



Investment
Opportunities
in Kosovo's
Agribusiness
CONFERENCE
2015

Creating Connections

Business Enabling Environment

INFORMATIONAL BOOKLET







CONTENTS

KOSOVO ECONOMY OVERVIEW	4
LEGAL ENVIRONMENT	5
OVERVIEW OF PUBLIC SUPPORT TO AGRIBUSINESS	14
SUPPORT FOR AGRICULTURAL INPUTS	16



“A MARKET ECONOMY WITH FREE COMPETITION IS THE BASIS OF THE ECONOMIC ORDER OF THE REPUBLIC OF KOSOVO”

(ARTICLE 10 OF THE CONSTITUTION OF THE REPUBLIC OF KOSOVO).

KOSOVO ECONOMY OVERVIEW

- The population of Kosovo in 2014 was 1,804,844.
- Kosovo’s GDP in 2014 was €5.5 billion, or an increase of 3% over 2013, and 24.6% since 2010.
- GDP per capita in 2014 was €3,039.
- Kosovo’s trade deficit in 2014 was €2.2 billion, with €2.5 billion in imports and just €319 million in exports, meaning Kosovo is an 87% import economy.
- Remittances from the Kosovo diaspora remain resilient, amounting to approximately €693 million per annum through banking channels.

In most of the indicators on the World Bank Doing Business Index, Kosovo ranks higher than all other countries in the Western Balkans region.

**2014 World Bank Doing Business
Index Rankings**

Regional Comparison	Kosovo	Serbia	Albania	BiH
Doing business	86	93	90	131
Getting credit	28	42	13	73
Enforcing contracts	138	116	124	115

REASONS TO INVEST

- Corporate establishment in 3 days
- 10% corporate income tax
- 0% dividend tax
- Free access to 520 million consumers across the European Union
- Low, flat terrain through central Kosovo, surrounded by mountains to the north, west and south.
- 61% of the population in Kosovo lives in rural areas
- By area, 53% of Kosovo (580,000 hectares) is good-quality, arable land
- The fifth top reformer and the first among SEE countries in the 2014 World Bank Doing Business Report
- Free-trade Agreements, Double-taxation Treaties and Bilateral Investment Treaties

TOP REFORMER

Thanks to its efforts to better the doing business environment in the country, Kosovo ranked

86th in the 2014 World Bank Doing Business Report. This is a result of Kosovo's undertaking major reforms in the ease of opening a business.

LEGAL ENVIRONMENT

MODERN LAWS

Law on Business Organizations as amended provides fast and simplified procedures for business registration, including legal provisions for establishment, operation and eventually dissolution of companies in Kosovo. The law allows for the establishment of the following forms of businesses:

- Individual business, also known as sole proprietor, where the owner has unlimited liability for all debts of the company. This form can be established within 1 business day.
- General Partnerships, which include at least two partners with unlimited liability and either joint or several liability for debts of the organization. The collective organization has one name, which may include the name of one of the partners, with the acronym "O.P." immediately after it.
- Limited Partnerships, which include at least two partners, one of which must be a limited partner, whereas the other is a general partner.
- Limited Liabilities Companies, or corporations established by one or more founders, with limited liability and corporate governance. Zero chartered capital is possible when establishing an LLC. LLCs can be established in 3 business days.
- Joint Stock Companies are corporations whose capital is divided in shares and whereas the shareholders have limited liability towards the corporation. JSCs in Kosovo can be established and have one or more shareholders with a minimum charter capital of 10,000 Euros. JSCs can be established in 3 business days.
- A Foreign Company Branch does not have a separate legal identity but enjoys all rights and obligations after establishment, based on the applicable law.
- Agricultural Cooperatives are business organizations created by natural or legal persons, all of which should be farmers who contribute their own private property to the shared capital. An agricultural cooperative is established by at least five (5) farmers who are signatories of obligations. The cooperative shall not be established without capital and it shall not exist without capital. The capital is divided among shares of even value with a minimal value of 10 Euros. The director may not be member of the cooperative.

Law on Foreign Investment protects, promotes and encourages foreign investment in the Republic of Kosovo, while also providing foreign investors with a set of fundamental rights and guarantees that will ensure investment security and their fair treatment. The law also sets forth the principles of non-discrimination, compliance with international regulations, as well as investment liquidation procedures and the resolution of investment disputes through international arbitration procedures.

