

THE JANUARY 2003 CONSTRUCTION SECTOR ASSESSMENT REPORT FOR KOSOVO

CHF International, in partnership with Save the Children, manages the U.S. Agency for International Development (USAID) funded Kosovo Construction and Employment Program (KCEP), an economic development initiative to increase income and employment in the construction sector.

Through market analysis, strategic partnerships, training, business association development, and technical skills transfer, CHF has provided more than 1,000 entrepreneurs with the resources and ability to survive difficult economic circumstances. More information can be found at www.chfhq.org or by contacting the CHF Kosovo office at (381) 390 23 959.

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American Bank of Kosovo
Central Fiscal Authority
Department of Urban Planning, Gjakova/Djakovica Municipality
Department for Budget and Finance, Gjakova/Djakovica Municipality
FINCA
Interim Credit Unit
Kosovo Trust Agency
Kosovo Reconstruction Equity Fund
Micro Enterprise Bank
Ministry of Finance and Economy
Ministry of Environment and Spatial Planning
Statistical Agency of Kosovo
UN-Habitat Urban Planning and Management Programme
U.S. Agency for International Development

Over 130 small businesses were surveyed, in addition to over 30 interviews with key persons in the local and provincial government, non-governmental organizations (NGO), business associations, and the financial sector.

ABBREVIATIONS

ABK	American Bank of Kosovo
CFA	Central Fiscal Authority
GDP	Gross Domestic Product
EAR	European Agency for Reconstruction
EU	European Union
FRY	Federal Republic of Yugoslavia
ICU	Interim Credit Unit
IMF	International Monetary Fund
KCEP	Kosovo Construction and Employment Program
KEK	Korporata Elektroenergetike e Kosovës (Kosovo Electricity Corporation)
KREF	Kosovo Reconstruction Equity Fund
KTA	Kosovo Trust Agency
MEB	Micro Enterprise Bank
MFI	Micro Finance Institutions
NGO	Non Governmental Organization
SOE	State Owned Enterprise
SME	Small and Medium Size Enterprises
UNDP	United Nations Development Program
USAID	United States Agency for International Development
UNMIK	United Nations Interim Administration Mission in Kosovo
VAT	Value Added Tax

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Executive Summary

Macro-Economic Activities

- *The macro-economic growth in Kosovo has slowed but is relatively stable* after the boom of 1999-2001, with GDP real growth estimated at 7% for 2002 and 4.5% for 2003 and 2004.
- *Profit and wage taxes* introduced in 2002 are moving Kosovo towards less dependence on international donors with expectations that taxes collected may reach 20% of GDP in 2002.
- *Property taxes introduced in September 2002*, with values and rates varying by municipality, may affect home size and locations for new construction; taxes collected will fund local programs.
- *The lending sector continues to be strong* with several new entrants in 2001-2002. Financing of construction sector businesses varies between 8% and 40% of lenders' portfolios with heavy investment in cement and concrete products.
- *New consumer home improvement lending programs have created additional funding* for residential building; growth should continue as more lenders offer similar products in 2003.

Construction Sector

- *Funding of housing construction is now mostly private as donor funding draws to a close*, with only €10 million in donor commitments remaining for 2002-2003. Between 1999 and 2001, €208 million was spent reconstructing over 53,500 homes.
- *Construction materials worth €47.4 million were imported in 2001* with Timber (31%) and Ceramics (14%) topping the list in value, and Timber (34%) and Blocks (34%) in volume.
- *Housing trends and urban housing needs are causing a shift* to more apartment building and single family homes.
- *Urban planning initiatives are encouraging the engagement of multiple stakeholders* in long-term development in municipalities.
- *The number of registered construction sector businesses decreased by 21%* as of June 2002, according to the Statistical Office of Kosovo, apparently reflecting the decline in donor funding.
- *Construction material prices are stable*, showing some decreases.
- *Housing costs are high*, driven by high demand; city center apartments in Prishtina are € 1000/m².

Issues

- *Proposed changes to reduce import taxes from 10% to 2% on capital goods and certain raw materials* could provide some relief to construction sector manufacturers.
- *Exporting remains a challenge* for most Kosovo manufacturers due to difficulties in meeting high quality standards and with lack of reciprocal trade agreements with regional neighbors.
- *The need for new building codes, certification of construction professionals, and control of illegal building* is being advocated by associations and government entities.
- *Construction sector businesses say key problems and barriers are:* lack of capital, low profits, competition, electricity, and "government interference". However, 65% are optimistic about the future.

Opportunities

- *Finished wood sub-sector refocuses to interior furnishings*, with potential for products that are custom-made, unique, and high quality.
- *Insulation is a growing sub-sector* in Kosovo, with two new polystyrene producers this past year, and the introduction of light concrete and polystyrene as alternatives to traditional block construction. The market should grow as consumers understand the benefits and as regulations require its use.
- *Cement and concrete products remain profitable*, with cement cited as the "best seller" among distributors. The number of concrete pipe producers is increasing in response to market demand in infrastructure projects. Quality certification is becoming increasingly important
- *Ceramics and sanitary wares are growing in demand* (8% of imports); other imported products such as asphalt/bitumen shingles have limited consumer acceptance as replacement to clay tiles.

Introduction

The purpose of the January 2003 CHF International Annual Construction Sector Assessment report—the third to be published—is to provide a resource to the Small and Medium Enterprise (SME) business community and other stakeholders in the Kosovo economic community regarding the current state of the construction sector, market trends, in-depth sub-sector research, and opportunities for business growth.

As described in its previous two Annual Construction Sector Reports, CHF defines the construction sector as including all businesses which are engaged in the manufacturing, distribution, and contracting of services and products that are consumed or used in construction (see Appendix C). This includes activities for infrastructure (roads, water, sewage, electricity, and telecommunications), commercial construction, and residential buildings. Materials and products include raw materials (timber, gravel, sand, etc.) at each stage of development, as well as finished goods – domestically produced and imported.

The assessment is designed to provide the reader with the environmental context (see Macro-Economic Activity and Housing in Kosovo) in which the construction sector is operating; and present the state of the market, trends, and opportunities in the sector itself (see Construction Sector and Construction Sub-Sector Highlights). Ultimately this assessment can be utilized as a tool for education and investment prioritization.

Macro-Economic Activity

The business environment in any economy is impacted heavily by the activities occurring on the macro-economic level. To evaluate the construction sector, a review of the key economic indicators, international donor activity, taxes, privatization, financial sector, and an overview of imports and exports during the year (2001) will provide a backdrop for understanding of the Kosovo business environment.

Key Economic Indicators

The macro-economic indicators for Kosovo are on a positive trend and are predicted to provide continued momentum to the entire private sector and specifically the construction sector. Despite slowed growth in 2002, after the major reconstruction period of 2000 and 2001, Gross Domestic Product (GDP) growth is projected to be steady over the next three years, between 4.5% and 5.5%. Remittances (money sent back from family and friends abroad) were expected to increase slightly in 2002 and will remain an important

Gross Domestic Product Growth (Real Terms)				
2001	2002(est)	2003(est)	2004(est)	2005(est)
11%	7%	4.5%	4.5%	5.5%
Imports, Exports, Remittances				
	2001	2002 (est)		
Imports	€ 1,000 million	€ 1,246 million		
Exports	€ 230 million	€ 246 million		
Remittances	€ 524 million (30% GDP)	€ 526 million (26% GDP)		
(Dumas, 2002)				

contribution to households, and also to the macro-economy as they help reduce deficits caused by the large amount of imports.

While exports are predicted to be € 246 million for 2002, it is generally agreed that actual cross border exports of Kosovo products in 2002 will be closer to €15 million.

The huge discrepancy is due to the fact that services

and merchandise which the expatriate, non-resident community purchases domestically are recorded as

Table 1: Key Macro-Economic Indicators

'exports' because they are purchased by non-residents. Finally, unemployment continues very high; different agencies and NGOs estimate the rate to be between 50 and 70%. The limitation in these and other economic indicators is that the development of information collection and tracking is incomplete and does not capture the impact of the un-reported "shadow" economy known to occur in Kosovo and many emerging markets. Quantifying the "shadow" economic activity which includes non-reported goods and services and trafficking of illegal goods has been extremely difficult. (United Nations Development Programme, May 2002)

Given the post-conflict shifts in construction sector spending away from donors (see next section) toward private funding, the volume of Sector spending as related to the overall economy is now more difficult to estimate. Therefore, the authors of this report have decided not to make such an estimate.

