

# MARKET ASSESSMENT FOR THE CONSTRUCTION SECTOR

Employment  
prospects for youth  
**June 2015**

**EYE** Enhancing Youth  
Employment



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# **MARKET ASSESSMENT FOR THE CONSTRUCTION SECTOR**

Employment prospects for youth

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This Assessment is prepared by Strategy & Development Consulting and is commissioned by the Enhancing Youth Employment (EYE) programme financed by the Swiss Cooperation Office and implemented by the consortium of Helvetas Swiss Intercooperation and MDA.

### **DISCLAIMER**

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## EXECUTIVE SUMMARY

The construction sector in Kosovo is currently in transition – namely, it's moving away from the supply-driven and poorly regulated market system that emerged in the post-conflict period and becoming more of a demand-driven market in which clients are increasingly looking for quality, legal certainty and affordable financing before making a costly investment such as buying a house. This transition period is marked by several bottlenecks, which constrain both demand and supply on the construction market, which is defined here as the relation between the suppliers of construction services and residential buyers, identified as the biggest source of demand for construction services.

Using the Market System Development<sup>1</sup> analytical framework and diverse research tools – including primary sources such as interviews, a specially designed survey with construction companies active in the Prishtina region and five stakeholder focus groups – we found these bottlenecks mainly in functions of the market such as limited access to finance for residential buyers which impacts demand or functions that impact the performance of construction firms, such as information flows between input suppliers and construction companies, or the latter's missing links with skills providers. We also found key constraints in certain rules and regulations governing the market, such as the incomplete or unclear legal framework regulating construction activities, or the prevalence of informal practices – all of which generate a lot of uncertainty and risks, and thus costs, for both construction services suppliers and property buyers.

The assessment of the construction sector and the relevant data are narratively presented through a logical structure that starts with general information about the core market and moves all the way to specific interventions in interrelated markets that can improve the performance of the sector. In the first chapter, the report assesses the overall relevance of the construction sector for young women and men in Kosovo. In the second chapter, it discusses the key markets and constraints starting with market functions and rules, the dynamics and performance of the core market and the interrelated markets. In the third and fourth chapters respectively, the report presents a detailed analysis of stakeholders as well as a sustainability matrix used to examine the specific combinations of market functions and players, which are necessary for a market system to work better in the future. Finally, in the fifth chapter the report proposes a set of specific interventions which could improve the performance of interrelated markets and which, in turn, could improve the performance of construction sector in general.

Potential interventions that can have a tangible impact in addressing some of the identified constraints in interrelated markets include: a) facilitating access to practical experience for VET students who are studying to become machine operators and technicians; b) improving the penetration of women professionals in the construction sector; c) improving access to information for all stakeholders regarding financing instruments for property; d) improving the linkage between insurance institutions and financial institutions for further development of the mortgage market.

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<sup>1</sup> The operational Guide for the Making Markets Work for the Poor Approach  
<https://www.eda.admin.ch/publikationen/en/deza/diverse-publikationen/guide-de-la-demarche-mp4.html>

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# 1. Relevance of the construction sector for young women and men in Kosovo

The construction sector has served as one of the main pillars of Kosovo's economy and despite challenges it has continued to expand even during the economic crisis in Europe. With a share of 9.5%, the construction sector was the 4<sup>th</sup> biggest employer in Kosovo in 2014, employing around 39,000 people. Although the employment share of the construction sector among all other sectors decreased in 2014 compared to the previous year from 11.4% to 9.5%, the total number of employees increased by 10,000<sup>2</sup>.

## KEY FACTS

- 4<sup>th</sup> biggest employer in 2014
- the biggest employer of foreign citizens in 2013
- the 4<sup>th</sup> highest salary among all other sectors
- the 6<sup>th</sup> largest contributor to the national GDP in 2013
- youth represent 27% of the total workforce
- women represent 12% of the workforce
- young women represent 2.5% of the workforce

In the peak years, 2011 and 2012, more than 3,500 construction jobs were advertised through the Public Employment Services (PES) and more than 80% were matched<sup>3</sup>. In 2014, 598 jobs in the civil construction sector were advertised through PES (an 8% decrease compared to the previous year) and 89% were matched.

The smallest share of female workers is found in the construction sector (12%), which is similar to the EU average. Underrepresentation of women in the sector is common in all economies. Out of the 70 companies surveyed by S&D in 2015 only 8 of them reported to have women shareholders.

The construction sector was the biggest employer of foreign citizens in 2013. It employed 399 individuals, representing 27% of all foreign citizen employed. Construction and infrastructure managers and engineers accounted for 40% of the positions filled by foreigners in the construction sector<sup>4</sup>.

The unemployment rate in Kosovo is estimated at 30% with 38.8% for women versus 26.6% for men. Unemployment is particularly severe among young people (aged 15-24) at 55.9% with an alarming rate for young females of 68.4%<sup>5</sup>.

Data from the 2015 S&D Survey suggests that on average, youth represent 27% of the total number of employees in construction companies. In 23% of the companies surveyed, youth represent 50% or more in the total workforce. Only half of the surveyed companies have young female employees, representing on average 2.5% of the total workforce.

In 2013, the average salary in the sector was estimated at 388 Euros, the 4<sup>th</sup> highest salary among all other sectors. According to the S&D Survey conducted in 2015 the average

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2 Labour and Employment, Department of Labour and Employment, Ministry of Labour and Social Welfare, June 2015

3 Systemic overview of the Public Employment Services (PES) in Kosovo, Ministry of Labour and Social Welfare, 2013

4 Labour Market Demands, Alliance of Kosovar Businesses, Prishtina, 2014

5 Results of the Kosovo 2013 Labour Force Survey, Kosovo Agency of Statistics, 2014

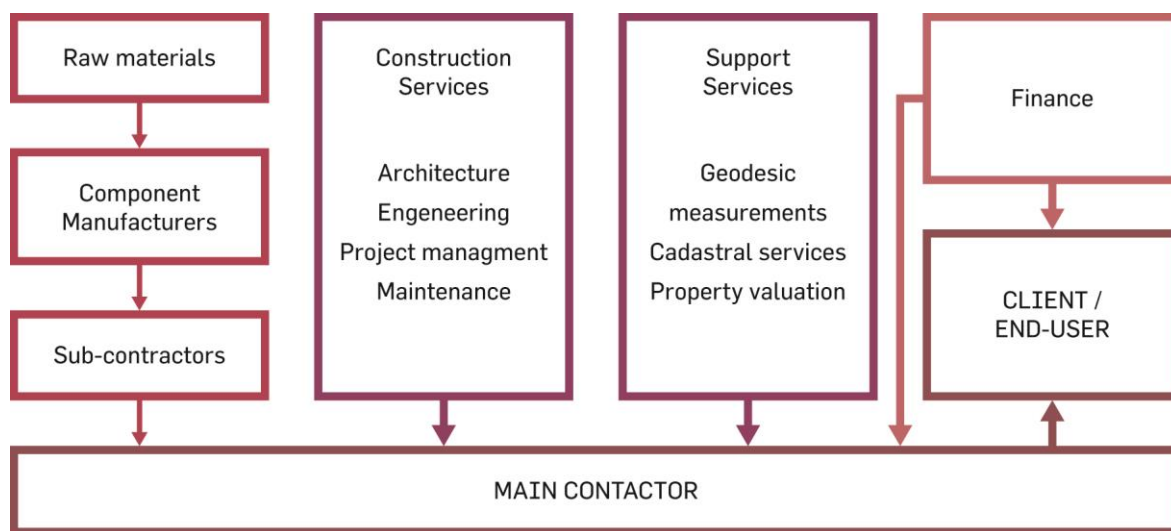


salaries in the sector are as follows: 299 euros for unskilled workers, 447 euros for administrative staff, 554 euros for skilled workers, 789 euros for managerial staff and 859 euros for professionals such as architects and engineers.

## 2. Market Systems and Constraints

### 2.1 Structure of the Core Market System

The construction sector is characterized by a complex value chain. It includes both basic manufacturing and supply of construction materials and a range of knowledge-intensive services provided by private enterprises and public knowledge organizations.

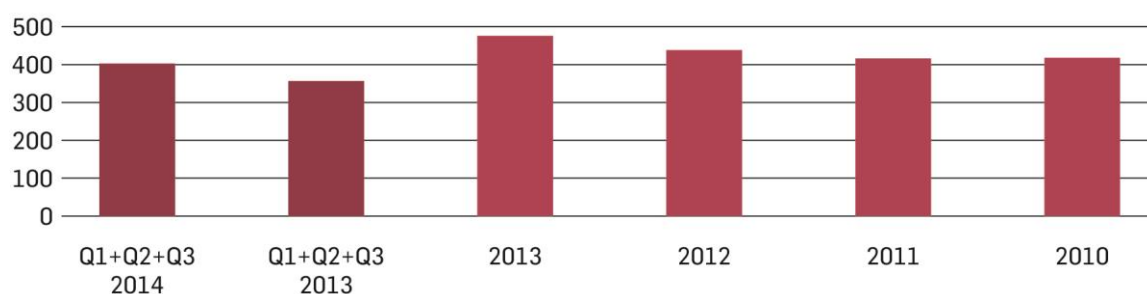


The above diagram is a simplified representation of the construction sector value chain. In practice, and based on its complexity, a construction project relies on tens of sub-contractors, component manufacturers and professional service providers. Due to its high share in the construction sector in Kosovo, the following research as well as the strategic approach will focus on the residential construction market.

#### *Real estate demand*

Real estate activities (defined as selling or buying real estate, renting real estate and other real estate services) were the 5<sup>th</sup> biggest contributor to Kosovo's GDP in 2013, with a share of 8.9% and a total value of 356 million euros, an 8.8% increase from the previous year. Furthermore, during the first 3 quarters of 2014, real estate activities had a 13% increase compared to the same period of the previous year.

#### Gross Value Added of the Real Estate Sector



FDI in real estate and construction, which is significantly driven by diaspora investments, has dominated the FDI in all previous years, accounting for around 50% of all incoming foreign direct investment.

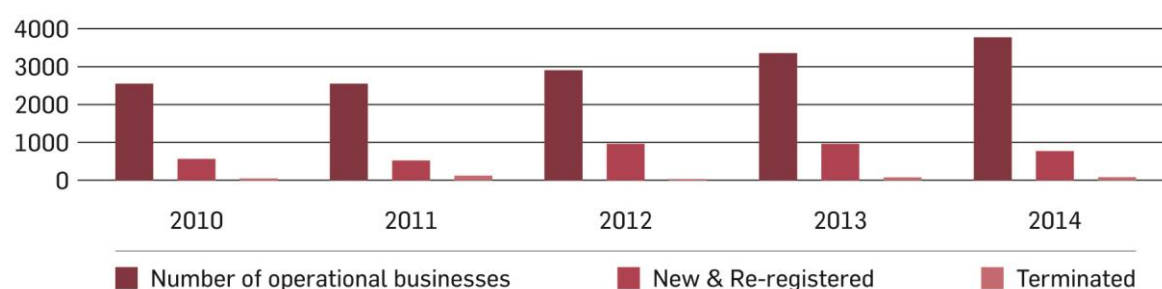
Private spending dominates the construction sector in Kosovo with an average of 71%, while public spending (government and donor funded) represents less than 30% in the workload of construction companies. Within the private spending segment, the market is dominated by residential projects with a 72% share (55% collective housing projects and 17% individual housing projects). Non-residential buildings have a low market share of 8%<sup>6</sup>.

Public spending is focused on the construction of new roads and further improvement of the existing road and railroad infrastructure. Partly due to the construction of the Prishtina – Skopje R6 highway, it is expected that the construction sector will grow by 4.4% over the next three years. For 2015, 457 million euros have been forecasted by the Government of Kosovo for capital expenditures<sup>7</sup>.

### *On-site construction services*

The construction sector in Kosovo is very dynamic. It comprises around 3,800 enterprises and it accounts for around 20% of every year's new business entries<sup>8</sup>. Between 2010 and 2014 the number of businesses in the sector increased by approximately 30%.

#### **Business entries and exits in the Construction Sector**



Despite continuous challenges, during the first quarter of 2015, a number of 237 businesses entered the construction sector (new and re-registered) and only 42 enterprises were terminated<sup>9</sup>.

Between 2009 and 2013, the sector's contribution to the GDP varied between 6.4% and 7.5%. In 2013, with a quota of 6.6%, the construction sector was the 6<sup>th</sup> largest contributor to the national GDP<sup>10</sup>. In the first 3 quarters of 2014, the sector registered a 12% decrease compared to the same period of the previous year<sup>11</sup>.

6 Empirical data extracted from the 2015 S&D Survey. There is no official data and no official body to collect information on the value of construction spending

7 National Economic Reform Program, Government of Kosovo, 2015

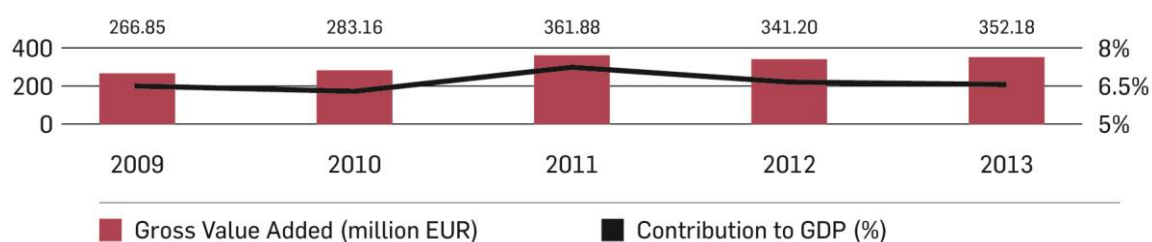
8 Statistical Repertoire of Enterprises in Kosovo, Kosovo Agency of Statistics, Quarterly Reports 2010-2014

9 Statistical Repertoire of Enterprises in Kosovo (Q1 - 2015), Kosovo Agency of Statistics

10 Gross Domestic Product by activities 2008 – 2013, Kosovo Agency of Statistics, November 2014

11 Gross Domestic Product in Quarterly Bases (Q3 - 2014), Kosovo Agency of Statistics

## Gross Value Added of the Construction Sector and the GDP Contribution



Net FDI inflows in Kosovo have been volatile and with an overall negative trend since 2007, mainly due to the slow privatization process and the effects of the global financial crisis. During 2009-2013 FDI were predominantly concentrated in the real estate and construction sectors. The size of FDI in the construction sector varied between 12% and 34% in the 2009-2013 timeframe. In 2012, the FDI in construction had the biggest drop (approximately - 65% compared to the previous year) and it continued its downward trend also in 2013, although at a slower pace (-18.35% compared to the previous year). Irregularities in the overall business environment as well as the recent political developments and the general state of uncertainty have negatively influenced the economic agents who became more reluctant to invest.

## Foreign Direct Investments in the Construction Sector



## Supply of construction materials and equipment

The construction materials sector comprises all companies that are involved in either the manufacturing or provision of construction materials. These include manufacturers of cement, window & doorframes, steel reinforcements, prefabricated structures, bricks and tiles, roofing materials, plumbing material, etc.

