocational secondary schools for my sector	1	2	3	88
d. Graduates from vocational secondary schools for my sector are very expensive (high salaries)	1	2	3	88
e. No sufficient university graduates for my sector	1	2	3	88
f. The graduates from the university are very expensive (high salaries)	1	2	3	88

F: Investments and level of technology for the company/ industry

1. Please specify if your company owns or rents:

	Property	Rent
Land	1	2
Building	1	2
Machinery and equipment	1	2

2. What is the value of owned land?
a. Specify the approximate value for 2015: __ __ __ __ __ (€)
b. Specify the approximate value for 2016: __ __ __ __ __ (€)

3. What is the value of buildings you own?
a. Specify the approximate value for 2015: __ __ __ __ __ (€)
b. Specify the approximate value for 2016: __ __ __ __ __ (€)

4. What is the value of technology (machinery and equipment) you own?
Specify the approximate value for 2015: __ __ __ __ __ (€)
Specify the approximate value for 2016: __ __ __ __ __ (€)

5. Have you invested in any new business product or services?
a. YES, specify the approximate value of investment __ __ __ __ __ (€) and name the products ______________________________
b. NO

6. Were remittances from abroad part of the investments in your company?
a. YES, specify the approximate value of investment __ __ __ __ __ (€)
b. NO

7. Have you made any innovative change in your company during 2016 linked with the processes, organization or marketing as stated below

1. Implementation of any new method or important improvement of existing methods of production in changing of techniques, equipment and/ or software.
*If YES please specify the implemented changes*___________________________________

2. Implementation of innovative methods of marketing, including important changes in design, packaging, placement, promotion, prices of your products.
If YES, describe the implemented changes: _____________________________________

3. Implementation of new organizational methods in business practice, organization of working places or public relations
If YES, describe the implemented changes: _____________________________________

8. Is the actual level of protection of industrial property affecting the companies in your sector?
1. No, it does not
2. Yes, it hampers companies in development of new products/ services
3. Yes, it hampers companies in their engagement in transferring of activities to foreign companies
88. Don't know

9. Has your company registered any patent in Kosovo?
1. Yes (if yes please specify the year of registration: ___________ (year)
2. No

10. Do you think that difficulties in patent registration cause problems in business development?
1. Yes, please specify the impact on business____________________________
2. No

G: Business environment

1**.** Please specify to what degree the following issues represent an obstacle to business development, where "1" represents high obstacle. The assessment rate is 0 -17, whereas "0" means no obstacle at all and "17" very high obstacle.
Order

Access to finance/ bank credits	
Access to proper land	
Difficulties in obtaining work permits/ business certificate	
High level of corruption	
Low efficiency of courts	
Low efficiency of customs administration	
Absence of costs of electricity	
Unqualified workforce *(inadequate level of education and working experience)*	
Competitiveness of non-formal sector	
Inefficient tax administration	
Level of taxes	
Difficulties in obtaining technology/ equipment	
Labour force costs (high salaries)	
Costs of production materials (*raw material and semi-finished materials)*	
Quality of raw materials	
Lack of buying power in domestic market	

Local infrastructure *(roads, water supply, wastewater etc.)*	

2. Which is the appropriate definition of the tax level in Kosovo?
   1. Very low
   2. low
   3. average
   4. high
   5. very high

   Describe your choice in one statement: ______________________________________

3. Which is the appropriate description for the performance of the Tax Administration of Kosovo?
   1. Very inefficient
   2. Inefficient
   3. Average
   4. Efficient
   5. Very efficient

   Describe your choice in one statement: ______________________________________

4. Which is the appropriate description for the performance of the Customs Administration of Kosovo?
   1. Very inefficient
   2. Inefficient
   3. Average
   4. Efficient
   5. Very efficient

   Describe your choice in one statement: ______________________________________

H: FINANCIAL SECTOR

1. Which statement describes the easiness of financing in your sector?
   1. Very difficult
   2. Difficult
   3. Average
   4. Easy
   5. Very easy

   Describe your choice in one statement: ______________________________________

2. Which statement describes the cost of financing (level of interest rates) in your sector?
   1. Very high
   2. High
   3. Average
   4. Low
   5. Very low

   Describe your choice in one statement: ______________________________________

3. Finally, please provide information for your company in 2016 about:

a. Total operating costs __ __ __ __ __ __ __ (€)
b. Total production costs __ __ __ __ __ __ __ (€)
c. Overall income __ __ __ __ __ __ __ (€)

D: DEMOGRAPHY

1. Gender of the respondent
   1. Man 2. Women

2. Age? ___ ___ (years)

3. Level of education in years ___ ___ (years)
   99. Don't know
   98. No answer

4. Position in the company? (**Multiple answers possible**)

1. Executive director
2. Head of finances
3. Owner (for small businesses)
4. Co-owner
97. Other (Specify) __________
88. No answer
99. Don't know

Appendix 4: Qualitative Study

Introduction
Explanation of the purpose of the study and the scope of the interview
Questions
Thanking the interviewee

1) Can you please give me a brief description of your company and its main activity?
2) Can you please tell me in overall, how do you evaluate your business performance since the early years in terms of turnover, number of employees and diversification of products?
3) Can you please tell me, how do you evaluate the level of taxes in Kosovo? And what about the easiness and the cost of financing in your country? Can you point out which are your experiences regarding these issues?
4) To what extent do you think your actual employees meet the required level of skills and competences of your business?
5) Can you point out which are the most important problems facing your business today? Can you provide me with some solution for them?

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