Law on Economic Zones sets out the establishment of economic zones, free economic zones, creation of the basis for drafting the national plan for economic zones, site(s) of economic zones, way of use of economic zones, promotion of economic zones, drafting of national plan for economic zones and establishment of national council for economic zones. The law also specifies the rights and obligations of developers, users/operators and other subjects that exercise activities related to economic zones, the types of activities carried out in economic zones, and the ways of moving goods through them, as well as fiscal facilities that arise as a result.

TAX REGIME

The Republic of Kosovo has no integrated fiscal code governing all tax aspects, but rather several laws issued to cover the main taxes applicable in Kosovo. Since 2015, the VAT rate has been between 8% and 18%, and the corporate income tax rate is 10%. Such rates apply as of 2015 and are collected by one nation-wide internal revenue service, the Tax Administration of Kosovo (TAK). The most important taxes applicable to corporations in Kosovo are:

1. Corporate income tax;
2. Personal income tax;
3. Value added tax;
4. Wage withholding tax;
5. Rent withholding tax;
6. Custom duties;
7. Excise tax; and
8. Municipal tax (immovable property tax and business license fee, the latter only applicable in some municipalities).

The tax system in Kosovo is based upon principles of voluntary declaration and compliance. Furthermore, the payment system has become largely electronic, facilitating the work of businesses and enabling Kosovo to rank 43rd for ease of paying taxes, with 33 payments per year, requiring a total of 162 hours. Due to the electronic tax payment system and the small number of payments, the World Bank Doing Business Report ranks Kosovo 43rd in Ease of Paying Taxes.

CORPORATE INCOME TAX

The Kosovo Assembly adopted the Law on Corporate Income Tax, effective as of January 2010 and later amended. According to this law, the following entities are subject to corporate income tax:

1. Corporations or other business organizations that have the status of a legal entity under the applicable laws in Kosovo;
2. Companies operating with public or socially owned assets;
3. Organizations registered as non-governmental organisations. Non-governmental organizations holding a public benefit status certificate are exempt from corporate income tax; and
4. Permanent establishments in Kosovo of non-residents. Such permanent establishments include but are not limited to: plants, branch offices, representation offices, factories and construction sites.

VALUE ADDED TAX

The VAT Law in Kosovo is based on the EU Directive 2006/112/EC on VAT. It does not include a tax on the export of goods and services and the only VAT paid at the border is in relation to imports. VAT is chargeable on taxable values of imports and domestic supplies of goods and services. The VAT rate is between 8% and 18%. The law also defines what is considered a supply of goods versus a supply of services. The taxable value of a taxable supply in Kosovo is the total consideration payable for that supply.

LABOR-RELATED TAXES

Personal income tax and pension contributions must be paid by the employer on behalf of itself and the employee. The personal income tax rate system is a progressive tax system, with a 10% maximum tax rate. Taxes must be withheld by employers on a monthly basis, and in set amounts. Currently, Kosovo has established only one mandatory social charge in the form of pension contributions, which are administered and managed by the Kosovo Pension Savings Trust (Trusti).

The pension law provides that both employees and employers should contribute to the individual savings pension system. This is a defined contribution scheme, with an account held for each individual who has invested therein. Each individual receives an annual account statement. Foreigners are not obligated to make such pension contributions. Employees have to contribute 5% of their monthly wages to their pensions, which is then matched by another 5% contribution from their employer. In practice, employers withhold and pay for both elements.

KOSOVO CUSTOMS

Customs are regulated by the Customs and Excise Code and the Administrative Instruction of the Minister of Finance implementing this code. The tariff as applied to the specific type of goods imported can be found in the Integrated Tariff of Kosovo (TARIK). It consists of a Goods Nomenclature and is based on the Harmonized System of the World Customs Organization (WCO) as well as on the Combined Nomenclature of the European Communities. While in general, a flat rate of 10% is applied to all goods imported into Kosovo; goods imported from certain countries are exempt from customs duties. Note that a 16% VAT charge is applied on all goods imported, even on those exempt from customs duties.

EXCISE TAX

The Law on Excise Taxes, amended in 2008 and 2009, provides a list of goods subject to excise tax. The goods subject to excise taxes include: coffee, wine, cigarettes and other tobacco products, oils, fruit juice and other drink



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concentrates, cars and other motor vehicles. Fixed amounts are provided for certain goods. The Law on Excise Tax Rate regulates the norms of excise taxes for goods that are presented in Annex A of this Law. In 2010, this law and the list under Annex A has been amended by Law No. 03/L-220 on Amending Law No. 03/L-112, Excise Tax Rate in Kosovo, whereby petroleum gases and other gaseous hydrocarbons used for production processes are exempt from the excise tax rate.