Very few studies and reports regarding this sector are available for Kosovo. The 2015 National Economic Reform Programme identified the sector as a potential export market and it is expected that the sector will receive greater attention in the near future. Most recent data on the sector comes from the 2015 Potential Export Markets report commissioned by the Finnish Government and the UNDP<sup>12</sup>. A previous report on the Kosovo Building Materials Manufacturers was commissioned by the UNDP in 2011<sup>13</sup>.

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). Also in terms of productivity, the construction material sector is leading followed by

12 Potential Export markets in Kosovo, Ministry of Foreign Affairs of Finland, UNDP, March 2015

13 Construction in Kosovo; Growing Opportunities for Kosovo Building Materials Manufacturers, KPEP, UNDP, 2011

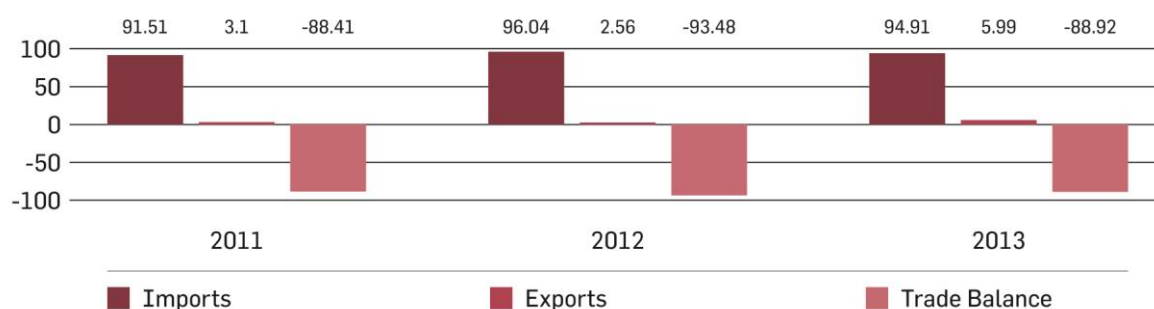
metallurgy and metal processing<sup>14</sup>. Builders and architects interviewed for the 2011 UNDP assessment of the construction materials market in Kosovo estimated that up to 80% of the construction materials and products used on any given project are imported, while in 2015 the Ministry of Trade 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. Imports of construction materials amounted on average to 94 million euros yearly, between 2011 and 2013<sup>15</sup>.

The 2015 S&D survey shows that construction companies prefer to import materials directly from the manufacturer (56%) or through domestic traders (44%). Only one company uses foreign traders for the supply of construction materials.

The same survey revealed that the main imported materials are plumbing (66%) and electrical (64%) equipment followed by metal, glass and plastics materials. The main reason for import indicated by the companies is the low availability or non-existence of these products on the local market.

### Imports and Exports of Construction Materials in Kosovo



The share of construction material imports in total imports was approximately 4% between 2010 and 2013. The Government of Kosovo forecasts that 61% of the budget revenues for 2015 will be customs revenues, a situation similar to previous years. Taking into consideration that the budget of Kosovo relies heavily on revenues from customs, it is unlikely that any measures will be taken to disrupt the current trade balance.

### Professional construction services

Professional construction services include architecture and engineering services, cost controllers, property valuation, geodesic and cadastral services and building control bodies.

Currently there is no licensing system in Kosovo for *architecture and engineering services*. An attempt was made in 2011 to implement a licensing system for individual practitioners but the law was cancelled before it had a chance to come into effect. All higher education institutions providing engineering and architecture programs are licensed and accredited and have implemented the Bologna reform objectives and principles. Due to the lack of a mechanism for monitoring architecture and engineering services carried out in the field, individuals and companies continue to exercise these professions without licenses.

The facilities for *testing materials* incorporated in construction are limited. Prior to the

<sup>14</sup> National Economic Reform Programme, Part I, Government of Kosovo, 2015

<sup>15</sup> Potential Export markets in Kosovo, Ministry of Foreign Affairs of Finland, UNDP, March 2015

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adaption of the Law on Accreditation of Laboratories in 2006, many contractors used the facilities at the University of Pristina, where testing was done by the professors, using University equipment and also issuing the certificate of conformity. Furthermore, no conformity checks are performed on imported construction materials at the border and therefore the authenticity of the certificates that accompanied the products is doubtful. According to the website of the Accreditation Directorate, at the moment there are 6 accredited laboratories for testing of construction materials, mostly for the testing and analysis of concrete products<sup>16</sup>.

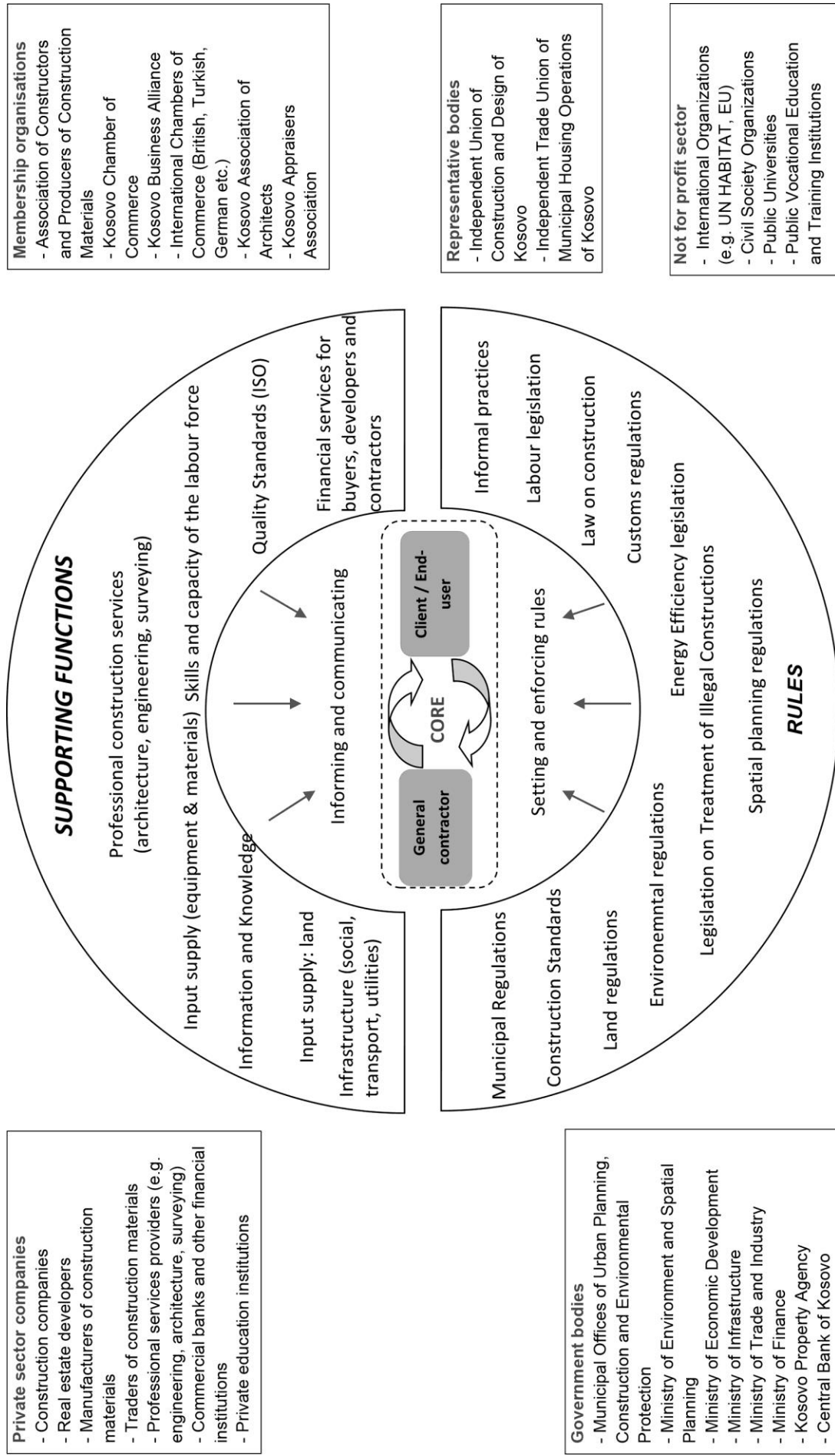
The formalization of *property valuation services* is also progressing mainly due to the efforts of the Kosovo Appraisers Association (established in 2009) and the recently established accreditation system for financial assessors. The Ministry of Economy and Finance is responsible for overseeing the activity of the Commission Board for licensing. The training of the candidates is done with support for the Kosovo Chamber of Commerce and so far more than one hundred assessors have been licensed in Kosovo.

As of 2013, the Kosovo Cadastral Agency regulates the manner and conditions that *surveyors* have to fulfill so that they can gain the status of licensed surveyor or licensed surveying company. Currently there are 45 companies and 137 individuals authorized to perform surveying activities in Kosovo.

The Kosovo Energy Efficiency Agency (KEEA) is currently working on establishing a Commission for the Certification of *energy auditors*, building on the experience of 50 energy auditors who were previously trained under a donor technical assistance program.

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16 Kosovo Accreditation Directorate, Ministry of Trade and Industry <http://www.dak-ks.org/?cid=2,31>



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## 2.2 Key Market Functions and Rules

### 2.2.1 Market rules

#### *A Construction sector legislation*

The main regulatory body for the construction sector in Kosovo is the Ministry of Environment and Spatial Planning. The legal system regarding the construction sector in Kosovo is organized in three levels: the Law on Construction, technical regulations, by-laws and standards, and regulations issued by local municipalities.

#### *Laws, technical regulations and by-laws*

The basic legal acts regulating and defining construction activities, design and structural requirements and construction products are:

- Law on construction No. 04/L-110;
  - Regulation No.04/2014 for minimum technical standards for residential buildings in condominium and spaces in their functions;
  - Administrative instruction No.09/2013 on the categorization of construction works;
- Law no. 03/L-091 on use, management and maintenance of building joint ownership;
- Law no. 03/L-164 on spatial planning.

#### *Industry specific standards*

Implemented by the Kosovo Standards Agency, sector standards aim to regulate calculation methods, testing and measurements for construction products and works.

Construction standards will be regulated by the *Unified Construction Code of the Republic of Kosovo* (working draft law). As foreseen by the Law on Construction, “the Code shall be developed in consideration of EU technical standards, international best practice, and the conditions prevailing in Kosovo”<sup>17</sup>.

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 is 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 m<sup>2</sup> 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. The law has not yet been submitted for approval.

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*.

#### *Regulations issued by local municipalities*

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<sup>17</sup> Law No.04/L-110 on Construction, Republic of Kosovo, May 201, art. 6.1



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The third level legal acts are locally binding construction regulations issued by local municipalities. The local regulations must be in accordance with the national legislation and they are mandatory for all stakeholders involved in the construction process in the area of the particular municipality.

The Department of Urban Planning, Construction and Environmental Protection within the Municipalities is responsible for the development of urban regulatory plans and urban development plans, technical monitoring, supervision and acceptance of buildings, issuing and regulating construction permits including establishing the level of construction taxes, setting the level of property tax and performing the collection of property taxes.

## ***B Construction permit regulations***

Globally, Kosovo stands at 135 in the ranking of 189 economies on the ease of dealing with construction permits<sup>18</sup>. Several steps have been taken by the authorities in the last two years in order to ease the permitting processes:

- In 2014 they eliminated the requirement for validation of the main construction project, the fees for technical approvals from the municipality and reduced the building permit fee;
- In 2015 they established a new phased inspection scheme and further reduced the building permit fee.

The *Law on construction No. 04/L-110* regulates the categories of construction works for issuance of construction permits, general procedure for issuance of a construction permit, the authorized bodies for issuing construction permits, the application procedure for a construction permit, the procedure for issuing the permit and the construction permit administrative and infrastructure fees.

Municipalities are the body responsible for issuing construction permits for categories I and II of construction works. Municipalities are also responsible for establishing the value of construction permit fees and infrastructure fees in accordance with the national legislation.

## ***C Legislation on treatment of illegal constructions***

In the years following the war Kosovo has been facing an unprecedented construction boom and growth of its urban areas. The rapid urbanization was mainly due to the destruction of the housing stock during war and of the consequences that followed such as internal migration for better living conditions and employment, as well as the global urbanization trend.

Out of the 1.7 million persons enumerated in total in the Population Census (April 2011), more than 0.5 million, or around 30% of them, had experienced at least one internal migration<sup>19</sup>. Half of them migrated from one municipality to another and the other half migrated within their municipality. The most affected municipalities are Kamenica with 30%, Shtërpce with 22.7%, and Obiliq with 22.4%. On the other hand, Pristina is the largest beneficiary of internal migrants with around 45,905 residents. Other municipalities that have mostly benefited from internal migration from other municipalities are Prizren with 7.98%, Ferizaj with 6.79 %, Gjilan with 5.31 % and Fushë Kosova with 4.74%.

Kosovo's cities were unable to provide space in their former boundaries for the rapid

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<sup>18</sup> Doing Business Report, 2015

<sup>19</sup> Kosovan Migration, Kosovo Agency of Statistics, April 2014



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inflow of new investments and this situation led to a wave of unplanned and uncontrolled urban developments. The problem of illegal construction in Kosovo has become critical in the last ten years.

In December 2013 the Assembly of Kosovo approved the *Law No. 04/L-188 on the Treatment of Constructions without a Permit*. The Law applies to all illegal constructions identified based on the aerial survey. The latest data shows that throughout Kosovo 310,000 applications were submitted for the legalization of illegal constructions. Processing of the applications will start in September 2015. All buildings which do not meet the current legislative regulations will be demolished or where possible, proposed for remediation.

The Administrative Instructions on basic health and safety requirements for treatment of constructions without a permit were adopted in 2014 and currently, MESP is working on the Administrative Instructions on appeals procedures for decisions on treatment of construction without a permit.

## ***D Registration of property rights***

The resolution of property issues and incorporation of informal settlements in local development plans continue to be an important factor in creating sustainable urban settlements in Kosovo. Thousands of properties were damaged, destroyed, or abandoned during the conflict in 1999. Property transactions were often unregistered because of the weak legislation and the diminished capacities of the implementing bodies. Furthermore, many of the cadastral records were retained by the Serbian authorities during the war and those which were left behind are incomplete.

The Kosovo Cadastre Agency (KCA) manages immovable property registration and the cadastre in Kosovo and regulates and coordinates the Municipal Cadastre Offices (MCOs) and the Municipal Courts. The *Law No. 04/L-013 on Cadastre* was adopted in 2011 and the *Administrative Instructions on Implementing the Law on Cadastre* were adopted in February 2013. The Law regulates immovable property, national and cadastral surveys, geodesic and cadastral works as well as acquisition, registration, maintenance and use of cadastral data.