International Donor Contributions

The primary focus of many efforts of the international community from mid 1999 through 2001 in the construction sector was the reconstruction and repair of over 100,000 homes that were damaged in the 1999 civil conflict. Today, the focus of most international organizations has shifted to capacity building of institutions and technical assistance in creating a sustainable economic environment. The donor contributions spent on housing reconstruction efforts from 1999 through 2001 total €208.53 million with less than €10 million remaining of committed amounts to be spent in 2002. (European Commission/World Bank, May 2002)

Reconstruction 1999-2002

Funding for housing reconstruction is clearly down from the major expenditures following the conflict, showing another decline in 2002. This may be the last year for major international donor funding of reconstruction. The European Agency for Reconstruction (EAR) planned for reconstruction of 102 houses during 2002, while the Municipal Committee for Reconstruction applied for 3,450 houses. (Monthly Macroeconomic Monitor, June 2002, p 7). From 1999 through 2001, EAR reconstructed over 15,600 houses.

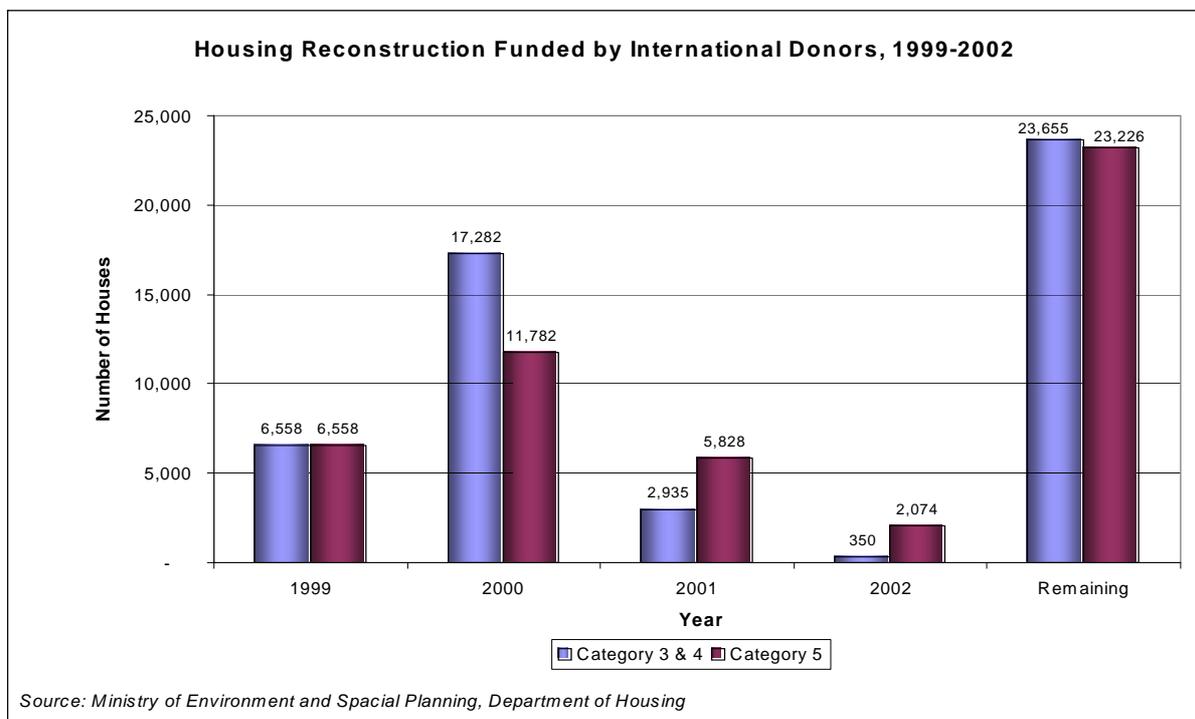


Figure 1: Housing Reconstruction Funded by International Donors, 1999-2002

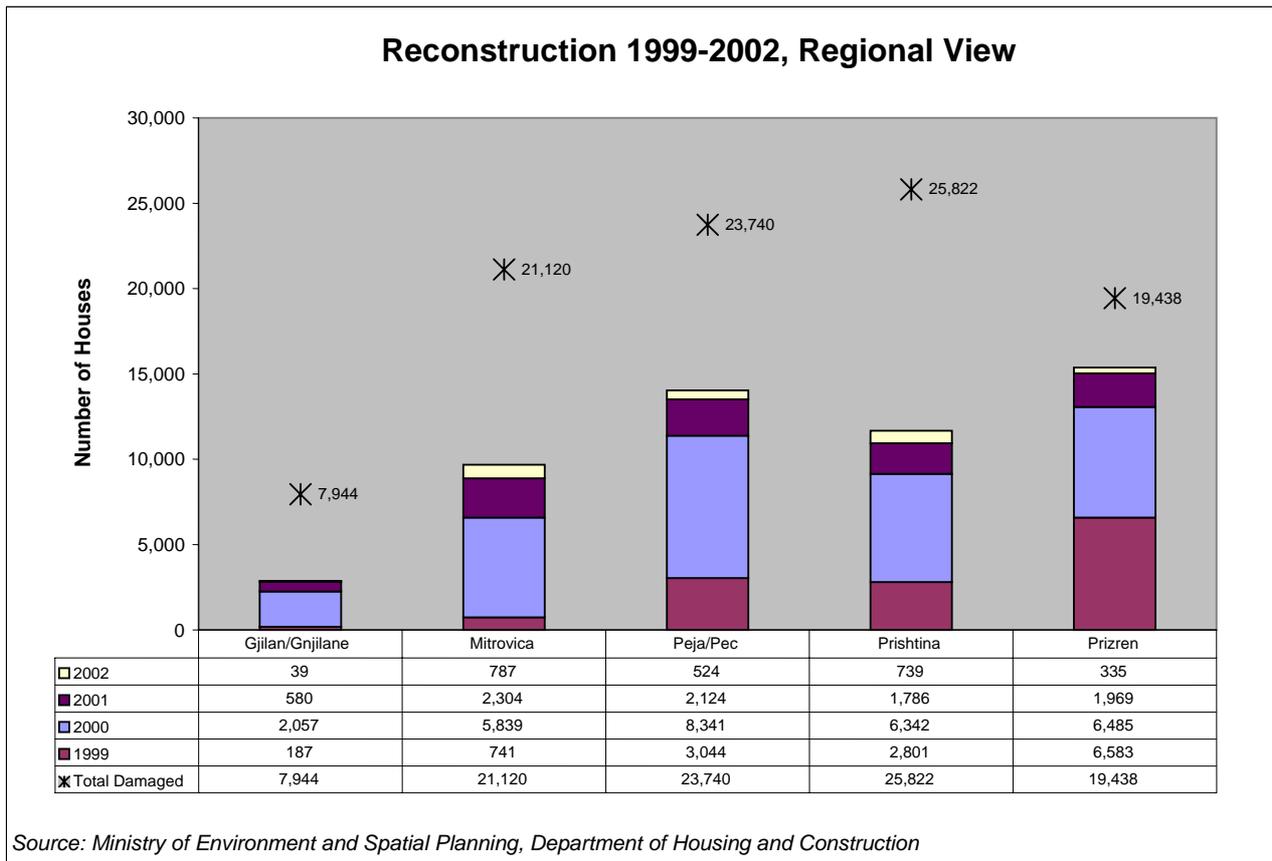


Figure 2: Regional View of Donor-financed Reconstruction, 1999-2002

Of the 98,064 homes registered with the Department of Housing and Construction as having Category 3, Category 4, and Category 5¹ damage, more than 55% have been repaired or rebuilt through international donor organizations. The regional rebuilding pace has varied, with the highest rates in the Prizren region (79% repaired/rebuilt) and Peja/Pec region (59% repaired/rebuilt). Less than half of the homes have been rebuilt in the remaining regions of Gjilan/Gnjilane (36%), Mitrovica (46%) and Prishtina (45%). These figures do not include privately financed home construction which has been occurring widely 2001-2002.