IMMOVABLE PROPERTY TAX

The Law on Immovable Property Tax states that in general, the person liable for paying the tax is the real estate owner. The rate is set at an annual basis between 0.15% and 1% of the market value of the real estate. There are different rates for various different types of property, such as residential, commercial or agricultural property. For unfinished property, the tax is 40% of the rate, which would be applied to the finished property according to its purpose. The annual tax has to be paid in two equal portions no later than June 30 and December 31, respectively. The municipalities in each jurisdiction must assess the real estate and update the market value of each real estate parcel every 3 (three) to 5 (five) years.

KOSOVO LABOR LAW

Employment relationships are governed by the Law on Labor, which aims to codify the employment law of Kosovo and introduce a detailed and elaborate regulation of all aspects of the collective and individual employment relationship.

In order to be able to monitor compliance with the Labor Law, a compliance office, Kosovo Labor Inspectorate, has been created by the Ministry of Labor and Social Welfare. Labor disputes are adjudicated before the seven (7) basic courts and their respective branches.

The employer is obliged to report the employee to the Tax Administration of Kosovo and other institutions, which manage and administer the obligatory pension schemes and other obligatory schemes.

The Labor Law establishes certain mandatory standards to be provided for in labor contracts by giving flexibility to their contents, as long as it does not conflict with applicable law. The law allows for employment contracts with duration of up to ten (10) years as well as for indefinite employment contracts. All labor contracts must be in writing.

The Labor Law sets the maximum probationary period to six (6) months. During this period, both the employee and the employer may terminate the contract by providing seven-day notice.



The Labor Law contains detailed provisions on working hours, which are not to exceed 40 hours per week and 12 hours per working day, respectively. Full time working hours for employees under 18 years of age must not exceed 30 hours per week. Overtime must not exceed eight (8) hours per week. Overtime has to be paid at a rate of 20% to 50%, while the employee may choose to be compensated with corresponding time off.

Time between 22:00 and 6:00 is considered a night shift. Employees under 18 years of age and pregnant employees must not take night shifts. A single parent of a child under 3 (three) years of age or a parent of a disabled child may only be allocated night shifts with their consent.

Retirement age in Kosovo is 65.

INTELLECTUAL PROPERTY

Kosovo established a comprehensive legal framework for intellectual property, especially regarding the protection of the following intellectual property rights:

- Patents
- Trademarks
- Industrial design
- Copyright and related rights

Furthermore, new legislation on product piracy entered into force in Kosovo in 2008. Protection of IP rights in Kosovo is governed by the Patent Law, Law on Trademarks, Law on Protection of Plant Varieties, Law on Industrial Design and the Law on Copyright.

REDUCED NUMBER OF LICENSES AND PERMITS

In 2013, the Government of Kosovo made significant improvements in regards to dealing with permits or licenses and the processes associated with acquiring them. According to the 2014 World Bank Doing Business Report, Kosovo has facilitated these processes by eliminating validation requirements for the main construction project as well as by making the process easier, through elimination of fees for technical approvals from the municipality as well as lowering building permit fees.

The Law on Construction, passed by the Kosovo Assembly on June 2012, is the main piece of legislation that regulates the issuance of construction permits, compliance with permit requirements, and issuance of occupancy certificates within the territory of the Republic of Kosovo. This law specifies the construction principles and all other details relevant to acquiring permits

and occupancy certificates in Kosovo, including the Unified Construction Code of Republic of Kosovo. Based on the provisions of this Law, the Municipalities around Kosovo have drafted better and more efficient urban plans, and are now ensuring that they are being fully respected and followed.

FREE TRADE AGREEMENTS AND DOUBLE TAXATION TREATIES

The Republic of Kosovo is a signatory party to 10 Double-taxation Agreements (Germany, Finland, Czech Republic, Belgium, Albania, Hungary, Macedonia, The Netherlands, Turkey and United Kingdom), several of which were signed by the SFR Yugoslavia, prior to Kosovo's independence; however each of them has been re-ratified by the Government of Kosovo after the declaration of independence. Mainly, the DTTs cover taxes on income and capital; however the specific taxes differ from country to country, based on their tax systems. Currently, the Government of Kosovo is working toward increasing the number of DTTs, with the purpose of facilitating doing business with/in other countries and decreasing the burden of companies.