Mainly through donor supported projects, Kosovo has made significant progress in these aspects. The progress is evidenced in the Doing Business Report from the World Bank where Kosovo ranks 3<sup>rd</sup> in 2014 in regard to the ease of registration of property rights. A first effect of the progress made can be seen in the increased property tax revenues. In 2014 for example, the value of the payments increased by 24% compared to the previous year.

Despite the requirements of equal treatment in Kosovo's formal law, in practice, *women's rights to land* are limited and only 8% of women in Kosovo own land<sup>20</sup>. The customary law and practice are influenced by traditional Albanian law. Under the customary law, women are subordinated to men and cannot inherit property. A survey conducted in Kosovo in 2011 regarding women's property inheritance rights<sup>21</sup> revealed that 41% of the women believed that inheritance issues are governed by tradition. The Kosovo Cadastral Agency launched an awareness campaign in 2014 underscoring the importance of land ownership for women.

## ***E Energy efficiency legislation***

The *Law of the Republic of Kosovo on Construction* determines the application of energy

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20 Property Right and Governance, Kosovo Country Profile, USAID, 2013

21 Women's property inheritance rights in Kosovo, Kosovar for Gender Studies Center, March, 2011

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efficiency measures in the construction of buildings. Furthermore, the law specifies that efficiency measures are one of the objectives of *The Unified Construction Code of the Republic of Kosovo* (working draft). Nevertheless, the recent amendments to the Law on Construction are not sufficient to comply with the EU Directive 2010/31 as the secondary legislation necessary for the implementation is still missing. At the moment Kosovo is pending the adoption of a separate *Law on Energy Performance of Buildings*. The draft Law was submitted to the Assembly in February 2015 and if approved the Law would transpose the Energy Community acquis on the energy performance of buildings.

Building development based on energy efficiency is now required by the Law on Construction, where each occupant of a new developed building is obliged to obtain an *occupancy certificate*, which is conditioned by energy efficiency measures. The Kosovo Energy Efficiency Agency and the Municipal Energy Offices are the bodies responsible for the implementation of the *Law No.04/L -016 on Energy Efficiency* adopted in June 2011 and the *Energy Efficiency Action Plan 2010-2018*. The Kosovo Energy Efficiency Agency was established in April 2012.

## **F 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 for treatment of waste created during construction or demolition*.

Furthermore, the issuing of the *occupancy certificate* required by the Law on Construction is also conditioned by the implementation of construction waste management. As per article 27, paragraph 2.2, the contractor must collect and dispose “all construction waste from construction site to an adequate construction waste disposal site specifically designated for such purposes”.

The management of hazardous construction waste, mainly asbestos cement products and compact fluorescent lamps containing Mercury, is regulated by two 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.

## **G Labor market regulations**

The labor market in Kosovo is regulated by the Ministry of Labor and Social Welfare. The Law No.03/L -212 on Labor was passed by the Kosovo Assembly in November 2010 and laid the foundation of a legal framework to regulate the field of employee rights. As in other sectors, delays in developing secondary legislation resulted in a low and challenging implementation of the law. Until 2010, the labor market was regulated by the Regulation No. 2001/27 on Basic Labor Law in drafted by UNMIK administration.

For the construction sector, occupational health and safety regulations are of particular importance. According to the European Agency for Safety and Health at Work, in the European Union construction work leads to the most serious accidents at places of work, with more than 1300 people being killed in construction accidents every year. Worldwide, construction workers are three times more likely to be killed and twice as likely to be injured as workers in other occupations<sup>22</sup>. In Kosovo, the *Law No. 04/L-161 on Safety and Health at Work*, defining the measures for improving safety and health levels of the employees at work was passed only in May 2013.

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<sup>22</sup> Code of Practice for the Construction Industry, Occupational Health and Safety Authority, Malta, 2006

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## ***H Licensing of architects and engineers in the field of construction***

As previously stated in Kosovo there is no system for licensure of architects and engineers. The need for such a system has been previously state by various international organizations and an ample report on the issues was prepared by the USAID in 2009<sup>23</sup>.

An attempt for implementing licensure was made by the Ministry of Environment and Spatial Planning in cooperation with the Kosovo Association of Architects through the adoption of the *Administrative Instructions No. 6/2011 on the o professional examinations and licensing for architects and engineers in the field of construction*. The AIs foresaw that a combination of education, practical experience (minimum 2 years), case study presentation, written examination and professional interview be required for professional architects and design engineers to obtain licenses to practice. The system was interrupted and subsequently cancelled due to the contesting on the legitimacy of the Association of Architects from a large number of architects and engineers in Kosovo. The situation resulted in the creation of a second Association of Architects. Currently, both institutions are functioning in parallel making even more difficult the advancement of the legislation on the matter of licensing.

The lack of a licensing system for companies or individual practitioners combined with the vague Municipal Plans have resulted in an uncontrolled development of the cities and contributed to the degradation of urban infrastructure. The amplitude of illegal constructions has created long lasting and in some case even irreparable damage across most urban areas of Kosovo.

### **2.2.2 Supporting functions**

#### ***A Financial services***

The Central Bank of Kosovo (CBK) has the authority to license, supervise and regulate financial institutions. The CBK is an independent legal entity with full authority as a legal person and reports to the Kosovo Assembly. *The Law No.03/L -209 on Central Bank of the Republic of Kosovo* was adapted in 2010.

In Kosovo, the primary financial institutions are commercial banks (9), pension funds, insurance companies (18), non-bank financial institutions (6) and micro-finance institutions (14). The *Law No. 04/L-093 on Banks, Microfinance Institutions and non-bank financial institutions* was adopted in 2012. Other financial legislation relevant for the construction sector includes the *Regulation on Limits to Holdings of Real Estate and Movable Property of Microfinance Institutions* (2013).

The commercial banks currently operating in Kosovo represent 72.6% of the total assets in the financial sector. Commercial banks in Kosovo have different shareholding structure. Seven of them are foreign-owned banks and two are domestically owned. Their activity is dominated by loans with a maturity up to 15 years, out of which 67.7% of the total loans are loans to enterprises.

Loans for construction businesses issued by the commercial banks in Kosovo represented 8.4% of the total loans issued in 2014. Their share varied between 10.7% and 8.4% in the 2010 - 2014 timeframe. The banks offer various types of financing for residential project developers, usually in the form of co-financing. However, in recent years, the banks have shifted their focus from directly financing developers to financing the buyers. Therefore

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23 Registration & Licensing of Architects, Kosovo Private Enterprise Program(KPEP), USAID, 2009

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the market for mortgage loans (estimated by professionals at 60 million euros) is increasing and the banks are currently working on developing new products. Product development departments are practically non-existent in the structure of the banks and at the moment the financing needs of each project are treated individually. Equity loans are available for home renovations or improvements. A more detailed description of the current trends of the financial market can be found in *Section 2.4.3 Financial Market*.

The interests of the commercial banks in Kosovo are represented by the Kosovo Banking Association (KBA). Established in 2002, the Association's main purpose is to enable cooperation of the private banking system with the Government, the Central Bank of Kosovo, media, and the public opinion. Besides lobby and advocacy activities, the Association provides sector specific training through the Banking Training Center established in 2005 and accredited by the European Foundation Certificate in Banking (EFCB) in 2011.

For the period 2015-2017 the Government of Kosovo will implement a Credit Guarantee Scheme which will increase the access of SMEs to bank loans by providing a guarantee to the bank for the business loan. The Scheme, with a total value of 16 million euros, is foreseen to be functional by the end of 2015.

In order to facilitate better access to finance, the Government will focus on addressing the problems of contract enforcement, insufficiently functional registers of immovable and movable property and unclear bankruptcy procedures – factors that are the main contributors to the high-risk premium in lending<sup>24</sup>.

## ***B Skills and capacity of the workforce***

The SME sector in Kosovo though very large, is dominated by micro-enterprises, with more than 90% of the enterprises employing less than four people. With a share of 9.5%, in 2014 the construction sector was the 4<sup>th</sup> biggest employer in Kosovo. In 2014 the sector employed an additional 10,000 people compared to the previous year.

The Kosovo Sector Strategy 2009-2013 estimated that in the following five years, approximately 110,000 youth will enter the labour market, whereas, approximately 60,000 people will reach the age for retirement, during the same period of time. The Medium Term Expenditure Framework 2011-2013 estimated that the real economic growth must increase to at least 7% in order to absorb the number of young people entering the labour market each year (approximately 20,000).

According to the 2015 S&D Survey, construction companies employ on average 37 permanent staff. 26% of the companies employ up to 10 people, 64% of the companies employ between 10 and 50 people, 9% of the companies employ between 50 and 250 people and only one company declared that it employs more than 250 permanent staff.

77% of the companies surveyed, indicated that they employ seasonal workers. The average across the sample was 70 seasonal workers in a given year. The rest of the companies declared that they prefer to outsource certain works where they lack the necessary skilled labour force. As regards the training level of the season workers hired, the average across the sample was 50% skilled workers and 50% unskilled workers.

The average for female workers across the sector is 12%, similar to the EU average, while the share of young women in the sector is only 2.5%. Due to the difficult physical conditions demanded by the sector, most women work either in administrative positions (60%),

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24 National Economic Reform Programme, Part I, Government of Kosovo, 2015

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qualified position (37%) and professional positions such as architects and engineers (34%). 21% of the companies surveyed declared that they employ women in managerial positions.

From the total sample of the survey, 38% of the companies declared that they employ workers from the 60 to 65 age group but they represent a small percentage in the total workforce, an average of 6%.

One fifth of the companies interviewed declared that they employ workers from outside Kosovo and most of them hire qualified workforce. The *Law on Foreigners No. 04/L-219* regulates the conditions of entry, movement, residence and employment of foreigners in the territory of Kosovo. The Law on Foreigners and secondary legislation which draws on it, is in place since April 2014.

Most companies prefer to hire new personnel through recommendations (52%) and only 8% of the companies hire directly from education and training providers or through the services of the public employment offices. Professional employment services is another important employment source used by 28% of the companies. Out of the estimated 10,000 new employments in the construction sector in 2014, only 6% (598 jobs) were advertised through the Public Employment Services.

### **C Land regulations**

The Kosovo Property Agency (KPA) was established by the *UNMIK Regulation 2006/10* as an independent agency and is mandated to facilitate the resolution of property claims, including those related to agricultural and commercial property. About 20,000 claims on property that was illegally occupied, damaged or destroyed as a result of the conflict are still being processed by the KPA. Municipal Courts have jurisdiction to handle land disputes that are outside the competence of the KPA. Blood Appeasement Councils are customary rural institutions that have been used to settle disputes over the boundaries of adjacent privately owned land parcels. Blood Appeasement Councils have representatives from the local families that oversee the ritual forswearing of interfamily feuds in front of witnesses<sup>25</sup>.

### **D Access to foreign markets**

Data from the survey conducted for the purpose of this research revealed that 23% of the construction companies provided services outside Kosovo. Furthermore, 47% of the construction companies surveyed declared they have implemented or are in the process of implementing at least one of the following ISO quality standards: ISO 9001 Management Quality System (43%), ISO 14001 Environmental Management (one company) and OHSAS 18001 Occupational health and safety (two companies).

Construction material goods have considerably increased their share in total exports in the past two year and have been identified as a potential export market for Kosovo. Between 2011 and 2013 Kosovo exported on average 4 million euro worth of construction materials.

### **E Information and Knowledge**

The leading business association in Kosovo is the Kosovo Chamber of Commerce. The KCC was established in 1962 in Pristina. Currently it operates a network of six regional offices across Kosovo (Gjilan, Ferizaj, Prizren, Gjakovë, Pejë and Mitrovicë). The Chamber consists of over 30 associations and has more than 15,000 registered members. Membership is on a voluntary basis. The KCC advocates for and represents the interests

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25 USAID Kosovo Country Profile, Property Rights and Resource Governance



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of its members, provides business advisory services and gives professional assistance for the member companies.

The Business Alliance of Kosovo (BAK) was founded in 2002 and has attracted 28 business associations with over 9500 members. Its purpose is to build sustainable partnerships between the public and private sector in order to increase employment and meet customer demands. BAK offers training for business development and economic integration of Kosovo in the international market. In regards to the construction sector, there is the Association of Constructors and Producers of Construction Materials and one Association of Concrete Producers.

Out of the 70 companies surveyed by S&D, 45% declared that they are not part of any business network or association. 29% of the companies are members of the Kosovo Chamber of Commerce and less than 10% are members of the Association of Constructors and Producers of Construction Materials. Some businesses are part of transnational associations such as the British, Turkish or German Chamber of Commerce.

The interests of the sector are represented by the Independent Union of Construction and Design of Kosovo and the Independent Trade Union of Municipal Housing Operations of Kosovo. The *Law No. 04/L-011 on Trade Union Organizations* was adopted 2011 by the Kosovo Assembly. This Law aims to regulate and define rights and freedoms of the employees to freely and voluntarily establish and organize trade union organizations in the public and private sector, in order to represent and protect economic, social and professional rights of the employees at work and in labor relations. However, trade unions in Kosovo are generally weak as they lack stable finances and are not organized at the required satisfactory levels<sup>26</sup>.

Furthermore, membership organizations exist for the various construction related professions such as architects and appraisers. The Kosovo Appraisers Association was formed in 2009 with the purpose of establishing appraisal standards, and to prepare individuals through education for an examination to secure a license. Additionally, there are two Associations of Architects and Engineers.

The demand for consultancy services in Kosovo is generally lacking across all sectors and the supply is limited to a few types of services, with most providers being qualified for marketing and strategy. There is an increase in the number of consultants for quality management and ITC solutions. Business consultancy services are slowly expanding outside Pristina but they remain inaccessible in rural areas<sup>27</sup>.

In 2015 the Government of Kosovo will start implementing “The Voucher Scheme” program offering subsidized business consulting services to SMEs. By the end of 2015 the Voucher Scheme is planned to reach 1,300 days of consulting with a value of €250,000.00.

## 2.3 Dynamics and Performance of the Core Market System

As stated in the National Economic Reform Program, Kosovo has been one of the very few countries in Europe and the region of South Eastern Europe that had positive growth rates every single year following the beginning of the global financial crisis in 2008.

The fact that Kosovo was not affected by the collapse of the economies in Europe was due to its specific development model. Kosovo’s economy relies greatly on FDI inflows from the diaspora and the trade and financial linkages with affected countries are limited.