Taxes

With a newly elected government partnering with the United Nations Interim Administration Mission in Kosovo (UNMIK), many changes in taxes have been introduced in 2002, impacting both business owners and individuals. The total amount of all taxes collected is expected to reach 20% of GDP in 2002, which is in line with neighboring country Albania (18%). The projection represents significant growth in internal support for the province from 7% GDP in 2001 to 15% GDP in 2002. (Groot, 2002)

It is estimated that the level of compliance with existing business taxes is 35-50%. Tax compliance is linked to the level of business and tax registrations (estimated to be roughly half of all businesses), which is a prerequisite for tax assessment. After tax procedures and systems are in place the resources will be reallocated to enforce compliance. (Demekas, Herderschee, Jacobs, 2002)

¹ Category 3 homes are repairable, sustained up to 30% damage to the roof, partial fire damage, and partially destroyed doors/windows. Category 4 homes are repairable, but sustained over 30% damage to the roof, severe damage to the structure and floor, and completely destroyed doors/windows. Category 5 homes were completely destroyed and are not repairable.

Business Taxes

For business owners, there are a number of taxes that can apply depending on the activity of the business. Value Added Tax (VAT), import and excise taxes have been in place the longest, but in 2002 the Profit Tax was introduced to replace the Presumptive Tax for businesses with an annual sales over €100,000, those with assets of more than €50,000, or those who voluntary opt to be taxed on real profit and not on the presumed one and for permanent establishments of nonresident persons.

- Presumptive Tax (3% of gross sales over €7,500 per quarter, plus standard amount) – Effective May 20, 2000; It is partially eliminated in 2002 for businesses with annual sales higher the €100,000; Will be eliminated in 2003 for Individual Businesses which will be subject to Personal Income Tax
- Customs Duties (10% on everything {with certain exceptions}; 1% Customs Duty on Imports from Macedonia; 0% Customs Duty on Intra-Federal Republic of Yugoslavia (FRY) Inflows from Montenegro and Serbia)
- VAT (15% on imports/Intra-FRY inflows and domestic taxable supplies of goods and services, if annual sales are over €50,000) – Effective August 1, 2002. It enables registered taxable persons with sales over €50,000 (and those who are below the threshold but do elect to be VAT Filers) to get an input tax credit for the VAT paid on imports/Intra-FRY inflows or domestic purchases
- Excise Tax (Varies with product) – Effective January 2000
- Profit Tax (20% on taxable profit, 7% of gross premiums for insurance related businesses)- Effective April 1, 2002

Table 2: Business Taxes

The basis for the Presumptive Tax is currently divided between ‘small’ and ‘large’ taxpayers. A small taxpayer is defined as a business with gross sales/receipts less than € 7,500 per quarter and large taxpayers include all those businesses that have gross sales greater than € 7,500 per quarter. For ‘small’ taxpayers a standard amount of tax depending on business activity and location is required; while for ‘large’ taxpayers the standard amount is due as well as 3% of gross sales for any amount greater than € 7,500 per quarter.

Quarterly Payments	Prishtina	Prizren, Gjiilan/Gnjilane, Peja/Pec, Gjakova/Djakovica, Ferizaj/Urosevac	Other
Businesses, Service Providers, Professionals, and Tradesmen	€ 200	€ 150	€ 100
Entertainment	€ 200	€ 150	€ 100
Transport	€ 125	€ 100	€ 75
Moving Traders, Artisans, and Other Low-Income Activity	€ 37.50	€ 37.50	€ 37.50

Table 3: Presumptive 'Standard' Tax

As of April 2002, business organizations with annual sales of € 100,000, Permanent Establishments of non-resident persons, business organization with assets of more than €50,000 and those who opt to pay Profit Tax are required to pay a Profit Tax instead of the Presumptive Tax. Businesses with annual sales less than €100,000 may elect to continue the 3% Presumptive Tax, or instead, may prepare financial statements for the application of the 20% Profit Tax. All business entities will be subject to the Profit Tax for 2003 when the Presumptive Tax is eliminated. The major shift from the Presumptive Tax to the Profit Tax is that the basis of the Profit Tax is actual profit (gross sales less allowable expenses) rather than a “presumed” profit. This means that if a business has a loss for the year, there is no tax due for the year, and the loss can even be carried forward to the next year reducing the future year’s tax liability.

Case 1.1 – Presumptive Tax vs. Profit Tax

A basic comparison of the tax liability can be calculated for an example of a contractor or producer located in Peja/Pec. The Annual Gross Sales/Receipts in 2002 are €90,000 and the allowable expenses (defined under the Profit Tax regulation) are €80,000.

	Gross Sales (€)	Profit Tax (€)	Presumptive Tax	
			Standard (€)	3% of amount over € 7,500
Quarter 1	8,000	2,000	150	15
Quarter 2	30,000		150	675
Quarter 3	43,000		150	1065
Quarter 4	9,000		150	45
Allowable Expenses	80,000		Total: 2,400	
Profit	10,000			

The Profit Taxes paid would be €2,000 (€10,000 times 20%). However, under Presumptive Taxes the tax due would be €600 (€150 /quarter for Peja/Pec business) plus €1,800 (3% of the amount over €7,500 per quarter), a total tax liability of €2,400. Clearly, though not required of businesses with sales less than €100,000, the most economical tax choice in this example would be to switch to the Profit Tax rather than continuing to pay the Presumptive Tax. The regulation requires that businesses file financial statements in order to be eligible to pay Profit Taxes.

Table 4: Case - Presumptive Tax vs. Profit Tax

Proposed Import Tax Changes

There is an initiative to change the import tax to a “10-2” model under which the 10% tax on imports would remain, but with an exception for capital goods (e.g. equipment) and some raw materials (depending on the availability of the raw material in Kosovo) which would be taxed at 2%. This could potentially have a significant effect on construction sector enterprises which depend heavily on imported raw materials. The reduction in the import or excise taxes could move many enterprises from unprofitability to profitability. This proposal and some others are pending approval based on guidance from the International Monetary Fund (IMF) and World Bank. (Dumas, 2002)

Case 1.2 – Excise Taxes

Company: IMN Business Activity: Clay Bricks, Blocks, and Roof Tiles

With a €4.5 million post-conflict investment from the international community, IMN has achieved an annual production volume of 40 million thermo blocks, employing 240 people. Until May 2002, IMN was operating a profitable business, at which time the exemption for excise taxes on “mazout” (heavy fuel oil) was eliminated. This threw the company into a position in which they no longer could produce a competitive product compared to their Macedonian and Serbian neighbors. With the increased excise tax in place, the production cost of one block rose from €0.24 to €0.34. The retail price of an imported block with all fees and taxes is €0.31, 10% lower than simply the cost of production of a block at IMN operating with the excise tax on fuel. As shown in this case, reducing the excise taxes on capital goods and raw materials can create an environment in which Kosovo SMEs can be more competitive in the domestic market and potentially in the export market. (Blakçori, 2002)

Table 5: Case - IMN - Excise Taxes

Case 1.3 – Import Tax change

Company: ABC Wood (actual name withheld) Business Activity: Manufacturing Wooden Windows

For a small manufacturer of standard wooden windows (80 x 120) a change in the import tax could potentially make them more competitive in the marketplace. Take the following cost and sales example:

Raw Material	Quantity Needed	10% Import Tax		2% Import Tax	
		Price (€)	Material Costs (€)	Price (€)	Material Costs (€)
Wood material (m3)	0.06	166.67	10.00	154.55	9.27
Double Glazing / m2	0.55	15.45	8.50	14.33	7.88
Mechanical elements / pcs	1	15.00	15.00	13.91	13.91
Rubber membrane tape / m	4	0.18	0.70	0.16	0.65
Wood glue	0.4	3.75	1.50	3.48	1.39
Aluminum Sheet / m2	0.6	6.00	3.60	5.56	3.34
Varnish / Litre	0.6	3.00	1.50	2.78	1.39
TOTAL			40.80		37.83

ABC Wood has operating costs of approximately €20.00 per window, and with the current 10% import tax, also has €40.80 in raw material costs, bringing the basic manufacturing cost to €61 without any profit added. Adding a profit margin of 15%, the window can be sold at wholesale for €70. An imported window of equal quality that is completely finished is typically sold for €65 to 70, with a profit margin higher than 15%. With the import tax reduction, the effective tax rate is reduced from 26.5% to 17.3%. This lowers the raw material costs from € 40.80 to € 37.83. The selling price of the window can then be reduced to about €66.50 which makes it a more competitive offering in the marketplace.