Kosovo enjoys free trade within the Central European Free Trade Agreement (CEFTA) enabling its producers to access aregional market comprising 28 million consumers, free of any customs duties. In addition, Kosovo benefits from nonreciprocal, duty-free trade to the EU market based on the EU Autonomous Trade Preference Regime EU Council Resolution (ATP) (2007/2000);duty-free trade to the U.S. market, trade connections with Japan and Norwaywith quantitative and qualitative restrictions remain in force only for a very limited number of goods.

OVERVIEW OF PUBLIC SUPPORT TO AGRIBUSINESS

Based on the Strategy for Agriculture, Forestry and Rural Development, the Ministry of Agriculture, Forestry and Rural Development (MAFRD) provides support for farmers through subsidies and grants, placed through direct payments and the rural development program.

MAFRD started to support farmers with direct payments in 2009. In 2012, direct payments covered: direct payments for milking cows (per head), sheep and goats (per head), direct payment for areas (Ha) planted with wheat, for areas (Ha) planted with maize, for areas (Ha) planted with wheat, for areas (Ha) planted with sunflowers, for beehives and oil subsidized for the harvest of cereals.

Recently, support through direct payments was expanded to more sectors: direct payments for poultry (per head), for existing vineyards and for seedling materials.

The direct payments support scheme is awarded based on the following criteria:

- Subsidies for sheep and goats: a minimum of 30 sheep or 20 goats per farm – 10 €/head
- Subsidies for milking cows: a minimum of 5 cows or buffalo per farm – 50 €/head.
- Subsidies for sheep and goats: a minimum of 30 sheep or 20 goats per farm – 10 €/head
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- Subsidies for poultry: farms with 2,400-10,000 chickens - 0.50 €/head, farms with 10,000-20,000 chickens - 0.40 €/head, farms with over 20,000 chicken - 0.30 €/head
- Subsidies for beekeeping - 10 €/beehive
- Wheat production: the minimum area accepted is 2 ha/farmer - 125 €/ha
- Maize production: the minimum area accepted is 1 ha/farmer - 100 €/ha
- Wheat production: area of wheat certified by MAFRD inspectors - 200€/ha
- Production of sunflower and rapeseed: payments per area with sunflower or rapeseed - 100 €/ha

- Direct payments for vineyards: farmers owning an area of 0.10-100 ha, 500 €/ha; farmers owning over 100 ha 500 €/ha
- Production of seedling material: Payment for seedlings - 0.20 €/piece

In 2013, the support to the agricultural sector through direct payments amounted to 12.1 million Euros.

SUPPORT FOR AGRICULTURAL INPUTS

DIRECT PAYMENTS FOR SEEDLINGS

Seedling material is subsidized by a payment amounting to 0.20 €/piece. Farmers applying must meet the following criteria:

- must be citizens of the Republic of Kosovo
- have at least 0.50 ha of agricultural land (owned or rented)
- have a land lease contract valid for at least two (2) years