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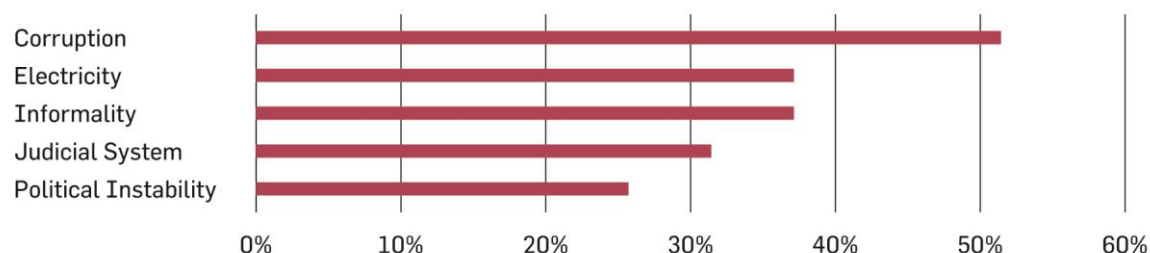
<sup>26</sup> 2014 EU Progress Report for Kosovo

<sup>27</sup> Strategy for Kosovo, European Bank for Development and Reconstruction, May 2013

Furthermore, as opposed to other countries in the region, a high share of Kosovo's budget is concentrated on capital investments. A key objective of the policy strategy for the 2015-2017 will focus on strengthening the economic growth through accelerated economic reforms and on further improving the business environment.

The main **business environment constraints** identified by the companies surveyed for the purpose of this research are corruption, access to electricity, informal economy and the functioning of the judicial system.

#### Main Constraints of the Business Environment



#### *Business environment constraint 1: Corruption*

Corruption was identified as an obstacle by 80% of the construction companies surveyed by S&D in 2015, while 51% of them identified it as a major obstacles. Based on the Corruption Perceptions Index 2014, Kosovo remains among the countries with the highest level of corruption. Kosovo score 33 points on the Index (where 100 is the cleanest) the same as in 2013.

According the 2013 UNODC Report on Business, Corruption and Crime in Kosovo, the public officials with the highest risk of bribery are customs officers, officials in the tax/revenue administration and municipal officers<sup>28</sup>. The same cited source states that the Construction and Transportation sectors combined account for 8.2% of all paid bribes and that the mean bribe size in the Manufacturing and Construction sectors combined is of 1183 euros, much higher than the mean size of all bribe payments (844 euros). The prevalence of bribery is substantially higher among medium and large (over 50 employees) businesses than among businesses of other sizes.

The underlying causes of corruption in Kosovo are the high degree of economic inequality, the poor implementation of the law and the widely spread nepotism practices in the public administration.

Due to the high complexity of its operations, the high level of rules and regulation that govern the sector as well as the high number of taxes required by a building project, the construction sector operators are dealing with public officials on a regular basis.

The focus groups with construction business owners that was held for the purpose of this research revealed that the attitude of public authorities and public officials towards the sector is biased and prejudicial. As such, the implementation of the law is hindered and this opens the door for corrupt practices. Furthermore, the numerous legislative acts with a direct effect on the sector that were passed in the last three years, many of which are still lacking secondary legislation, created a lot of confusion among both the public and private stakeholders, leaving room for interpretation and creating conditions for the

28 Business, Corruption and Crime in Kosovo, United Nations Office on Drugs and Crime, 2013

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blooming of corruption. The construction companies assessed the government's attitude toward the sector as unsupportive (43%) and 23% consider it to be somewhat supportive.

### ***Business environment constraint 2: Access to electricity***

Access to energy was identified as a major obstacle by 37% of the construction companies surveyed. According to another survey cited by National Economic Reform Program, around 50% of Kosovo firms across all sectors identified access to electricity as a major obstacle in the development of their business, compared to only 5.8% in Montenegro, 8.1% in Serbia, 10.2% in Bosnia<sup>29</sup>.

The frequency and duration of power interruptions is significant. According to the same cited source the average annual number of interruptions per customer in 2012 was 59.5 and the average interruption duration was 114.5 hours. Furthermore, the losses from power interruptions as a percentage of annual sales amounted to 7.3% in Kosovo.

### ***Business environment constraint 3: Informal economy***

Only estimates and no objective data exists regarding the size of the informal economy in Kosovo. Informality has been identified as an obstacle by 80% of the construction companies from the 2015 S&D Survey, out of which 37% identified it as a major obstacle.

An assessment carried out by the European Agency for Reconstruction (EAR) in 2007 estimated the size of the informal economy in Kosovo at between 27% and 35% of GDP in the 2004 – 2006 period and nearly 85% of this was attributed to workers who do not pay personal income tax.

The lack of written work contracts has been particularly problematic in the construction industry. In 2014 USAID facilitated construction companies to develop a standard form contract and it is foreseen that the written agreement will provide greater security for both the employers and employees.

The focus groups held with students from the Vocational and Education Training schools revealed that the main challenges for working in the construction sector are related to health and security at work. Hazardous working environments, long working hours and high death incidents are diminishing the sector's attractiveness for youth. All these concerns could be addressed through the enforcement of work contracts and strict implementation of the legal requirements on safety and health at work.

Across all sector, Kosovo firms ranked 'practices of competitors in the informal sector' as the single biggest constraint to their business growth: 57.8 % of the Kosovo firms<sup>30</sup>. 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<sup>31</sup>.

### ***Business environment constraint 4: Judicial system***

The functioning of the judicial system was ranked 4<sup>th</sup> by the construction companies in regard to business environment constraints. The World Bank Doing Business indicates that Kosovo has made no significant progress in the last 5 years on the indicator "enforcing a contract". The time required for a claim from filing to resolution is on average 330 days, it requires 53 procedures and the legal cost is 33% of the total value

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29 National Economic Reform Program, Part I, Government of Kosovo, 2015

30 National Economic Reform Program, Part I, Government of Kosovo, 2015

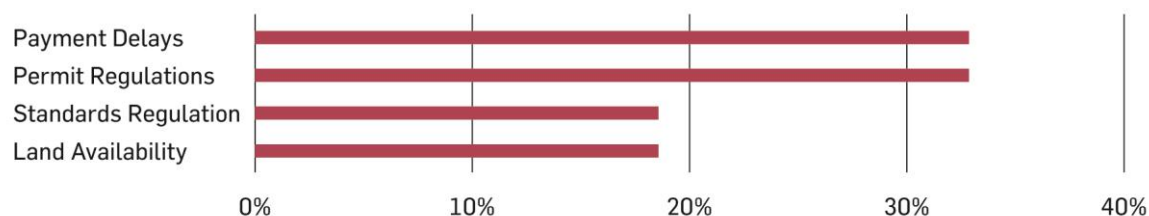
31 Strategy for the prevention of informal economy, money laundering, terrorist financing and financial crimes, 2014



claimed. Resolving an insolvency takes on average 2 years<sup>32</sup>.

The main constraints of the **construction sector** identified by the companies surveyed are payment delays and construction permit regulations (33%), construction standards regulations and land availability (19%).

#### Main Constraints of the Construction Sector



#### *Sector specific constraint 1: Payment delays*

Given the current economic setting and the difficulties encountered by companies in accessing loans many construction sector operators are facing increasing problems of delayed or non-payment for the work done. While this is an obstacle commonly found in the construction sector all over Europe, in Kosovo it is and has been since the beginning of the construction boom, a wide spread issue.

The issue of delayed or non-payment in the construction industry can be attributed to a variety of factors: difficulty in obtaining loans, lack of cash buyers on the market, practices such as oral contracts, “pay when paid” clauses, lack of clarity on payment dates and in some cases deliberate non-payment or slow-payment arrangements. Furthermore, irregular cash-flow and financial instability was identified as the main internal constraint by the construction companies in the S&D Survey.

A common practice in Kosovo is the in-kind compensation of subcontractors and suppliers of construction materials, mainly with apartments. Nevertheless, the compensation system is not equitable: the construction cost per square meter is around 300-350 euros and the final valuation price (the selling price) is of 900-1000 euros per square meters. The compensation of sub-contractors is calculated at the final valuation price. As such, the advantages of this system lie with the general contractor solely. Although there is no immediate profit for the sub-contractors (the selling market is slow) they accept the situation in order to keep the business running and the people employed.

Another issues of the system is that the sub-contractors are taking a double risk when accepting to work with compensation. Firstly, they are unable to check the legality of the building due to the lack of a transparent and effective system that allows the general public to verify this aspect. Secondly, they do not have access to information regarding the financial solvability of the general contractor, and cannot assert if the project will be finalized.

Anecdotal data from the focus groups suggests that as much as 30% of the stock of apartments build in the last ten year has been given as compensation to subcontractors.

The practice of in-kind compensation with apartments is also used to remunerate land owners of the parcels where the residential project is being built.

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32 Doing Business, Economy Profile for Kosovo, World Bank Group, 2015

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This information is supported to some degree by official data from the 2011 Census which revealed that in Kosovo there are approximately 100,000 vacant dwellings, available for sale, rent or demolition. The situation can also be partially attributed to the wave of internal migration to urban areas. Nevertheless, half of the vacant dwellings are located in urban areas and Prishtina – Fushë Kosova is the biggest area accounting for almost 30% of the vacant urban dwelling stock.

### *Sector specific constraint 2: Construction permits*

Despite improvements made by the legislators in the last two years, companies in Kosovo still consider the procedures for obtaining a construction permit to be too bureaucratic and lengthy in processing.

In an effort to stop illegal construction, the municipality of Pristina has stopped all ongoing building projects which do not have a construction permit. The situation had a major impact all the way through the supply chain. The biggest impact was on the manufacturers of construction materials as their main market is concentrated in the municipality of Prishtina. Market professionals are estimating that in the course of 2014 the manufacturing and trade of construction materials has fallen by more than 50%.

Despite the general state of uncertainty generated by the situation, the Municipality continues to issue building permits and it is redrafting the urban plans in an attempt to integrate illegal constructions.

### *Sector specific constraint 3: Land availability*

Illegal constructions affected the existing infrastructure of urban settlements, the quality of life of the inhabitants as well as the economic development, because many illegal constructions were built on agricultural land.

Data regarding Kosovo's land market is limited. According to the USAID Kosovo Country Profile, the land-sale market of agricultural land in the proximity of areas with residential or commercial potential is characterized by price speculation. The agricultural land near urban areas is selling for higher prices suggesting that the buyers are planning to convert the destination of such land for commercial purposes<sup>33</sup>. 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. Following the end of the Kosovo War, ethnic Albanians began to return to their land, renewing tension with ethnic Serbians as they sought to take back their land. Land claims on the same property from both ethnic groups contributed significantly to violence between Albanians and Serbians, forced displacement, and led to the destruction of property.

### *Sector specific constraint 4: Construction standards*

The construction standards act a constraint in the development of business, because as in the case of other laws, this field is insufficiently regulated. This constraint is directly linked with the issues of informal economy and corruption. The companies who resort to dishonest and illegal practices are basically stealing the work from legitimate contractors and workers who abide by the laws and regulations involved in construction. The Unified Construction Code, the main regulation act for construction standards, is still a working draft and no date has been set for its finalization. Furthermore, there is no authorized

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33 USAID Kosovo Country Profile, Property Rights and Resource Governance

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body to check and monitor the implementation of standards in field.

## 2.4 Main Interconnected Markets

The solutions to value chain problems often lie in interconnected markets. Besides constituting a market in their own right, interconnected markets are also the supporting functions or rules of the main market system.

### 2.4.1 Legal framework

According to the 2015 S&D Survey, construction companies consider the legislative framework for the sector insufficiently regulated: public procurement/tenders (47%), competition policy (41%), insurance and liability (37%), labour market regulations (36%), construction permits (34%), energy efficiency requirements (31%), environmental legislation (31%), construction standards (21%). The main issue is the poor implementation of the law, either due to missing or weak secondary legislation or due to diminished capacities of the responsible implementing bodies.

#### *Supply*

For the construction sector, the main regulatory body is the Ministry of Environment and Spatial Planning, which is responsible for overseeing the implementation of Government policies in the field of housing and construction. Other Ministries relevant to the construction sector are the Ministry of Trade and Industry (Department of Trade), which oversees the conformity of construction products and works with national and European standards, and the Ministry of Economic Development (Agency for Energy Efficiency), responsible for overseeing the implementation of energy efficiency measures.

#### *Demand*

Approximation of laws is an obligation of membership in the EU, requiring countries aspiring to join the European Union to align their national laws, regulations and procedures with the *acquis communautaire*. In order to achieve this objective, Kosovo is receiving continuous technical support from the European Union at all levels.

#### *Key market functions and rules*

As a result of the approximation process, the number of laws adopted has grown considerably during the past years. According to Kosovo Constitution, laws may be initiated by the President, the Government, deputies in the Assembly, or by at least ten thousand (10,000) citizens. While the vast majority of laws proposed to the Assembly come from the Government, other bodies or individuals can propose laws. At the end of each year, all ministries prepare their legislative agenda for the following year according to previously identified priorities. The proposed legislative agenda are sent to the Government which reviews the ministries' priorities and develops the Annual Legislative Strategic Plan for Kosovo.

For each proposed law, the Legal Office of the sponsoring Ministry organizes a working group tasked to prepare the initial draft law, which is sent, together with an explanatory memorandum, evidence of EU legislation, a Regulatory Impact Assessment and a Financial Impact Assessment, to the Office of Legal and Support Services of the Office of the Prime Minister. After review by the Ministry of Economy and Finance, for financial and budgetary implications, and by the Ministry for European Integration, for compliance

with the EU legislation, and final approval by the Government, the draft law is submitted to the Assembly for adoption. Generally, all laws and other acts are adopted by a majority of the members of the Assembly present and voting. Acts adopted by the Assembly are presented to the President of Kosovo for signature and promulgation. The President of Kosovo may return a law to the Assembly only once. If the Assembly adopts the returned law by a majority of all deputies, the law is adopted. All laws become effective in fifteen (15) days after their publication in the *Official Gazette*, although their implementation may be delayed. Secondary legislation, such as regulations, decisions, orders and administrative instructions, is drafted and adopted by the Government.

### *Dynamics and performance of the market*

The majority of the legislative acts relevant to the construction sector were adopted in the last three years, as seen in the table below. It is often the case that secondary legislation is required to make the law implementable. As in other sectors, secondary legislation relevant for the construction sector has either been recently approved, is a working draft or in many other cases is completely missing.

The focus of Kosovo's institutions and of international institutions alike is on drafting and developing primary laws and, as a result, secondary legislation necessary for their implementation is bearing neglected. The rapid and continuous changes of the regulatory framework have created a lot of confusion not only among the private actors but also among public bodies, making the implementation of the law slow and arduous.

The implementation of the legislation requires more financial support and human resources with sufficient expertise. Information sharing and coordinated action among the main stakeholders in charge of drafting and implementing the laws is essential.