Table 6: Case - Import Taxes – Manufacturing Wooden Windows

Individual Taxes

As of April 1, 2002 individuals are now required to pay a wage tax, with the first collection completed in May 2002. The tax is graduated based on income level. The assessment is done monthly and then re-assessed on an annual basis:

Monthly Income	Tax
Up to €50	0%
€51 – €250	5%
Over €250	10%

Annual Income	Tax
Up to €600	0%
€601 – €3000	5%
Over €3000	10%

In 2003, the wage tax will be replaced with a more comprehensive personal income tax system where personal income from all sources (e.g. interest, pensions, rental income) will be considered as taxable income.

The second individual tax to be introduced in 2002 is the personal property tax. Each municipality has been charged by the Central Fiscal Authority (CFA) with developing procedures to assess property taxes on structures and land. Most municipalities began sending information to the municipality residents in September and October 2002 informing them of the tax and the amount that they should pay for their property. Many municipalities started collecting taxes on a gradual basis in

September, while they are continuing to assess property values through onsite interviews with each real

estate owner. (Shala, 2002) While the start date varies among the 29 different municipalities, all will be invoicing their respective communities by January 2003. The property taxes collected are to stay within the municipality and benefit the citizens from which they were collected through municipal programs and development.

The tax rate is based on the 'market value' of the property and is different for each real estate class or usage type. Each municipality has gone through an effort to determine "market value" of the different real estate classes within each zone. For example, in Prishtina, in Zone 1, an apartment's market value is €550 / m² and a house's market value is €770 / m². These market values change with each municipality. In Gjakova/Djakovica the market value in Zone 1 for an apartment is €500 / m² and for a house is €400 / m². The tax rates vary as well. For residential homes in Prishtina the tax rate is 0.3% -- so, a 240 m² home in the city center will have a computed market value of €184,800, and the tax will be €554. However, a 240 m² home in Gjakova/Djakovica will have a lower value, €96,000, and since the residential rate is lower, 0.1%, the potential tax is only €96.

Real Estate Classes
 Apartments
 Houses
 Commercial
 Industrial
 Garage or Small Building

Some municipalities are also using additional variables to determine the value of the property – including a depreciation value per year (e.g. 0.1%) and coefficients for quality of materials (e.g. 1 for "hard" .75 for "half hard" grade, and .5 for "weak" or poor materials). (see Appendix B)

Taxes on undeveloped land will begin in early 2003. Most municipality leaders view the implementation of the property tax as a pilot and will adjust accordingly as more information is known about property values in order to create a balanced approach to the collection.

Case 1.4 – Impact of Property Tax on Long-Term Housing Costs

As property taxes are implemented, there should be an increased incentive to not over-build. Currently, many families build a 3 level home and live on a single level. Potentially, homeowners could pay property taxes on all three floors if they are finished. While a 300 m² home in Prishtina would have a tax liability of €693, a more modest home of two levels, say 200 m², would have a reduced tax liability of only €462 resulting in a savings of € 231 annually. The present value of these tax savings compounded over a period of 20 years, at an annual interest rate of 10%, is €1,958 saved. As new residential and commercial building continues, individuals and businesses will need to consider these costs in their design.

Table 7: Case - Property Tax Impact

Privatization

With the signing of the regulation (2002/12) to form the Kosovo Trust Agency (KTA) in June 2002, the first step in the process in which over 300 State Owned Enterprises (SOE) (out of the total of 490 shown in Figure 3) in Kosovo can be privatized has begun. While many issues remain regarding process and operational policy, KTA has been formed and efforts are ongoing to develop a strategy and assess the existing enterprises that will drive the privatization process for Kosovo. (Gast, 2002) The SOEs cross a number of industries, with the greatest number in the Agriculture and Agriculture/Food Processing (144), followed by Trade & Retail (56), then Construction Materials (48). Though 10% of the SOEs are formally classified as Construction sector entities by KTA, a number of other enterprises included in Wood Processing, Metal Processing, Services, and Mining are closely related to the construction industry and therefore should be considered when making an assessment of the impact of SOE privatization on the construction sector.

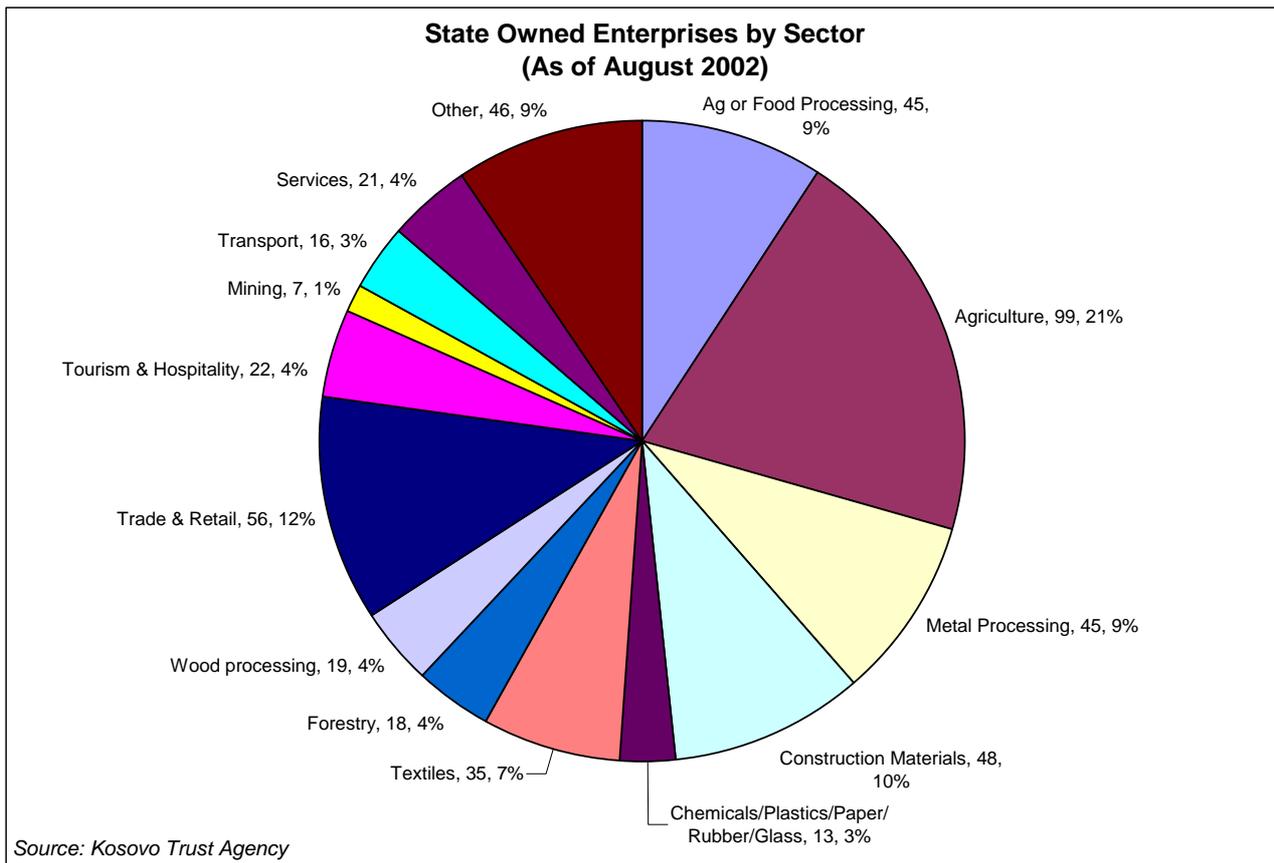


Figure 3: State Owned Enterprises by Sector

A closer look at the construction related entities identifies about 138 enterprises. Of these 138 enterprises approximately 95 are operating at full or partial capacity, employing approximately 10,300 people in the past year.