AGRI-LOANS AND THE GUARANTEE FUND

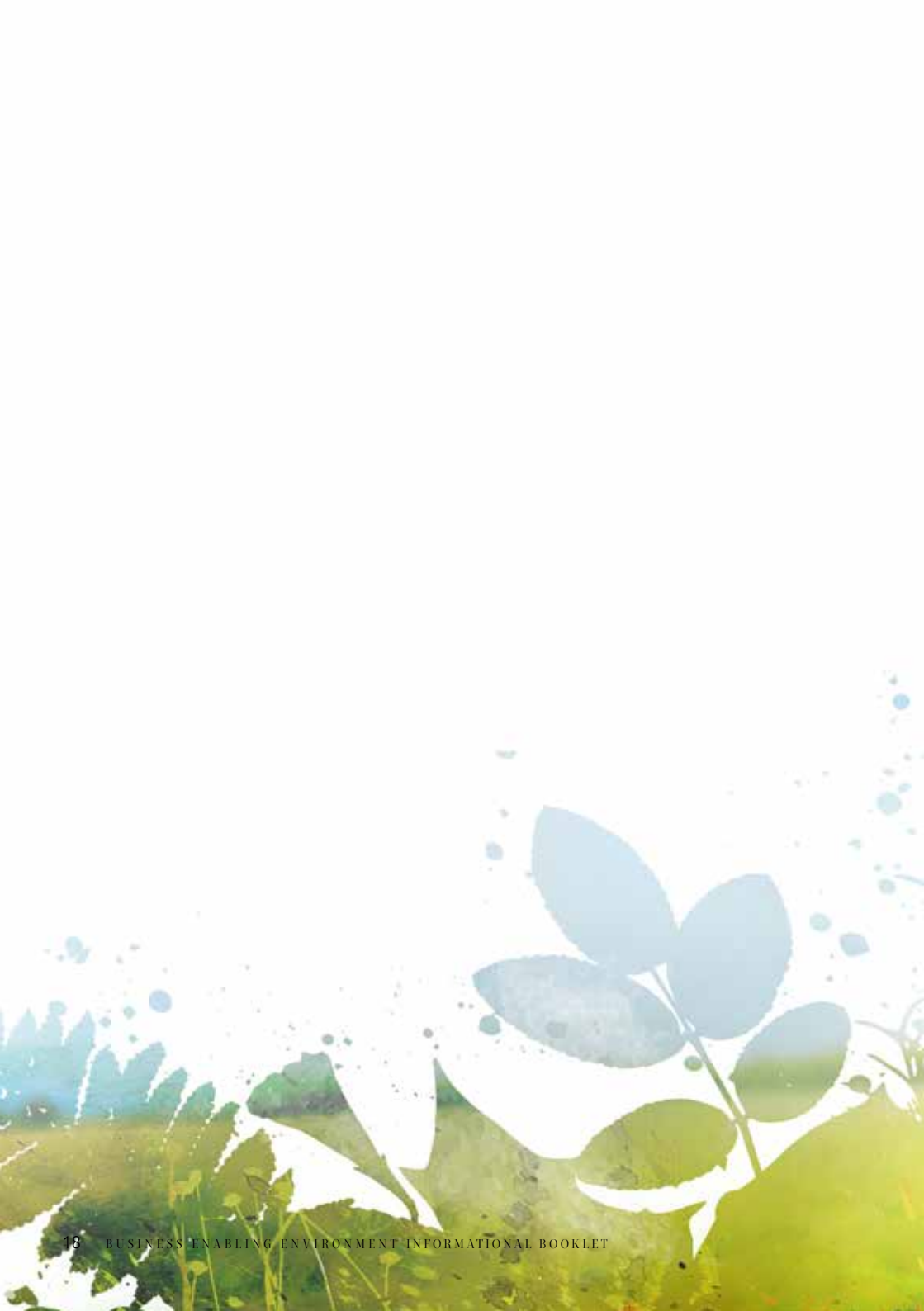
Agriculture in Kosovo faces many difficulties in the post-war period. It has taken years to recover, and even today agriculture is still in transition. The agricultural sector -- despite being favored and even considered a priority for the economy -- is quite low, compared with high demand and existing trends in EU countries.

Interest rates for loans in the agricultural sector are quite high compared to loans in other sectors and to other regional countries, where the 3% interest risk penalty from the post-conflict period is still being paid. Lending continues to have a high cost, because banks and Microfinance Institutions (MFI), often consider agri-loans as non-performing loans.

Agriculture is one of the most important sectors of the economy and thus there is a great need for agri-loans in order to finance investments, such as purchasing equipment and agricultural machinery of the latest technology, purchase of inventory, expansion of farms, land plots, purchase of livestock for breeding, agricultural inputs, animal feed, farm adjustments, artificial fertilizers for increasing land yields, all of which support increases of productivity and preparations for the agricultural season to build the agri-economy.

Banks providing loans to the agricultural and livestock sectors in Kosovo are: Bank for Business, Banka Ekonomike, Raiffeisen Bank, Procredit Bank, TEB, NLB Pristina, and National Trade Banka (Al), whereas microfinance institutions are: Qelim Kosovë; Timi Invest, Start, Perspektiva 4, Mështekna, Kosovo Rural Credit, KosInvest Word Vision, KGMAF, KEP Trust, Finca, the Financing Agency of Kosovo.

The leaders in the number of agri-loans disbursed are ProCredit Bank (PCB) and Raiffeisen Bank (RBKO) followed by MFIs: Kosovo Rural Credit (KRC) and the Financing Agency of Kosovo (FAK). According to the data in the table, the largest number of loans were disbursed in 2008, whereas a smaller number was disbursed in 2013. The number of loans disbursed between 2006 and 2013 is about 191,635, for a total value of 444.6 million Euros. Thus, in 8 years, some 2,000 loans were disbursed every month for an average value of 4.6 million Euros.



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