Primary legislation	Adopted	Secondary legislation	Status
<b>Law on construction No. 04/L-110</b> Ministry of Environment and Spatial Planning	May 2012	Unified Construction Code of the Republic of Kosovo	Working draft
		AIs on conditions for maintaining the construction diary and construction book	Working draft
		AIs on the manner, procedure and amount of fines against participants in construction	Working draft
		Law on Energy Performance of Buildings	Draft February 2015
		Professional Examinations and Licensing for Architects and Engineers in the field of Construction	May 2011 (abrogated)
<b>Law No. 03/L-164 on spatial planning</b> Ministry of Environment and Spatial Planning	2013	AIs on basic elements and requirements for design, implementation and monitoring of the municipality zoning	Working draft
		AIs on the responsibilities and procedures for public participation in spatial planning	2014
<b>Law No. 04/L-188 on the Treatment of Constructions without a Permit</b> Ministry of Environment and Spatial Planning	2013	Administrative instructions for appeals procedures for decisions on treatment of construction without a permit	Working draft
		Administrative instructions on basic health and safety requirements for treatment of constructions without a permit	July 2014
		AIs for documentation on support of the application on legalization of completed constructions of the third category	2014
<b>Law No. 04/L-013 on Cadastre</b> Ministry of Environment and Spatial Planning	2013	Administrative Instructions on Implementing the Law on Cadastre	2013
		Administrative Instruction for Licensing of Surveying Companies and Surveyors	2013
<b>Law on Construction</b>	2013	AIs on the conditions for subjects performing conformity	2014

<b>Products No. 04/L-181</b> Ministry of Trade and Industry		assessment procedures for construction products	
		Regulation on method of construction products conformity assessment	2014
		Regulation on basic requirements for construction works	2014
		Regulation on technical approvals for construction products	2013
<b>Law No.04/L -016 on Energy Efficiency</b> Ministry of Economic Development	2011	Energy Efficiency Action Plan 2010-2018	2011
		Administrative Instruction for the establishment and functioning of the Commission for the licensing of energy auditors	2014
		Als for Certification of Energy Auditors and Managers	Working draft
		Administrative Instruction for Energy Auditing	Working draft
<b>The Law No.03/L -212 on Labour</b> Ministry of Labour and Social Welfare	2010	Law No. 04/L-161 on Safety and Health at Work	2013

## 2.4.2 Energy Efficiency Market

Investments in energy efficiency measures and financing of energy efficiency projects can act as a much needed catalyst for the development of the construction sector.

### Supply

Kosovo is a Contracting Party of the Energy Community Treaty. With the aim to extend the EU internal energy market to the SEE, the Energy Community Treaty requires that its Contracting Parties adopt the EU legislation “*acquis communautaire*” in energy and related areas. 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. To support measures for promoting energy efficiency defined in municipal energy efficiency plans, municipalities should explore funding possibilities within the Municipal Budgets or through donations. 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, in total exceeding 100 million EUR.

Currently there are three main on-going, donor funded Energy Efficiency projects in Kosovo targeting mostly energy efficiency gains in public buildings, mainly through better insulation: (1) the World Bank *Kosovo Energy Efficiency Renewable Energy Project* which aims to reduce the energy consumption in central government-owned buildings and to enhance the policy and regulatory environment for energy efficiency and renewable energy development; (2) *the Kosovo Sustainable Energy Projects (KoSEP)* initiated by EBRD and later backed by the EU, facilitates incentive grants up to 20% for Kosovars who invest in energy efficiency projects in residential and business sectors; (3) the Regional Energy Efficiency Programme (REEP) funded by the EU Western Balkans Investment Framework and implemented by the European Bank for Reconstruction and



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Development in cooperation with the Secretariat for transposing the Third Energy Package into national laws.

### *Demand*

The biggest consumers of energy in Kosovo are households (more than a third) followed by transport and industry. The construction characteristics of building units, in terms of insulating materials and quality of windows and doors, have tended to improve in recent times. New residential units, traditionally intended to house extended families, need a considerable energy input for winter heating and households have become increasingly dependent on electricity and wood burning stoves to provide it. Since district heating is not deployed in Kosovo, it presents a big opportunity for the government to address the energy efficiency as well as for private investors to develop a business line in communal services.

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. The Kosovo Heating Strategy 2011-2018 forecasts that, in the absence of any remedial action, deforestation i.e. when depletion of forests exceeds their replenishment, could begin in 2014. Energy performance is not monitored or enforced and often results in excessive energy consumption.

### *Key market functions and rules*

There are five laws in Kosovo that cover energy efficiency issues: (1) Law on Energy Efficiency; (2) Law on Energy; (3) Law on Electricity; (4) Law on the Energy Regulator and (5) Law on Construction. These five acts of primary legislation are supplemented by a tranche of secondary legislation on energy efficiency in the form of administrative instructions.

Following approval of the Law on Energy Efficiency by the Assembly in June 2011, Kosovo has made some progress in meeting regulatory and legislative objectives. The Law also provided the legal basis for the creation of the Energy Efficiency Agency and for the establishment of a fund to promote energy efficiency and renewable energy projects. The Kosovo Energy Efficiency Agency was established in 2012 and a few donor funded EE projects have been implemented.

Article 9 of the Law describes the responsibilities of the Municipal Energy Offices in developing Municipal Energy Efficiency Plans and Municipal Energy Efficiency Plan Implementation Progress Reports, as instructed by the KEEA. Both documents have to be adopted by the Municipal Assembly and subsequently delivered to the KEEA. The Municipalities are responsible for the implementation of a considerable part of the objectives for efficiency. This is due to the Law on Efficiency foreseeing that each municipality shall draft its own municipal plan and report periodically to the KEEA in relation to the implementation of these plans.

### *Dynamics and performance of the market*

The Agency for Energy Efficiency was established in April 2012 with a complement of four officers who are working on implementing the Energy Efficiency Law. Although the Law envisages an independent KEEA, its lack of financial resources suggests that for the foreseeable future at least, the Agency will have to remain within the organizational framework of the Ministry of Economic Development.

The residential sector has a high energy efficiency potential, which is not realized in

Kosovo mainly due to the inability to access the loan market and in the absence of affordable energy efficiency financing schemes for lower income households. The level of energy efficiency investments in the residential and SME sectors remains very low.

The implementation of the EE legislation is hindered by the lack of funding for energy auditors and energy audits, and this has an impact on achieving the national energy saving objectives. The residential building stock (consisting of some 300,000 units) may be constrained by the lack of auditors. The Administrative Instructions for establishing the commission for licensing auditors have been approved but the secondary legislation for the implementation of the accreditation system is still missing.

Implementation of energy efficiency measures in the residential sector would greatly benefit the individual consumers. The owners of buildings with installed energy efficiency measures use less energy for heating, have reduced energy bills and in general enjoy better building services and higher standards of comfort.

### 2.4.3 Financial market

#### *Supply of financial services*

Commercial banks are the main providers of financial services in Kosovo representing 72.6% of the total assets in the financial sector. The two main services offered by the commercial banks for the construction sector are investment capital (project financing) for businesses and mortgage loans for individual buyers. Banks usually offer partial financing for project developers: co-financing for new projects (which on average goes up to 30%) or project completion financing.

In the construction sector, between 2012 and 2014 both the value of loans for the construction sector and their participation share in total loans have decreased. The value of loans to the construction sector dropped by 12% in 2014 compared to the previous year, the equivalent of a 17% drop compared to 2010. In the first four months of 2015 the value of sector loans dropped by 9.4% compared to the same period of the previous year.

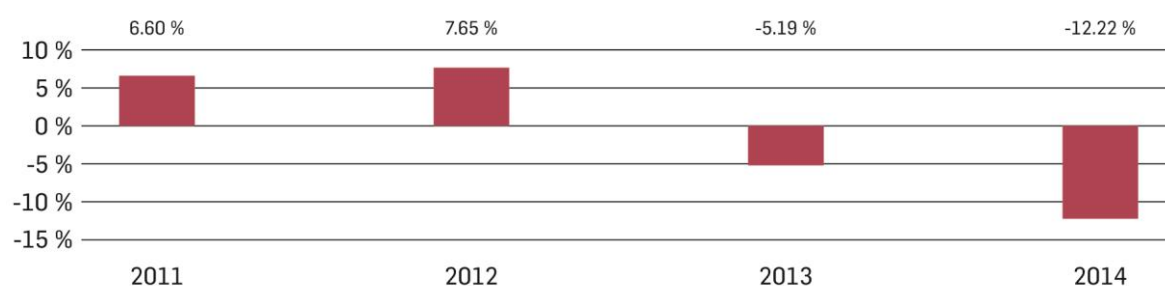
At the time of the survey, 54% of the construction companies declared that they had a bank loan contracted. In 2014, 37% of the loans issued to the construction sector were loans with maturity up to one 1 year.

Year	Value of loans for construction (mil euro)	Participation of construction loans in total loans
2010	109.1	10.70%
2011	116.3	10.10%
2012	125.2	10.50%
2013	118.7	9.80%
2014	104.2	8.40%

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## Trend in the value of loans for the Construction Sector

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The share of bank assets consisting of guaranteed loans by first mortgage on real estate and which are past-due for less than 30 days, as well as of loans to builders to finance real estate construction where the property to be financed has been pre-sold or preleased, decreased in 2014 to 10.3% from 15.7% in 2013. The value of the two categories of services amounted to 287.7 million euro in 2014.

### *Demand of financial services*

The political instability which persisted during the second half of 2014 has influenced the behavior of economic agents and individuals alike. The effect of the political situation was visible in the slight decrease of private investments, the fall in the import of construction goods and the increase of cash deposits in the banking system<sup>34</sup>.

Currently banks are dealing with high level of cash deposits. As such, the interest rates on deposits decreased to 0.6% in June 2014 from 3.5% in June 2013. Household deposits continue to dominate the structure of the banking sector deposits, representing 74.2% of total deposits. In June 2014, the total value of household deposits amounted to euro 1.79 billion, marking a 9.1% increase compared to the previous year.

The real estate sector is confronting with a significant decrease of cash buyers and mortgage loans are becoming more popular on the banking market. Investments in real estate have been driven significantly by the diaspora up until 2008 when the financial crisis hit Europe. Despite a decrease in the level of remittances, the diaspora driven FDI continues to concentrate in the construction and real estate sector (50%).

To meet the growing demand and the specific conditions of the local market, banks are shifting their focus on financing buyers rather and developers. Banks are slowly developing new types of mortgage loan products such as those based on off-take agreements between developers and buyers. The project developer/builder signs an agreement with the bank through which the bank agrees to finance individual buyers who have pre-sale contracts with the developer. In order to secure maximum financing for the individual buyers, the builders sometimes use their personal properties as collateral for the mortgage loans. This type of mechanism can secure up 100% mortgage financing for the buyers and the developers secures the full funding for completion of projects.

### *Key market functions and rules*

The average interest rate on loans decreased to 10.6% in 2014 from 12.0% in 2013. The interest rates on mortgage loans also decreased in 2014. Loans with maturity “up to 5 years” had the most significant decline in the interest rate from 13.6% to 9.8%. Interest

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34 National Economic Reform Program, Part I, Government of Kosovo, 2015



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rates on loans with maturity “over 5 and up to 10 years” decreased from 11.2% to 9.5%. The lowest interest rate, 9.1% is for mortgage loans with maturity “over 10 years”.

### *Dynamics and performance of the market*

The 2015 S&D Survey revealed that 88% of the construction companies consider the interest rates unfavorable, 80% consider the terms and conditions unfavorable and 72% consider the level of collateral to be unfavorable.

Access to mortgage loans is hindered by a multitude of factors specific to Kosovo, most of which are related to proof of collateral: missing or incomplete cadastral records as a result of the 1999 conflict; unregistered property transactions in the years following the conflict; illegal constructions that cannot be registered in the Cadaster because they do not possess proper documentation.

### **2.4.4 Labor force skills market**

Skills of the labor force are interconnected with the services provided by the education and training market. The construction sector relies on two main providers of labor skills: higher education institutions and vocational education training institutions.

### *Supply of skills and education*

In Kosovo in 2013 there were 55,800 pupils (grades X to XIII) attending upper secondary vocational education, with female students representing 40% of the total. Additional 769 pupils were enrolled in private vocational schools, with a share of only 30% female students<sup>35</sup>. VET students are distributed among 61 institutions. Out of these, 19 are VET schools with a technical profile and 1 is a Competency Center dedicated to Construction and Engineering (Skenderaj).

Number of students in technical vocational educational schools					
Year	2008/09	2009/10	2010/11	2011/12	2012/13
Technical	23,675	24,459	24,621	23,801	23,407

Currently there are four higher education institutions providing studies related to the construction sector: two private (University for Business and Technology and AAB-Rinvest University) and two public (University of Prishtina and University of Mitrovica). Furthermore, University of Peja offers a program in Environmental Management and the ESLG College in Pristina offers a Master’s program in Management of Real Estate and Infrastructure.

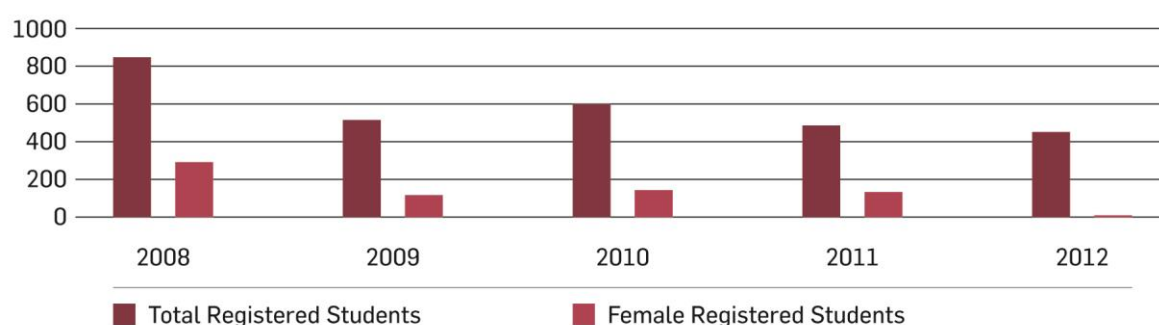
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35 Education Statistics, 2013-2014, Kosovo Agency of Statistics, December, 2014

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Statistical data is available only for the University of Prishtina. Since 2008, the total number of students enrolled for the first time in year 1 at the Faculty of Civil Engineering and Architecture registered a downward trend. Compared with 2008, in 2013 50% less students enrolled in construction and architecture programs. This decrease is due to higher admission requirements imposed by the Faculty as well as due to the limitation of available places each year. According to information provided by the Faculty of Civil Engineering and Architecture, each year there are on average 6 candidates for each available position.

#### Number of students registered in the first year. University of Prishtina, Faculty of Civil Engineering and Architecture.



The share of women students enrolled in at the Faculty of Civil Engineering and Architecture varied between 35% and 19% in the 2008 – 2013 timeframe. The Faculty is currently working on developing two new programs in the area of *Environmental Studies* and *Energy Efficiency Studies*. It is foreseen that once these two programs will be launched the share of women students will increase.

### *Demand of skills and education*

As regards to the level of skills of the new graduates, the overall rating of the construction companies in the 2015 S&D Survey was that they are average. Only 30% of the companies indicated that their skills level is high or extremely high. Furthermore, 80% of the companies who have problems in filling vacant positions indicated that lack of work experience and skills are the two main obstacles.

The gap of skilled labor force on the construction market was revealed by both the focus groups and the survey performed for the purpose of this research. Qualified and experienced engineers (24%), machine operators (11%) and architects (10%) are the positions identified by the construction companies as most difficult to fill in. Other positions include qualified workers, project managers and project supervisors.