The EAR has developed the Industrial Development Program to provide loans and technical assistance to SOEs. As of April 2002, a total of 9 loan agreements have been made (€ 7 Million) supporting SOEs in metal sheeting, food and construction sectors. (European Agency for Reconstruction, June 2002)

CHF believes in the short-term that the newly privatized SOEs will be contending with old technologies and systems and will not pose a major threat to construction sector SMEs which should be able to operate more flexibly and to react more quickly to market conditions.

Financial Sector

Lending Environment

The lending environment in Kosovo has changed considerably in the past two years. With the introduction of 6 new local banks in 2002, there are a total of 7 licensed commercial banks with 74 branches. Additionally, the number of Micro Finance Institutions (MFI) is currently 16 (as of June 2002). The impact of the Euro was significant in encouraging deposits and increasing overall confidence in the banking system. Deposits increased five fold from January 2001 to December 2001 reaching €485million. This increase was due to the fact that people had to open bank accounts in order to avoid fees in converting Deutsche Marks to Euros on

January 1. This trend then fell off; from December 2001 to June 2002, bank deposits decreased by more than €100million (22%). This decrease was caused by depositors withdrawing the Euros for various needs, though total deposits have remained high. (Monthly Macroeconomic Monitor, June 2002)

Though SMEs still cite lack of access to credit as one of the primary barriers to business growth and prosperity, there was an explosive growth in lending in the first two quarters of 2002. The loans to deposit percentage jumped from 5.2% in December 2001 to 15.5% in June 2002. (Blakcori, 2002) The interest rates among lenders range significantly from 11.5% to 24% annually, 1.2% to 3.0% monthly for short-term loans.

Financial Institutions	Interest Rates (%)	Grace period (months)	Repayment Period (months)	Loan Range (€)
Micro Enterprise Bank (MEB)	12.0 to 24.0 (annual)	0	24 to 60	500 to 50,000
Interim Credit Unit (ICU)	15.0 (annual)	6	3 to 36	50,000 to 150,000
FINCA	3.0 (monthly)	0	3 to 6	Up to 50,000
New Bank of Kosovo	1.2 to 1.5 (monthly)	0	12	Up to 230,000
Kasabank	14.0 (annual)	0	12	5,000 to 300,000
Bank for Private Business	11.5 to 14.0 (annual)	1	1 to 12	2,500 to 180,000
American Bank of Kosovo (ABK)	14.0 to 18.0 (annual)	0	3 to 12	Up to 200,000
Economic Bank	1.25 (monthly)	3	3 to 12	5,000 to 250,000
Credit Bank of Prishtina	14.5 (annual)	0	3 to 12	10,000 to 100,000

Table 8: Lending Environment - Key Statistics

Source: CHF International, Lender Survey

Construction Sector Financing

Construction sector financing has been positive. The percentage of lender portfolios in construction varies greatly, depending on the lender's overall market strategy, including business size, sectors, and loan range targets. Financing of particular sub-sectors depends on the average loan range. The portfolio sample survey shows the variance between lenders targeting smaller ventures (MEB and FINCA), and those serving medium and large size businesses (ICU, ABK, and Kosovo Reconstruction Equity Fund {KREF}).

Lender	% Portfolio	Loans Made (€)	Loans Outstanding (€)	Sub-Sectors Financed
ICU	19.6%	1,272,530	1,115,347	<ul style="list-style-type: none"> • Concrete, Lime, Plaster Manufacturers (64%) • Constructing Multi-Level Buildings & Houses (18%) • Building Completion Work (9%) • Roads, Bridges, Railways (9%)
FINCA	8.3%	318,929	188,364	<ul style="list-style-type: none"> • Construction Material (40%) • Wood Products (15%) • Brick, Block, Marble (12%) • Metal Products (10%) • Pipes, Hoses (9%) • Plastics (2%)
ABK	42%	7,818,263	...	<ul style="list-style-type: none"> • Concrete & Cement Products Manufacturers (43%) • Construction Material Trade (16%) • Gravel, Stone, & Sand Manufacturers (15%) • Marble and Ceramics (6%) • Construction Services (3%) • Other Construction Materials (17%)
MEB	10%		2,038,113	
KREF	40%	1,175,000	1,175,000	(these are quasi-equity investments)

Table 9: Construction Sector Portfolio - Sample

Source: CHF International, Lender Survey

Lenders providing loans of €100,000 and greater are more heavily invested in more capital intensive businesses such as concrete and gravel production. FINCA provides smaller loans, serving smaller scale entrepreneurs with short-term working capital, crossing a number of sub-sectors. The construction sector is a smaller portion of FINCA's overall portfolio (8.3%) than of lenders with higher average loan sizes such as ICU (19.6%). *(The data included in Table 9 is intended as an example, it is not exhaustive of all the lenders serving business lending needs in Kosovo.)*

Home Lending

The first home lending program was introduced by MEB in March 2002. The MEB Home Improvement Loan Program was the first program in the market to meet the high demand by Kosovar homeowners to borrow medium to small credits towards making improvements in their homes. As of September 2002, the Home Improvement Loan Program was 24% of the total MEB portfolio, with 789 loans outstanding with an average loan disbursement of € 5,450. The interest rates vary from 10-12% and are typically for 30-36 months, dependent primarily on stable income and employment relationships. The program has a perfect record in repayment, mirroring the repayment trends among the business community.

Another consumer lending program has been developed by Kasabank, a relatively new bank in Kosovo with Slovenian shareholders. The lending program assists consumers in purchasing products produced in Slovenia (e.g. Lesna and Gorenje products). The main requirements are that the payment is less than 1/3 of the borrower's monthly salary and that the borrower's salary be received through Kasabank. The interest rate is 14% annually.

These are just a few examples of early Home Lending approaches. New entrants to home lending are sure to come as the product and service of home lending is in high demand. Sector experts projected that at least three new entrants will come into the market during the first quarter of 2003.

Import/Export Overview

With limited raw material resources in Kosovo, imports of construction materials and raw material inputs have remained high over the past three years. Imports of all products for 2000 were valued at €1,055 Million, while 2001 showed a decline of 49% to € 539.4 Million (Monthly Macroeconomic Monitor, June 2002). In the first quarter of 2002, imports of all products were reported to be €169 Million - an initial strong showing that 2002 imports are likely to exceed 2001. Items categorized as Construction Materials were 5% of the value of all imports; Wood and Plastic constituted 14%. Thus the value of imports by the construction sector was at least 19% of all imports.

Within the construction sector, imports of wood/timber and blocks dominated the sector, each representing about 34% of the volume of imports; followed by tiles (9%) and ceramic products (8%). The ranking shifts when viewing the categories in terms of value. Blocks drop to fourth among the basic construction categories, comprising only 9% of the Sector's imports by value. (see Appendix A)

To date, exporting has been very difficult for most businesses in Kosovo, first because of the problems in meeting quality and European certification standards. Additionally, lack of trade agreements with neighboring countries has created vast differences in import taxes and export taxes. For example, there is no reciprocity between Macedonia and Kosovo. Goods imported into Kosovo from Macedonia pay a 1% customs duty, but Kosovo items exported to Macedonia pay a 19% tax. This problem may not be resolved for some time until Kosovo has the ability to negotiate reciprocal trade agreements that alleviate the current barriers. Proposed improvements in international highways will also accelerate increased exports. (Victor, 2002)