Furthermore, in 2013 the construction sector was the biggest employer of foreign citizens. The positions occupied for foreigners were highly-specialized and ranged from engineers in the construction, geodesic, electrical and mechanical fields (107 positions), construction and infrastructure managers (51 positions), machine operators (43 positions) to welders, blacksmiths and steel processors.

### *Key market functions and rules*

All progress reports show that Kosovo is still at an initial phase of developing a regulated and functional vocational education system. Currently, vocational education falls under the shared responsibility of the Ministry of Education, Science and Technology (MEST)

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and the Municipal Directorates for Education. *Law No. 04/L-138 for Vocational Education and Training* was adopted in 2013 as well as the *Law No. 04/L-143 on Adults Education and Training*. The reform of the vocational education system in Kosovo has heavily relied on donor support and funding.

Higher education in Kosovo is regulated by the *Law No.04/L- 037 on Higher Education* adopted in August 2011. Extensive international support and expertise was provided for the implementation of the Bologna Process objectives and of the principles of autonomous operation of universities in terms of global budgeting, transparent operational processes and internal organization, quality assurance and evaluation, modern management systems<sup>36</sup>.

### *Dynamics and performance of market*

The 2013 Kosovo Labor Force Survey also points towards an excess demand for individuals with graduate and postgraduate education, and vocational secondary education, including for occupations such as machine operators, technicians and other professionals.

Empirical data extracted from the survey and focus groups suggests that although the labor market has an excess supply of architects, their skills and qualifications are relatively low. This is due to the previously mentioned issue of a lack of a licensing system for the professions of architect and engineer. The skills and availability of the workforce were identified by 26% of the companies as a constraint in their business development.

The research identified that at the Faculty of Civil Engineering and Architecture there is a major drop-out rate especially during the 4<sup>th</sup> year of studies. The main reason behind this is that the students prefer to migrate to the labor market instead of finishing their studies. The annual graduation rate is less than 20%. Data gathered by the Industrial Board at the Faculty indicates that students who finalize their studies have increased chances in accessing the labor market. 60% of bachelor graduates and 80% of master graduates find work immediately after graduation.

Progress in alleviating this issues is slowly being made. An important step in the formalization of professional practice was made through the adoption of the *Kosovo Education Strategic Plan (KESP) 2011-2016* which recognizes 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. To achieve its objectives, the strategy lays a set of milestones including the development of a strategy for improvement of professional practice, establishing criteria and incentives for host enterprises, agreements to be signed between VET schools and host enterprises, and insurance of health and safety regulations for VET<sup>37</sup>.

Construction related skills development require a more competency-based approach, and the certification of skills should focus more on the skills acquired on the job and not just the completion of the formal course.

As stated by the construction companies, the lack of practical experience is an issues also for higher education graduates. Therefore, the strategy of improvement of professional

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<sup>36</sup> Higher education in Kosovo, European Commission, July 2012

<sup>37</sup> Strategy for improvement of professional practice in Kosovo 2013-2020, Ministry of Educations, Science and Technology

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practice should be extended beyond the VET schools to higher-education institutions. In conjunction with the implementation of the licensing system for architects and engineers this would lead to the partial alleviation of the two main labor market constraints of the construction sector.

### 3. Stakeholders and Their Interests

The construction industry involves a wide range of stakeholders, each bringing with them a great variety of interests, concerns, requirements and potential opportunities.

#### 3.1 Market Players and Stakeholders

Stakeholder	Function	Most Important Governance Interests	Role of Women and Socially Excluded
Residential buyers	Initiate the building process Act as funding agent of the project Generate the need for a building Shape the project according to their budget, timeline and available resources	Legality of the construction (the construction is in line with all legal aspects) Quality of the construction (reputation of the developer/contractor, quality of materials and works) Comfort / Quality of life (surrounding infrastructure) Affordable cost (flexible financing instruments)	Single women professionals represent an emerging category of real estate clients Social housing needs assessments have not been drafted by the municipalities as required by the law (with the exception of Gjilan and Peja)
Professional construction service providers (e.g. architects, engineers, building control, surveying, project management)	Project management Control and supervision Design Planning	Creative and efficient application of technologies Knowledge sharing	Except for architecture, all other sectors are dominated by males
Builders / Real Estate Developers (in Kosovo the two functions are commonly fulfilled by one and the same entity)	Construction and commissioning of buildings	Economic feasibility Profit maximization Growth and expansion	Ownership of construction businesses is dominated by males Some companies have women shareholders Women represent 12% of the construction workforce Young women represent 2.5% of the construction workforce
Occupant support services (e.g. utilities companies, waste management and maintenance)	Ongoing maintenance & operation of the building and the functions that take place within it	Safe operation of the buildings Provision of quality services Economic feasibility	In rural areas, only 42.02% of the existing dwellings are fully equipped with bathing, toilet, kitchen and heating facilities Collection of municipal waste is provided to approximately 40% of the population
Ministry of Environment and Spatial Planning - Cadastral Agency	Maintenance of cadastral database Maintenance of proprietary records Mapping and GIS Issue guidelines regarding all cadastral activities for the management of the national computerized system	To provide timely and accurate data regarding cadastral data to the general population and all interested parties To enable timely and effective registration of property rights	Women own less than 8% of all property Women tend to believe inheritance issues are governed by tradition alone Displaced people face obstacles in registering confirmed property titles because they cannot access the municipal cadastral office
Ministry of Economic Development - Kosovo Energy Efficiency Agency	Implements energy efficiency policies Implements energy efficiency measures in all sectors of energy consumption	Reduce energy consumption in all sectors To ensure proper information of the population regarding	Average outstanding utility bills of economically disadvantaged Roma, Ashkali and Egyptian communities amount to more than 12 times their total monthly expenditures

Stakeholder	Function	Most Important Governance Interests	Role of Women and Socially Excluded
	Supports municipalities on developing the municipal plans for energy efficiency	benefits of energy efficiency Achieve of 9% energy savings until 2018	Household are the main consumers of energy (32.8%); traditionally households in Kosovo are managed by women
Ministry of Labor and Social Welfare	To develop work and social welfare policies and draft and implement the legislation in these areas To propose active and appropriate measures to increase employment and reduce unemployment To set standards for occupational safety and protection at work and supervise their implementation Oversee supply and demand in the labor market and take measures for harmonizing them	Increase overall employment Formalize work relations between employers and employees Reduce the number of accidents and deaths at the workplace	The unemployment rate for women in Kosovo is 38.8% versus 26.6% for men Unemployment rate for youth is 55.9% Unemployment rate for young females is 68.4% Women tend to work more in lower paid sectors like health and education (about 40% of all women in the labour market) Few employment opportunities for people with disabilities Low level of skills of the Roma, Ashkali and Egyptian communities
Ministry of Infrastructure	Responsible for maintaining the highways and regional roads	Provide the necessary infrastructure for the wellbeing of the citizens and for the development of economic activities	Persons with disabilities face additional challenges as public transport rarely considers their needs, and few public buildings are accessible The absence of ramps and elevators in multi-story buildings also hampers access for less mobile elderly persons and mothers with strollers
Municipal Offices	Urban planning Issue of building permits Inspecting of building sites at various stages Collection of taxes Setting construction permit fees in accordance with the national legislation Assessing the housing and other infrastructure needs Drafting and implementing Energy Efficiency Plan	Legalization of construction Increase the property tax base Increase the economy tax base Provide infrastructure for the wellbeing of its inhabitants and for the development of economic activities	Municipalities of Peja and Gjilan are the only ones to have developed Housing Needs Assessments Municipality of Gjilan is the only one who has developed a Strategy for Social Housing Many Roma, Ashkali, and Egyptian communities are still living in informal settlements
Kosovo Property Agency	To resolve claims resulting from the armed conflict in respect of private immovable property, including agricultural and commercial property Administration of abandoned residential properties	Relieving inter-community tensions in Kosovo as non-Albanians constitute the majority of claimants	Inter-ethnic property disputes are unduly prolonged About 20,000 claims on property that was illegally occupied as a result of the conflict are still being processed There is no compensation scheme for socially-owned apartments
Tax Administration	Administers the tax system Issues general administrative rules Provides a uniform application of laws and regulations relating to taxation	Increase the tax base Increase efficiency of tax collection process	No special tax provisions for socially disadvantaged groups (employees or entrepreneurs)

Stakeholder	Function	Most Important Governance Interests	Role of Women and Socially Excluded
	Manages Taxes		
Education providers	Provide skilled labour force in accordance with market requirements	High quality and quantity of students	About 20% of students in engineering are female
Financial institutions	Provide financial services Provide financial instruments for the development of economic activities	Return of investment	Women cannot access loans because they lack collateral Men hold about 92% of collateral properties in Kosovo Only 3% of commercial bank loans go to women

## 3.2 Stakeholder Capacities, Incentives and Interests

### 3.2.1 Private construction companies

#### *Capacities*

Currently there are around 3,500 construction companies in Kosovo and every year there are around 800 new entrants. Only the companies who will strive to respond to the market demands will survive.

Data from the 2015 S&D Survey shows that the majority of the construction companies (60%) had a value of the annual turnover of over 1 million euros in 2014, 17% of the companies had a turnover between 0.5 and 1 million euros, 6% of the companies between 0.25 and 0.5 million euro, 4% of the companies between 0.1 and 0.25 million euros and 9% of the companies had a turnover below 100,000 euros.

When asked about the evolution of the annual turnover in 2014 compared to the previous year, 35% of the companies said they registered an increase, 22% registered no change in the value of the turnover, while the remaining 43% companies registered a decrease. The size of the turnover increase and decrease varied greatly across the sample from as high as 200% increase to a 70% decrease.

The sectors' interests are represented by several membership organizations (e.g. Kosovo Chamber of Commerce, Association of Constructors and Producers of Construction Materials), professional organizations (e.g. Kosovo Association of Architects) and trade unions (e.g. Independent Union of Construction and Design of Kosovo).

#### *Incentives*

The main aspect governing the construction companies is the return on investment. To maximize this aspect, construction companies need to create marketable projects which cater to the needs of the end consumers.

30% of the companies surveyed estimated that the demand for construction in the following 3 years will increase, 46% estimated that the market will move at a constant pace and only 24% estimated that the demand will decrease. When asked about their optimism regarding growth potential of their business in the next 3 years, around 70% of the companies declared that they are either very optimistic or optimistic.

An increase in the real estate demand will result in an increased market production. Therefore, any action aimed at stimulating the market demand, mainly by increasing access to finance for potential buyers, will generate work for construction companies,



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which will have a positive effect on their turnover.

### *Interests*

The recently adopted legislation on urban planning, legalization of buildings, permit regulation and energy efficiency has raised awareness among potential real estate buyers in Kosovo and as a result they are becoming more knowledgeable, more educated and are demanding more quality from the builders.

The first three characteristics sought by clients when looking to buy a property are: compliance with all legal requirements, security of the investment (reputation and financial capacity of the developer to finish the project) and quality of the property's adjacent infrastructure (location, proximity to transport).

For these reasons, and despite the general trend in the industry, construction practices in Kosovo are starting to become more demand-driven. Therefore, only those companies who will manage to provide a better match between buildings and the real needs of the customers will continue to perform on the market.

Quality outputs require quality inputs. The skills of the labor force are directly linked with the end-result of building projects, alongside quality materials and components. The profile of the occupations supplemented by foreigners as well as empirical data from the market, suggest an excess demand for high-skilled occupation. The demand has been identified by both the EU Progress Report (2014)<sup>9</sup> and the Kosovo Labor Force Survey (2013) across all sectors in Kosovo. Equipping the labor force with the necessary practical skills to activate on the construction market is also at the core interests of private construction companies.

## **3.2.2 Financial institutions**

### *Capacities*

Commercial banks are dominating the financial sector in Kosovo with more than 70% of the total assets on the market. The sector is composed of seven foreign-owned and two domestically owned banks. Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit and e-banking. Access to these services is enabled through 305 branches and sub branches.

The total value of loans and leasing assets owned by the private banks at the end of 2014 had grown by 4.2% compared to 2013. Within total loans by economic activity, the majority consisted of loans issued for trade (53.4%), followed by loans issued for services, manufacturing and construction.

Besides the primary financial institutions, the sector comprises pension funds, insurance companies (18), non-bank financial institutions (6) and micro-finance institutions (14).

### *Incentives*

For most banks, loans are the primary use of their funds and the principal way in which they earn income. In a very simplistic view, banks collect interest on loans and pay interest on deposits. In order for banks to make a profit, they must lend money at rates higher than the cost of the money they lend.

Banks in Kosovo are currently dealing with high level of cash deposits, with household deposits dominating the structure of the banking sector deposits (74.2% marking a 9.1%



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increase compared to the previous year).

In the last four years, loans and leasing were the main component of growth in the banking sector. Although the overall value of loans has increased from year to year, their share in total assets in the past three years had a slight decrease. On the other hand, loans guaranteed by first mortgage on real estate, as well as of loans to builders to finance off-take real estate construction, decreased in 2014 to 10.3% from 15.7% in 2013.

Mortgage loans are generally considered low-risk loans, as in the event of nonpayment, the bank can reclaim the property that the loan is financing. In Kosovo, mortgage loans continue to have high interests compared to the average interest rates in Europe. This is due to the higher risk associated with the collateral in Kosovo: the real estate market that has emerged after the conflict is characterized by many illegal constructions and disputed land property.

### *Interests*

Mortgage loans are becoming the preferred method of acquisition of new property. In issuing mortgage loans, the main challenge for banks in Kosovo is validation of collateral. Furthermore, women are being disadvantaged as they cannot fully access their property rights.

Evidence from transition countries shows that better collateral laws lead to increased focus of banks on mortgage lending. Banks are willing to expend their mortgage business only when they are confident that their rights as creditors are respected and that the selling of the mortgage property in the case of no-payment by the mortgagor is effective and efficient<sup>38</sup>.

To continue to evolve, the mortgage industry in Kosovo must strive to develop new mortgage products and to adapt its terms and conditions to the specifics of Kosovo's market. The mortgage market in Kosovo has a huge growth potential. Empirical data from stakeholders estimates the current value of the market at merely 60 million euros.

## **3.2.3 Public sector actors**

### *Capacities*

Production of laws had a rapid growth in Kosovo in the past three years, mainly as a result of the approximation process. Though primary legislation exists, secondary acts necessary for the implementation of the law have been widely neglected. The human and financial capacities of the implementing bodies are generally low. Kosovo is currently going through a transition period and through a continuously transformation process. With assistance and support from the international community improvements are being made across all sectors.

### *Incentives*

The construction sector has been a significant contributor to the economy and society and continues to be vital to Kosovo's future growth. The sector directly provides regionally distributed jobs across a variety of occupations and skill levels, and also supports further jobs indirectly in the economy.

Real estate and construction combined have been the biggest contributor to Kosovo's

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<sup>38</sup> What determines the composition of banks' loan portfolios? Evidence from transition countries, Journal of Banking & Finance, 2009

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GDP in 2013 – 15.5% compared to the leading economic sector retail, with only 12.3%. Furthermore, the share of imported construction material in total imports of good has been at around 4% in the last 3 years. Considering that more than 60% of the budget revenues are custom revenues, the growth of the construction sector is vital for Kosovo's overall growth and development.

The sector is also playing a vital role in job creation and reducing unemployed. According to the latest data, the sector was responsible for generating additional 10,000 job in 2014, despite a considerable drop in their production activity. In the first three quarters of 2014, the gross value added (GVA) of the sector dropped by 12.3% compared to the same period in the previous year.

The recent legal developments in the sector and the poor implementation of the law are hindering the construction market. The public sector should take on a more active role in stimulating the demand for real estate, in implementing competency based curricula in order to better match labour skills with the market requirements and in facilitating trade activities.

### *Interests*

Kosovo's economy is slowly increasing. In 2012 and 2013 the GDP had on average a 5% growth, while in the first three quarters of 2014 it had a 3.3% growth compared to the same period last year. During 2015-2017 consumption is expected to be the major driver of economic growth<sup>39</sup>.

Private investments are also expected to grow in the next three years, but only if fueled by continuous reforms in improving the business environment associated with the expected fall of interest rates on loans. Private home ownership, a relatively recent phenomenon in Kosovo, is one of the keys to fostering economic prosperity, political stability and equality.

Unemployment, which currently stands at 30%, is particularly severe among youth, at 56% with an alarming rate for young females of 68.4%. Furthermore, about one third of young Kosovars are neither pursuing education nor are employed<sup>40</sup>. Improving the education policy to better respond to the needs of the labor market will have multiplier effects throughout the overall economic activities in the country. Providing the youth with proper education infrastructure, including quality programs aimed at reducing the skill gaps and the mismatch between labor demand and supply are one of the main recommendation of the European Commission to Kosovo<sup>41</sup>.

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39 National Economic Reform Program, Government of Kosovo, 2015

40 Assessment of the Kosovo Innovation System, OECD, 2013

41 Joint Conclusions of the Ministerial Dialogue between the Economics and Finance Ministers of the EU and the Western Balkans and Turkey, European Commission, 2015

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## 4. Current and Future Situation

### 4.1 Mainstreamed Sustainability Matrix of Current Situation

Table 1 - Sustainability matrix of current situation for the financial market

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Facilitate access to finance for buyers and real estate developers	Private banks and other financial institutions Real estate developers MED	The buyers and the developers	Low income clients, youth, women and first time buyers face barriers in accessing mortgage loans	The Central Bank of Kosovo Ministry of Economic Development (MED) Private financial institutions
<b>RULES</b>				
Legal framework for mortgage brokers	There is no legal framework	No one	No one	No one
Legal framework for title deed insurance	There is no legal framework	No one	No one	No one
Legal framework for state guaranteed mortgage loans	There is no legal framework	No one	No one	No one
<b>SUPPORTING FUNCTIONS</b>				
Digital cadastral registration system	Cadastral Agency	MESP Project developers Property owners	The digital registration in the cadaster is done just for the land parcel and not for the project	Ministry of Environment and Spatial Planning (MESP)
Training and licensing of mortgage brokers	No one	No one	No one	No one

Table 2 - Sustainability matrix of current situation for the labour market

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Supply of skilled labor force	Students VET institutions	Private companies and students	Qualified professionals and students without market connections cannot access apprenticeships	Ministry of Education, Science and Technology (MEST) Ministry of Labour Social Welfare(MLSW) Municipal Directorates for Education
<b>RULES</b>				
Legal framework for practical training	There is no legal framework in place	No one	No one	MEST MLSW
Licensing of Architects and Engineers in the field of construction	There is no licensing system in place	No one	No one	MESP
<b>SUPPORTING FUNCTIONS</b>				
Incentives system for host companies	No system in place	No one	No one	MEST Ministry of Finance (MF)

Table 3 - Sustainability matrix of current situation for legal framework

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Implementation of legislation	Central executive bodies Local authorities	Government Ministries	The implementing bodies lack resources and capacities	The line ministries
<b>RULES</b>				
Implementation of construction standards for works and materials	Project developers Municipalities	Project developers pay the fees for technical inspections	Inspectorate of Construction Products is not operational	Project developers
Implementation of construction permits regulation	Municipalities	Applicants / Project developers	Project developers are not included	MESP Municipalities
Regulation of payment compensation practices	There is no formalization of in-kind compensation schemes	No one	The compensation is based on informal agreements The authorities are excluded	Ministry of Trade and Industry (MTI) MESP
Combating informal economy	MTI	The state: the size of the informal economy is estimated at 30% of the GDP	Private sector is excluded	No one: informal economic activity continues to sprawl across all sectors
Combating corruption	Central and local authorities	Central authorities and donors	International organizations are included Private sector companies and civil society are excluded	Central authorities
<b>SUPPORTING FUNCTIONS</b>				
Public access to financial solvency data of private companies	No one	No one	No one	No one

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## 4.2 Mainstreamed Sustainability Matrix of Future Situation

Table 1 - Sustainability matrix of future situation for the financial market

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Facilitate access to finance for buyers and real estate developers	MED Private banks and other financial institutions	<b>Insurance companies to cover policies</b> <b>Banks to pay fees to mortgage brokers</b>	To be included: <b>Insurance companies</b> <b>Real estate service providers</b> <b>Disadvantage groups</b>	Central Bank Financial institutions <b>MED</b>
<b>RULES</b>				
Legal framework for mortgage brokers	<b>Central Bank</b>	<b>Central Bank</b>	<b>Private banks to be included</b>	<b>Central Bank</b>
Legal framework for title deed insurance	<b>Central Bank</b>	<b>Central Bank</b>	<b>Insurance companies to be included</b>	<b>Central Bank</b>
Legal framework for state guaranteed mortgage loans	<b>Central Bank</b> <b>MED</b>	<b>MED</b>	<b>Private banks, real estate developers to be included</b> <b>Focus on youth and women</b>	<b>MED</b> <b>MF</b> <b>Central Bank</b>
<b>SUPPORTING FUNCTIONS</b>				
Digital cadastral registration system	Cadastral Agency	Project developers	<b>The digital registration done for the entire project</b>	MESP <b>Municipalities</b>
Training and licensing of mortgage brokers	<b>Central Bank</b> <b>Banking Association</b>	<b>Mortgage brokers</b>	<b>All stakeholders</b>	<b>Central Bank</b>

Table 2 - Sustainability matrix of future situation for the labour market

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Supply of skilled labor force	VET schools Higher education institutions Vocational Training Centers (VTC)	MEST MLSW Municipalities	All interested students All private companies to be able to access apprenticeship schemes	Industrial boards in higher education institutions MEST Council of VET
<b>RULES</b>				
Legal framework for practical practice	MEST MLSW Municipalities	MEST MLSW	All stakeholders	MEST MLSW MF
Licensing of Architects and Engineers in the field of construction	MESP Universities Association of Architects	Individual practitioners in the field of architecture and engineering	All stakeholders are included	MESP
<b>SUPPORTING FUNCTIONS</b>				
Incentives system for host companies	MEST MLSW	MEST Private companies	All private companies	MEST MF



Table 3 - Sustainability matrix of future situation for legal framework

Function	Who does	Who pays	Who is Included/Excluded	Who has Control
<b>CORE FUNCTIONS</b>				
Implementation of legislation	Central executive bodies Municipal authorities	The ministries	The municipal implementing bodies lack resources and capacities <b>Private sector and civil society should be included</b>	The line ministries
<b>RULES</b>				
Implementation of construction standards for works and materials	Project developers <b>Inspectorate of Construction Products and Works</b>	<b>Municipalities should take an active role in monitoring the quality of the constructions</b>	<b>Inspectorate of Construction to be mad operational</b>	<b>MTI Inspectorate of Construction Municipalities</b>
Implementation of construction permits regulation	Municipalities	Applicants / Project developers	<b>Project developers should be included</b>	MESP Municipalities
Regulation of the payment compensation practices	<b>MTI MED MESP</b>	<b>MTI MED</b>	<b>Subcontractors, contractors, financial assessors to be included</b>	MTI MED MESP
Combating informal economy	MTI MED	The central authorities	Private sector companies	<b>Private sector companies Kosovo Business Registration Agency Kosovo Tax Administration</b>
Combating corruption	Central authorities together with local authorities and civil society	Central authorities	<b>Private sector companies and civil society will be included</b>	Central authorities, <b>civil society and private companies</b>
<b>SUPPORTING FUNCTIONS</b>				
Public access to financial solvency data of private	<b>Kosovo Tax Administration MF</b>	<b>MF to develop a platform Parties</b>	<b>All private sand public stakeholders</b>	<b>MF</b>

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companies		requesting information		
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## 5. Sector Strategy

### 5.1 Overall Sector Strategy

The construction sector is by nature volatile and dependent on the cycles of the economy. Nonetheless, it is a sector which in most countries, and especially in developing countries, takes up a considerable share of economic activity. Developing countries invest heavily to close the infrastructure gap, companies invest in new industrial facilities and, perhaps most importantly, real estate developers rush to develop housing, as more jobs and people move towards urban areas. These trends, coupled with the fact that Kosovo has a very young population and thus a large pool of young couples needing housing, indicate that there will be increased demand for construction services in the medium and long term. Our survey found that companies themselves are generally optimistic about their future prospects. This in turn means that construction will be a sector of considerable activity and employment generation in the foreseeable future.

What our research also indicates, however, is that the construction sector in Kosovo is currently in a transition period and that several structural factors have put a strain on both the demand and supply of construction services. Our survey confirmed that the demand for construction services is largely driven by private demand and, more specifically, by demand for housing. The market is moving away from the chaotic and supply-driven post-1999 phase, and increasingly resembling a more normal market characterized by better enforcement of regulations and a client base demanding more quality.

Companies do report a slight decrease in activities in 2014. This is largely due to a long period of political instability, the adoption of numerous legislative acts for the construction sector, many of which are still lacking the secondary the legislation necessary for their implementation, as well as stricter law enforcement in Prishtina - the center of construction activity in Kosovo - due to a new local government. Uncertainty also impacted the behavior of buyers, making them more conservative in spending: household cash deposits had a 9.1% increase in 2014 compared to the previous year. But that is also because the market is starting to become more demand-driven and because clients are demanding quality.

The growth of the sector is dependent largely on whether there will be an increase in demand for housing. On the demand side, the first key problem is the significant decrease of cash buyers and difficulties with accessing finance. Mortgage loans are becoming more popular on the banking market but interest rates are too high, and part of the explanation is the high risk associated with illegal constructions, land disputes and lack of access to cadastral records, which does not allow clients to meet collateral requirements. Besides, the potential of the mortgage market is hampered by the lack of relevant information in the sector (statistical data is largely unavailable, the CBK does not differentiate between household investment and consumption loans). Efforts to increase demand in the sector should therefore be focused in reducing risk factors impacting interest rates, as well as improving information flows.

The second most pressing issue is the improvement of the legal framework that would ease the development of construction projects. Although legislation is in place to protect all stakeholders involved, secondary legislation is usually missing and as such the existing laws cannot be implemented. For example a deficiency in Kosovo is the fact that fines or any other kind of punishments are not foreseen for individuals and companies

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that do not respect the Law on energy efficiency. In the absence of such measures, the only way to determine investors to implement quality standards and measures is through incentives, financial or non-financial. The regulatory framework needs to be completed with necessary by-laws in order to provide investors and buyers with a higher degree of certainty.

The third most important focus area is the need to supply the labour market with skilled workers, including young women. Many companies (20% according to our survey) are forced to hire high-skilled workers from abroad to work on more sophisticated tasks. These functions could be filled by domestic workers, which would both increase employment, increase the pool of skills in the economy and improve quality of construction services in the long-run. The inclusion of young women could bring a new set of skills to the sector, especially in the types of positions that do not require physical activity.

## 5.2 Proposed Interventions

Interventions must be aimed at improving the linkages across all sector stakeholders. A critical gap is the lack of collective engagement between Government and the industry on matters concerning the long-term development of the sector.

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## INTERVENTION NO. 1

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

The 2013 Kosovo Labor Force Survey points towards an excess demand for individuals with graduate and postgraduate education, and vocational secondary education, including for occupations such as machine operators, technicians and other professionals.

#### **THE CHANGE**

The intervention is 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.

Apprenticeships give employers the opportunity to invest in future employees while contributing to the students' educational process in a significant and meaningful way. Post internship employment is usually higher because companies seek to retain interns after investing in them.

A major issues identified by the companies surveyed is finding qualified workers to operate technological equipment. Machinery and equipment operator is the third most difficult to fill position in the sector (identified by 11% of the companies surveyed by S&D in 2015). Furthermore, in 2013 the highest number of requests for employing foreign citizens were related to the occupation of operators/assemblers of equipment and machines with 279 requests.

#### **THE PARTNER**

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. Unfortunately 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 refers to the “promotion of professional practice” and it includes: 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 programmes and schools implement professional practice as well as increasing the number of businesses and other organizations that provide professional practice<sup>42</sup>.

#### **THE MODEL**

In order to boost internship and apprenticeship programs, several hiring incentives for employers may be used. Possible practices can be derived from the experience of other countries and even from the local experience.

The apprenticeship tax credit is a system based on salaries and wages paid to an apprentice. Qualifying businesses can claim a certain percentage (up to 50%) of eligible expenditures made during apprenticeship program as a tax deduction.

Another option will be to introduce social clauses in public works contracts. Social clauses require contractors to provide employment to some members of the workforce from the

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<sup>42</sup> National Economic Reform Programme, Part I, Government of Kosovo, 2015

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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 BARRIERS**

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 shows 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 is limited, at least in the short- to medium-term.

### **THE FACILITATION**

Operationalization of the Strategy for improvement of professional practice in Kosovo through a pilot project. A fund should be created to provide for the financial incentives program for host companies. The pilot project should focus on students from the exiting 19 technical VET schools, particularly on those students preparing to become technicians and machine operators.

There is a need to bring together the stakeholders in order to design a flexible system able to respond to the changing needs of the construction sector, as new technologies are emerging.

### **THE EXIT STRATEGY**

The pilot project will exemplify the benefits of apprenticeship for policy makers, education institutions and private companies. Based on the results of the pilot project, the organization should work with the stakeholders to develop the legal framework which will guide the efforts of the authorities on the matter.

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## INTERVENTION NO. 2

### Improving the penetration of female professionals in the construction sector

Society in general prefers to cast women in traditional roles, leaving to men the domain of practical or technical learning and careers. Continued poor perceptions of the industry as a career choice for women remain prevalent in schools throughout Europe.

#### THE CHANGE

Attracting women into construction remains a difficult challenge but steps can be made to improve their participation rate in the sector. In Kosovo, participation of women in the construction sector stands at 12% similar to the EU average.