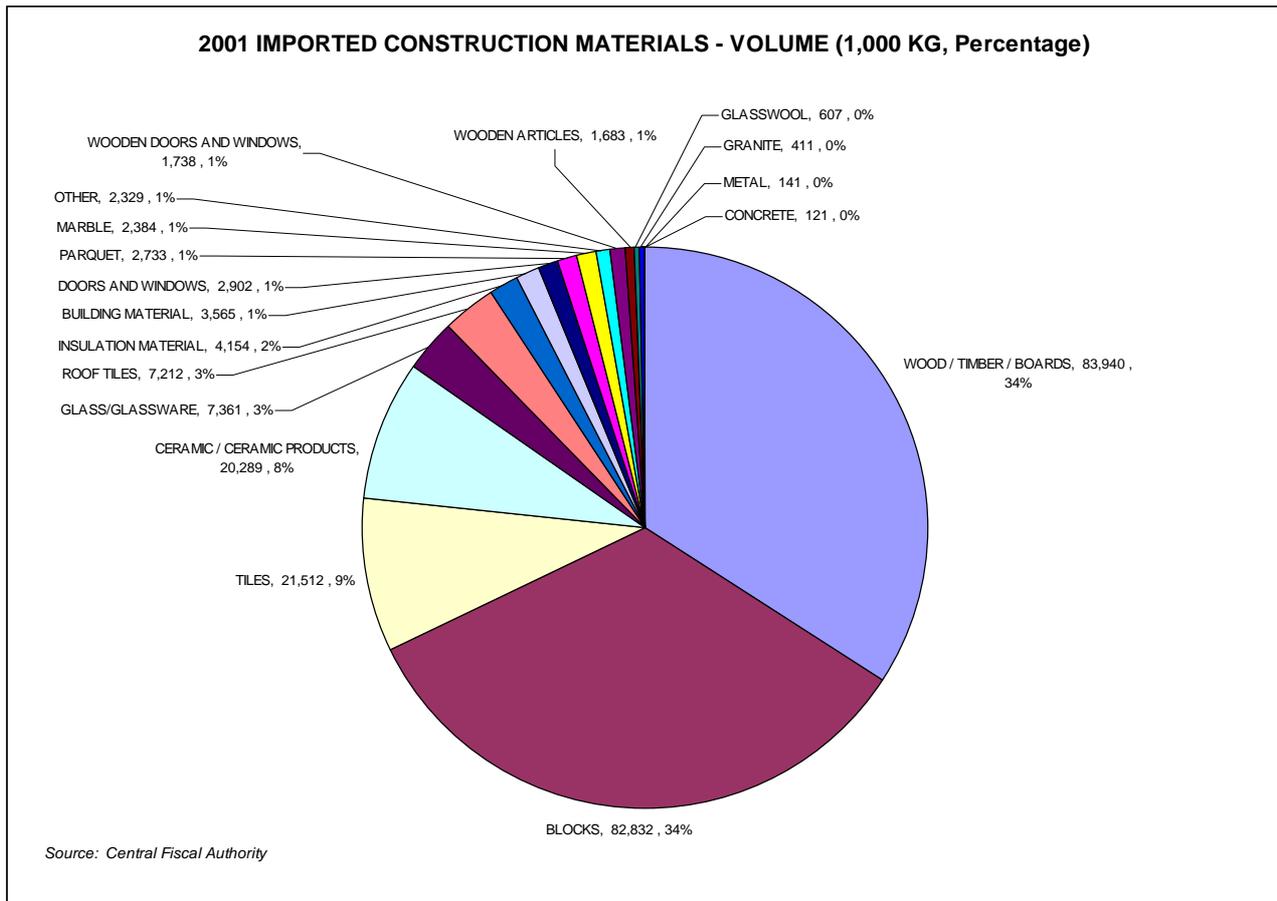


Figure 4: Imported Construction Materials, 2001

Implications for the Construction Sector

- Although there is still some significant donor-funded activity in infrastructure needs (electricity, telecommunications, roads, sewage, water, etc.), the 'boom' of donor-funded reconstruction is essentially over and the sector activities are now mostly privately financed.
- Business and individual taxes will start to play a larger role in how business is managed, as well as providing a stimulus for economic activity by providing additional funds to the local and provincial governments.
- Import taxes remain burdensome, but changes could provide some relief for Kosovo manufacturers importing machinery and raw materials.
- Privatization of SOEs is beginning. In the near term this will have little impact on small and medium size businesses because SOEs struggle with outdated equipment and facilities, providing a window of opportunity for the more agile SMEs to meet market demand more swiftly.
- The lending environment is continuously gaining strength – home lending provides more economic stimulus in the construction sector; while several new entrants in the business lending sector will create competition which may lower interest rates and increase overall lending.
- Imports will remain an important part of the economic activity in Kosovo for the next several years. As manufacturing growth is encouraged through foreign investment, regulatory changes, and improved infrastructure, exports will become a larger part of the overall economic activity in Kosovo.

Housing in Kosovo

Traditional Building Timeline

The traditional home in Kosovo is built on a 20 m x 20 m land parcel and is a two floor, 10 m x 10 m home. Typically there are two bathrooms, with three rooms on the first floor and three rooms on the second floor. There are many variations, but this is the most typical floor plan. Figure 5 provides an overview of the building process, application of insulation, and typical costs, based on interviews with local experts.

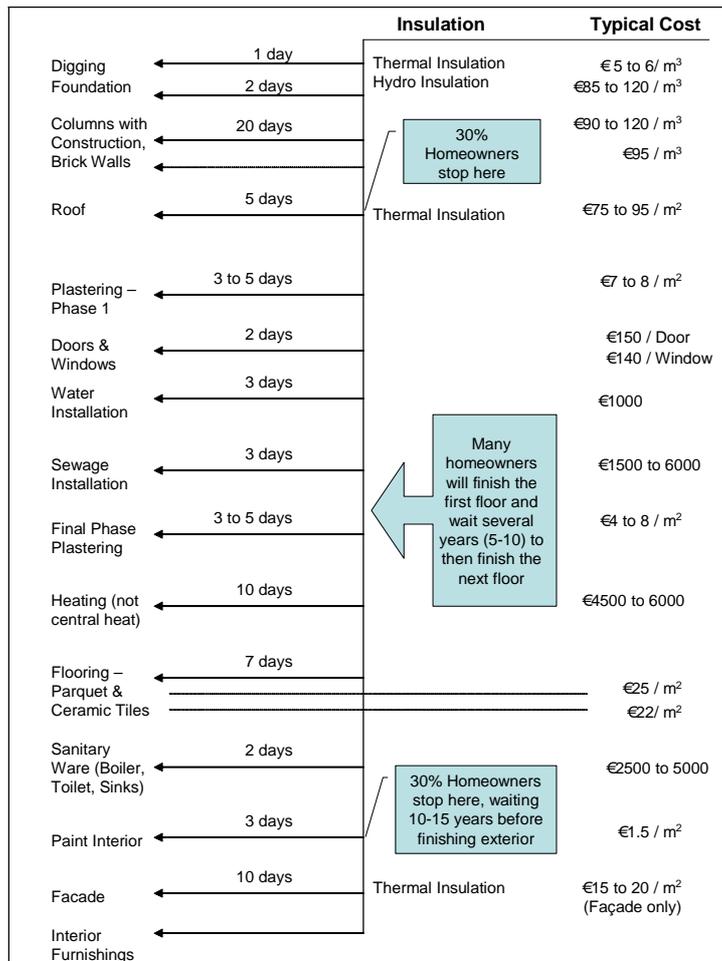


Figure 5: Traditional Home Building Timeline

Source: CHF International Staff

Because the expense of building a home is significant for most individuals and families in Kosovo, it is often built over a series of years. The cost of the land is usually the first hurdle if it is not already owned. Depending on where the parcel is located (city center, suburbs, village) and the municipality, the prices range from € 50 to € 200 per m². After obtaining the land, the first phase (foundation, brick/concrete walls, roof) is constructed. At this point an estimated 30% of individuals may stop construction for a number of years until they have the savings to continue. Another significant stopping point is completing the exterior façade. Since the lack of an exterior façade does not directly affect the interior living space, the owner may occupy the home without completing the façade, and it may take up to 15 years before the funds for this step are saved and the house is completed. Insulation, if used at all, is placed on the exterior of the home during the completion of the exterior façade. The delay in façade completion thus results in an under-insulated home, minimal

protection from the elements, extremely high energy usage, and, frequently, depletion of natural resources, such as wood.