Due to the difficult physical conditions demanded by the sector, most women work either in administrative positions (60%), qualified position (37%) and professional positions such as architects and engineers (34%)<sup>43</sup>. The penetration of young women stands at only 2.5%.

#### THE PARTNER

Just as for women in the science, engineering and technology sectors, women in construction need to come together in formalized networking events in order to meet and support one another. WISE – Women in Science and Engineering, is an organization at Clemson University and it was designed to help and support females in engineering and science majors. Besides resources and information, the organization provides mentoring, tutoring and networking for its members.

Various women networks are active in Kosovo. Kosova 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.

The University of Pristina is working on the curricula for two new programs in Environment studies and Energy Efficiency which are planned to increase the number of women students.

#### THE MODEL

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. The Network will have its own legal status and will activate as a non-profit organization. The activities of the Network will focus on improving the image of the sector in order to attract more women and providing information, on providing support and information to its members and other interested parties.

Best practices from other countries may be implemented by the Network. The Class of Your Own programme in UK is dedicate to school children and raises awareness among young people, parents and teachers, of the wide range of careers available in the sector as well as informing them of the technical skills involved in the sector. The Positive Image Campaign also launched in the UK focused on promoting a positive image of the construction industry by highlighting the variety of roles within the industry and helping to ensure that construction is viewed as a progressive career route, open to everyone.

#### THE BARRIER

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43 S&D Market Survey, 2015



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Such an intervention will serve all stakeholders involved and there are practically no barriers that might hinder its development. Empirical data from the focus groups held for the purpose of this research show that all stakeholders, students, professionals, education providers and private companies would welcome the presence of more women on the market.

### **THE FACILITATION**

The organization should facilitate the linkage between women professionals in the sector, students in the field of architecture and construction, education providers, existing women networks, private businesses and media. Further support can be offered in connecting the newly established Network with similar associations from abroad, so that its members can draw on their experience and expertise.

### **THE EXIT STRATEGY**

If the industry is to reverse the trend towards an increasing gender bias, creative partnerships need to be established that will make a difference. Changing the perception of the industry in communities, schools and other non-construction organizations will require a collective effort.

With the Network established and partnerships in place, the association will be able to continue the activities and access donor funds for implementing various activities that would benefit the construction sectors.

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## **INTERVENTION NO. 3**

### **Improving access to information regarding financing instruments for property**

Access to information regarding the mortgage market trends and instruments is another aspect hindering the development of the construction sector in Kosovo.

Lack of statistical data has so far prevented policy makers to take strong measure for the improvement of the mortgage market. For example, the Central Bank of Kosovo does not differentiate between household mortgage loans and consumption loans in their annual reports. The banks are lacking the necessary personnel to provide customers with efficient information on the available real estate financing instruments.

### **THE CHANGE**

The intervention is aimed at further regulating the mortgage market by introducing a training and licensing system for mortgage brokers and by improving access to information for policy makers, financing institutions and private real estate developers.

### **THE PARTNER**

Throughout Europe the mortgage brokers need to be licensed by a national authority and their activity is regulated through numerous laws and regulations. Furthermore, in the UK mortgage brokers are split between the regulated mortgage market, which lends to private individuals, and the unregulated mortgage market, which lends to businesses and investors.

In Kosovo, the Central Bank regulates the activity of financial actors, therefore regulating the activity of mortgage brokers would fall under their responsibility. The private banks would highly benefit from the activity of mortgage brokers who would act towards increasing the asset portfolios of the commercial banks.

### **THE MODEL**

A mortgage broker is an intermediary who brings mortgage borrowers and mortgage lenders together. A mortgage broker gathers documentation from the potential borrower, and then passes the file to several mortgage lenders for underwriting and approval. The mortgage funds are then lent in the name of the mortgage lender. A mortgage broker collects an origination fee or a yield spread premium from the lender as compensation for its services.

### **THE BARRIER**

The banks might not welcome the emergence of mortgage brokers due to the costs associated with providing such services. This situation is unlikely to happen, as currently commercial banks in Kosovo are dealing with a slow emergence of the mortgage market and with high level of blocked cash deposits. Mobilizing the cash resource through loans is at the core of their activity.

### **THE FACILITATION**

The organization should work with legislators and representatives of private banks to put together the legal framework for mortgage brokers. External expert technical support could be provided. With a regulatory framework in place, a pilot series of mortgage brokers could be trained with financial support from the organization.

With support from private banks and the Central Bank of Kosovo, the organization could

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further financially support a quarterly or bi-annual publication with information on the status, trends and evolution of the mortgage market. Such information would greatly serve policy makers in their endeavors to stimulate the mortgage market and thus the real estate and construction sectors. In 2013, the real estate and construction sectors combined were the biggest contributor to Kosovo's GDP.

### **THE EXIT STRATEGY**

The training and certification of mortgage brokers will be continued by the stakeholder, mainly the Kosovo Bankers Association and Kosovo's Chamber of Commerce, under the supervision authority of the Central Bank of Kosovo.

The publication on mortgage market would become the responsibility of the private sector, or of a future association of real estate service providers.

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## INTERVENTION NO. 4

### Improving the linkage between insurance institutions and financial institutions

Proof of collateral is a major issues impeding access to finance for potential buyers. Though mortgage loans are generally considered low-risk, banks in Kosovo attach high interest rates to mortgage loans mainly because most of the clients are first time home buyers and because the real estate market in Kosovo is characterized by a high degree of illegal constructions and disputed property rights.

### THE CHANGE

To facilitate better access to finance for potential buyers, a new product for the real estate market needs to be developed, in the form of a Title Deed Insurance. This type of insurance also known as Owner's Title Insurance, Owner's Policy or Title Insurance, is common in Europe and in the United States.

The Title Deed Insurance will decrease the level of risk that the banks are currently attaching to mortgage loans. The immediate effect of decreasing the risk, will be lower interest rates on mortgage loans, followed by better access to finance for potential buyers. Better access to finance will lead to an increase in the demand for real estate, which will stimulate the activity in the construction sector.

### THE PARTNER

For such a product to penetrate the local market, significant support from the public authorities is needed. The intervention should focus mainly at policy level. The Cadastral Agency, functioning under the Ministry of Environment and Spatial Planning, is the main partner. Based on the building permit obtained by the developers, the Cadastral Agency should have the capacity and the authority to register not only the parcel for new building projects, but also the structure of the project (number of levels, number of apartments and their distribution). Based on the digital castration and on the pre-sale agreement between the developer and the buyer, the Agency will be able to provide a title deed for the borrowers. This registration system is already in place in the region, for example in Macedonia, where the mortgage market is blooming. The Central Bank of Kosovo is responsible for providing the regulatory framework.

The project developers are responsible for purchasing the title deed insurance. This products works mostly in their interest: by securing mortgage loans for their clients, they secure the funding necessary for completion of the project. Insurance and re-assurance companies are responsible for launching and selling the products.

### THE MODEL

The Title Deed Insurance is meant to protect both the buyer and the bank issuing the loan. The Title Deed Insurance is usually issued in the amount of the real estate purchase. It is purchased for a one-time fee when closing the sale and lasts for as long as the owner or its heirs have an interest in the property.

Firstly, the product will facilitate the unblocking of the existing building stock already available on the market. Secondly, by increasing access to loans, the banks will be able to mobilize the large cash deposits and release them into the market.

The Title Deed Insurance fully protects the buyer and the bank in case a covered title problem should arise after the property purchase was closed. Possible hidden title problems can include: errors or omissions in deeds, mistakes in examining records,

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forgery or undisclosed heirs of the seller.

In the case of new building projects, the insurance gives further assurance to the buyer and the to the bank issuing the loan, that the property will not be sold twice and that the bank and the buyer will not suffer any financial loss in case project will fail to be completed.

### **THE BARRIERS**

Reluctance of the banks to use the insurance due to the novelty of the products on the market. This aspect can be mitigated by re-assuring the policies with bigger insurance companies active on the international market. It is unlikely that the banks would reject the product because currently, in an attempt to mitigate risks, banks are imposing borrowers take on a life insurance policy.

The cost of the insurance can be an issue for the business developers. However, this is also unlikely to happen as any product that will help boost sales will be positively received by the developers. Currently, some developers are providing their own personal properties as collateral to further guarantee mortgage loans for buyers of pre-sold apartments.

The policy makers might not support the product due to the lack of knowledge on the high potential of the mortgage market, which has often been a key to fostering economic prosperity, political stability and wider equality in many transition countries. The rules and institutions are not sufficiently adapted to the latest techniques of the market.

### **THE FACILITATION**

The organization should act as a liaison between the stakeholders involved. The multiple advantages of the intervention and the high positive impact of the mortgage market on the overall economy, should be presented to policy makers in an accurate and detailed way: this may include data on the current value of the mortgage market, forecasted potential of mortgage market, forecasted multiplier effects of a functioning mortgage market.

Support in the form of technical assistance should be provided to the Cadastral Agency to facilitate the digital registration of new building projects, to insurance companies for developing a product that would cater to the specific conditions of the market in Kosovo and to the legislative bodies in developing the regulatory framework.

### **THE EXIT STRATEGY**

With a strong regulatory framework in place and with sufficiently developed capacities of the implementing bodies, the intervention will collide the common interests of the private and public stakeholders who will be responsible for fostering its further development.

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## Annex 1. Survey of construction companies

Dates	06 May 2015 - 15 May 2015
Number of interviewers	3
Number of surveyed companies	70

PROFILE OF SURVEYED COMPANIES		
	Number of companies	Percentage
<b>Age</b>		
up to 5 years	13	19%
6 to 10 years	19	27%
11 to 15 years	16	23%
over 15 years	22	31%
<b>Size of business</b>		
Micro (0-9 employees)	12	17%
Small (10-50 employees)	26	37%
Medium (50-250 employees)	28	40%
Large (over 250 employees)	4	6%
<b>Turnover</b>		
50,000 – 100,000 EUR	6	9%
100,000 – 250,000 EUR	3	4%
250,000 – 500,000 EUR	4	6%
500,000 – 1,000,000 EUR	12	17%
Over 1,000,000 EUR	42	60%

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## Annex 2. Licensing process of companies and individuals in the field of architecture and engineering

### *Background information*

All activities in the field of construction and design in the construction sector in Kosovo are currently carried out without any licenses issued by the competent state authorities.

The licensing process was initiated by the Ministry of Trade and Industry (MTI) in 2005, when the construction companies and companies in the field of design in the construction sector were required to possess an operation license in order to apply to public tenders. However, in 2011 the newly appointed Minister of Trade and Industry suspended this process and since then the companies are only required to be registered as a business with MTI, without having to prove previous experience or activity in the construction sector.

In 2011, the Construction Division of the Ministry of Environment and Spatial Planning (MESP) in cooperation with the Association of Architects of Kosovo started drafting the legislation on Professional Examination for Individual Licenses for architects and engineers. As the legitimacy of the Association of Architects was contested by many architects and engineers, the legislation drafting process was interrupted. A second Association of Architects was established, and the two associations are in a constant state of 'war' contesting each other.

Current legislation does not have any provisions to regulate the licensing, thus leaves the practicing architects and engineers without any solution that would lead to individual licensing.

### *Licensing of construction entities and companies in the field of design in the construction sector*

Since 2005, the licensing of construction companies and companies in the field of design in the construction sector was regulated by the following Administrative Instructions of the MTI:

- Decision no. 211, dated 27.09.2005, on "Licensing procedures";
- Administrative Instruction No. 2008/20 dated 19.11.2008 "On issuance of permits to departments, divisions within the institutions of Kosovo to perform works in the field of design in the construction sector";
- Administrative Instruction No. 10/2010 dated 14.05.2010 "On Licensing of Construction Entities"; and
- Administrative Instruction No. 02/2011 dated 01.04.2011 "On amending and supplementing the administrative instruction No. 10/2010 on licensing of construction entities".

The process of licensing continued until the decision of the Minister of Trade and Industry, taken on 16.09.2011, to cease valid all of the above noted administrative provisions. Creation of business incentives and avoidance of administrative barriers for business development were mentioned as some of the reasons justifying this decision. In addition, the whole process was questioned due to irregularities in licensing companies that did not meet the criteria and the respective unfair competition in public tenders.



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### *Licensing of Individual Architects and Engineers*

The process of setting legal and administrative procedures for licensing individual architects and engineers was initiated in 2011, based on the Administrative Instruction No.06/2011 of the MESP “for professional examination and licensing of architects and engineers in the field of construction”. A MoU was signed between the MESP, the Association of Architects of Kosovo and the Constructors’ Association, establishing an Interim Board to supervise the process of licensing and registration of architects and engineers in Kosovo.

However, many architects and engineers expressed their dissatisfaction with the process. This culminated in a public protest and the suspension of the exams planned for August 2014.

The architects and engineers continue to exercise their profession without licenses, while the MESP is reconsidering current legislation to find a solution.

### *Conclusion*

The rapid development of the construction sector in post-war Kosovo has been a challenge and continues to remain a challenge for the institutions of the Republic of Kosovo.

Over-population of the capital of Kosovo – Pristina, after 1999 until now, has resulted in an uncontrolled development of the city (Urban Sprawl). Lack of legal infrastructure, municipal and urban development and regulatory urban plans gave way to informality of great, irreparable, proportions. Also architects and engineers contributed to this ‘degradation’, falling prey to investors requesting of them works that did not meet the basic construction criteria. Undoubtedly, the lack of licensing of architects and engineers added to this degradation.

There is not much difference in quality of construction during the period of 2005-2011, when construction companies were actually licensed compared to the years after 2011, when no licenses of construction entities are required. This speaks in favor of the fact that the licensing process was irregular and that the licensing criteria were not met. Although the law on licensing has foreseen the process well, the Kosovo institutions have failed to implement it properly.

The process of licensing of architects, engineers and construction companies in Kosovo is necessary as it:

1. Regulates construction quality according to standards required by law;
2. Prepares architects and engineers on the theoretical and practical aspects of the legislation;
3. Increases the individual responsibility of architects and engineers for their work;
4. Regulates the professional competition and market prices for the profession;
5. Improves the dignity of the architects and engineers.

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## Annex 3. Profile of foreign citizens employed in the construction sector in 2013

Occupation <sup>44</sup>	Number of foreign citizens employed
Construction, electrical, geodesy, mechanical engineer	107
Construction, infrastructure manager	51
Assembler of scaffolds, cranes	25
Electrical expert	22
Technician of machines, quality, safety, environment	18
Professional of construction sciences etc.	16
Driver of heavy machinery	16
Architect	15
Topography	14
Supervisor of income and finance, quality, food, electronic equipment	13
Installer of frames and reinforcement	12
Expert of geo-techniques	10
Master of heavy machinery	10
Welder	10
Steel processor	9
Designer	8
Blacksmith	8
Project manager	7
Maintenance operator of production section	7
Controller of construction	6
Expert of signaling	6
Laboratory operator - Quality Controller	5
Elevator assembler	4
<b>TOTAL</b>	<b>399</b>

44 Labour Market Demands, Alliance of Kosovar Businesses, 2014