New Trends

KCEP has noted that as Kosovars gain increased exposure to the West, with over 500,000 Kosovars moving to western Europe and the United States during the past 10 years, housing choices are changing as well.

Key Drivers for Housing Trends

- Urban Population Growth from Rural Areas
- Cultural Shifts to 'Single Family' homes
- Significant Population of Young People
- High Cost of Land

Due to the desire by some families to have a living space separate from their extended family, the popularity of apartments and a more western style of "single family home" is increasing. This increase in development of apartments has occurred primarily in the last 2 to 3 years, with money coming from abroad via remittances.

General contractors and larger construction companies are increasingly engaging in apartment building projects to meet the market housing demand, particularly in more urbanized areas like Prishtina and Prizren where there are severe housing shortages.

Case 2.1

Company: Foleja Business Activity: Single Family Housing Development Project

Foleja is a single family housing development project that will result in the construction and sale of up to 52 new homes on 2 hectares and 70 ares on the outskirts of Prizren. The homes are being designed, constructed, and sold by a consortium of 3 Prizren-area firms: a real estate agency, Intel Services; an architectural design firm, Atelie Drita; and a construction company, Global. Foleja homes will offer 250 to 310 m² of floor space, including two stories and a basement. Each home will be on a parcel of land between 3.75 and 4 ares. Floor plans are designed to accommodate an average family size of 6, but can be customized by the buyer. Four exterior design models will be used to ensure a cohesive appearance to the development. Additional land has been reserved for shopping and public space development. Following lender approval, the project is expected to be completed in approximately 15 months. Each home will be marketed for €80,000 which can be paid in 3 or more construction progress installments.

Table 10: Case - Foleja - Single Family Housing Development

Housing

Urban Planning

As a means to thwart continued illegal construction, urban planning is starting to come to the forefront as a tool for municipalities to plan new construction and infrastructure projects following the post-conflict reconstruction. Only a few municipalities have formal Urban Plans; those that do exist were developed 10 to 30 years ago, thus completed without taking into account the effects of the conflict. The approach taken by the UN-Habitat Urban Planning and Management Programme in Kosovo is to partner with local municipality leaders to develop "participatory action planning" (Kostecka, 2002). Through training programs, scheduled to end in June 2003, UN-Habitat is training 100 different participants in municipalities across Kosovo on new planning tools and methods. An example of a revised plan is in Table 11 below.

The action-oriented approach being prescribed by UN-Habitat is for municipalities to partner with developers at the local level to move the plans to reality. Partnering with private investors and developers is a

requirement to overcome limited resources. This is an opportunity for key players in the construction sector to contribute to and gain from planning initiatives.

Case 2.2

Gjakova/Djakovica – Urban Planning

A general urban plan was developed in 1989 for the Gjakova/Djakovica municipality by the Institute for Urban Planning in Sarajevo, Bosnia. This pre-conflict plan projected that new housing for 30,000 persons would be needed by 2011. Since these projections were made the population has changed with the migration of people from rural village areas to more urban centers.

One of the actions the municipality is taking, to adjust the urban plan to respond to the new realities, is to develop a new project called “Rezina Complex Gjakova/Djakovica,” a project originally suggested in the general urban plan. This new community will be built within the Third Region of Gjakova/Djakovica, called Rezina. The development includes plans for 7,000 units of housing (houses and apartments), along with several commercial and retail areas. New infrastructure and services (schools, university, hospitals, etc.) are planned and are divided between the North and South of “Rezina”. The project vision has been developed and the municipality is currently in the process of formulating a detailed project analysis and plan (to be completed by an outside vendor). The analysis and plan will provide a springboard for identifying financing needs/investment opportunities and a potential timeline. (Rraci, 2002)

Table 11: Case - Gjakova/Djakovica - Urban Planning

Urban planning at both the local and provincial levels is also tackling the need for new building codes, enforcement of certification of construction professionals, and prevention of illegal construction. The current building code that is in effect is an “applicable law,” last updated in 1989, a carry-over from the Yugoslavia Government. The outdated code does not incorporate advances made in material technology and building knowledge during the past 13 years. Additionally, as the reconstruction boom hit Kosovo following the conflict, many entrepreneurs entered the market without certification and proper knowledge or education. This has resulted in many buildings that do not meet safety, reliability, quality, and durability standards.

In 2001, officials estimated that 5,000 illegal building infractions occurred in Prishtina alone. Infractions are caused by a number of factors: lack of knowledge, frustration with bureaucratic obstacles, general negligence in following the law, etc. Some municipalities have stopped issuing building permits because their urban plan has expired or is obsolete and the planning process has come to a standstill. Some individuals and builders see no choice but to build without the proper documentation, resulting in a spate of ‘illegal building’ violations.

A major objective of the Housing and Construction Department, in the Ministry of Environment & Spatial Planning, is to establish and implement new building codes based on European Union (EU) standards, modified for Kosovo conditions.

Housing Costs

Housing costs vary greatly with the type of building materials, within municipalities, and certainly widely across Kosovo. Municipalities are divided into four zones that spread out like concentric circles, starting from the center. Prices on existing houses and land are gauged primarily according to these ‘zones’. Of

Apartment Purchase Costs	
Rahovec/Orahovac	€459 / m ² (1 st floor) €454/ m ² (2 nd to 5 th floor)
Prishtina	€600 to 800 / m ² (Suburbs) €800 to 1000/ m ² (City Center)
Gjakova/Djakovica	€640 to 650 / m ² (1 st & 2 nd floor) €608-618 / m ² (3 rd to 5 th floor)

course there are certain parts of the cities and towns that are more desirable because of available public services (hospitals, schools, etc.) and existing housing can be significantly more expensive due to the value of the land.

The cost of purchasing an apartment can double depending on the location. In Prishtina, where housing needs are critical, apartments are priced as high as €1,000 per m². (Ahmeti, 2002) With an average apartment size of 60 to 75 m², the purchase price can be €60,000 to €75,000. In the smaller municipalities, apartments are often purchased as an interim step to building a home. With an average investment of €50,000, home buying is a significant outlay for buyers considering the current economic conditions in Kosovo. Many builders are now turning to marketing apartments to Kosovars living abroad who are more likely to be able to afford these high prices.

The ranges for rental rates vary greatly, but are fairly consistent in many of the municipalities, with Prishtina, Prizren, and Skenderaj/Srbica showing slightly higher costs for a house than Peja/Pec and Decan.

	Apartment (€ / m ²)		House (€ / m ²)		Commercial Store (€ / m ²)	
	City Center	Suburbs	City Center	Suburbs	City Center	Suburbs
Prishtina	5 to 10	3 to 8	10 to 25	4 to 10	15 to 35	15 to 20
Prizren	4 to 6	3 to 5	4 to 6	3 to 5	20 to 30	18 to 25
Decan	N/A	N/A	2.50 to 3	1.5 to 3	25 to 30	15 to 25
Peja/Pec	N/A	2.5 to 4	2.5 to 3	2 to 3	15 to 25	10 to 25
Skenderaj/Srbica	N/A	N/A	4 to 7.5	2 to 3	16 to 25	7.5 to 10

Table 12: Rental Rates

Source: CHF International, 2002 Survey

Implications for the Construction Sector

- Urban Planning - As these skills develop and municipalities engage various stakeholders in developing an urban plan, an estimation of the market demand for construction services can be predicted and used in business development efforts of the construction sector itself. Construction sector leaders can play a direct role in influencing these plans.
- New Building Codes – Will provide opportunities for new businesses to certify or audit buildings; new or existing trade or business associations can mobilize to influence the formulation of the regulations.
- Certification of Professionals – Will decrease the amount of 'illegal' competition in the market, providing opportunities for serious professionals
- Need for Urban Housing – Will increase the demand for apartments and other construction
- Flexibility in Housing Design – Will reflect the impact of new taxation on building space and the development of a the "single family home", as well as addressing the needs of Kosovars returning from abroad

Construction Sector

The construction sector remains a critical part of the Kosovo economy. Based on information supplied by the Statistical Office of Kosovo the total number of businesses registered to operate in this Sector has decreased by 21% from 7,291 in September, 2001, to 5,775² in June, 2002 (the complete listing is in Appendix C). This decline seems to reflect the slowdown in donor funding of the Sector, but possibly also some businesses trying to avoid increased taxes. The Statistical Office data shows wide shifts in some activity codes, suggesting that the classification of business entities may be going through an adjustment to more accurately describe their main activities. Increases in some categories may be due to the fact that business registration has been an on-going project with many existing businesses formally registering for the first time.

The primary activities within the construction sector are:

- Contracting
- Manufacturing/Production
- Distribution

General Contracting (Economic Activity Code 4521: “General construction of buildings and civil engineering works”) had the most registered businesses in 2001, 23% or 1,693. However, as of June 2002, this number has fallen substantially to 281, an 83% decline. The Statistical Office felt that this decline was due to the slow down after the boom of construction from 1999 to 2001 with many businesses leaving that activity.

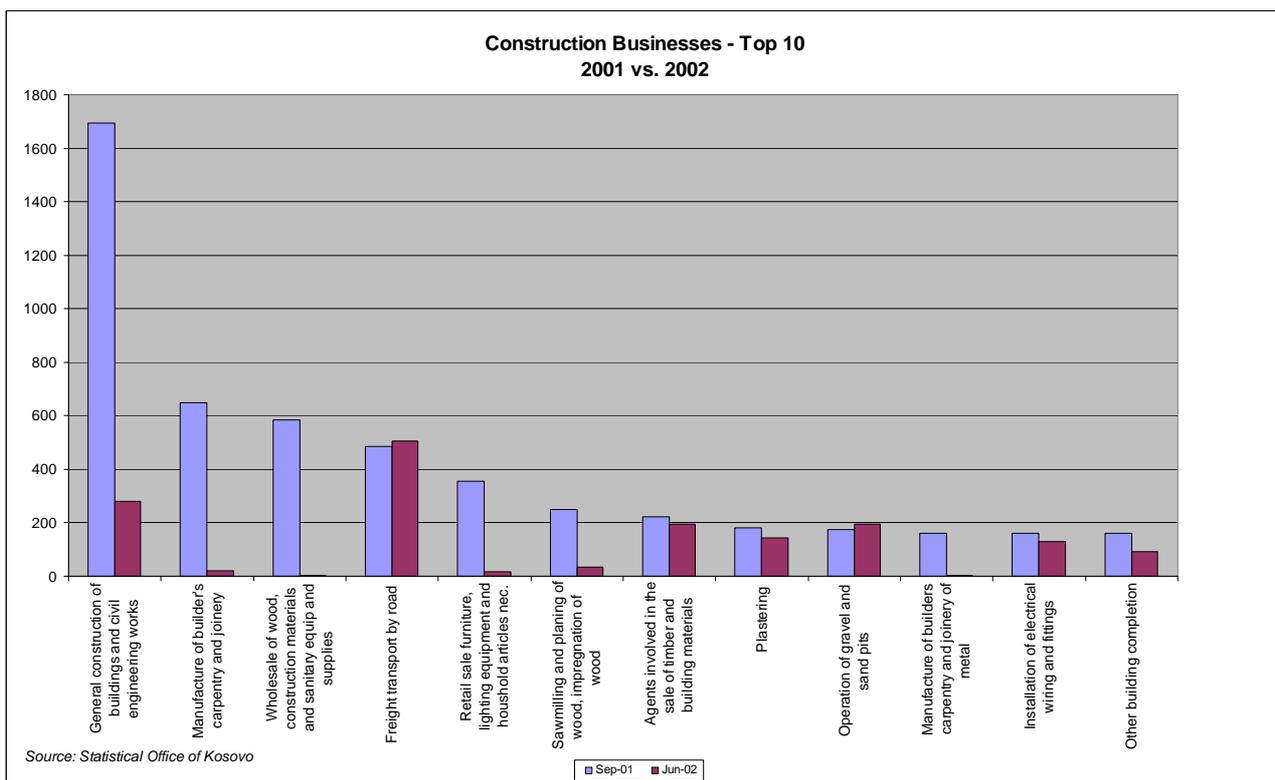


Figure 6: Top 10 Construction Businesses - 2001 vs 2002

The top 10 business activities in September 2001 are not the top ten as of June 2002 – showing declines in nearly every category except Freight Transport. Two businesses activities that have risen significantly are

² Economic Codes have been included for a number of businesses that are not part of the category “construction” but which are strongly related through activity to the Construction Sector (e.g. wholesaling and trading, mining and quarrying).

'Floor and wall covering' (increasing from 77 to 624 entities) and 'Painting and Glazing' (growing from 128 to 412 entities); one indication that there may be growth in interior finishing business activities.

Wages

The wages within the construction sector are down slightly with the median high moving from € 350 in 2001 to € 300 in 2002. When asked directly most people say that wages are about the same as a year ago. The slight decline may be attributable to lower 'reported' wages with the implementation of the new wage tax, and the desire of individuals to limit their tax liability. The median low was the same.

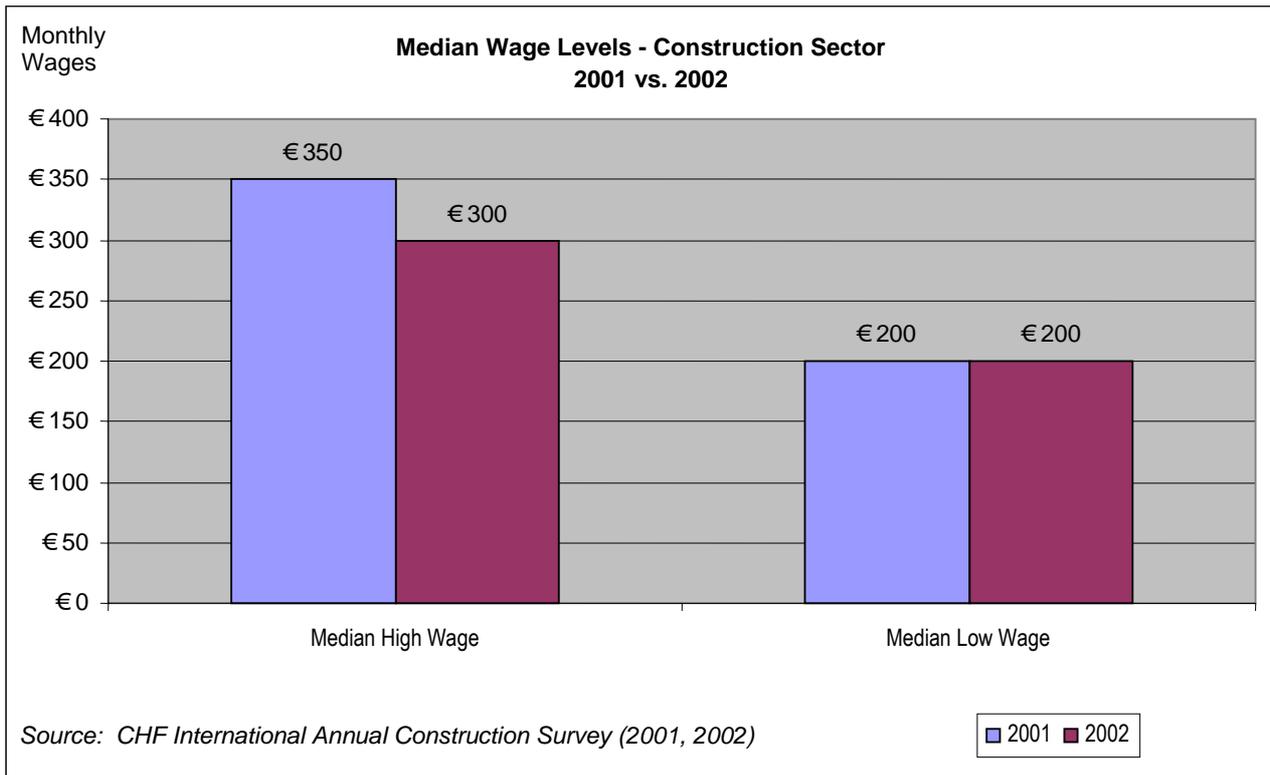


Figure 7: Construction Sector Wage Levels

To give a relative sense of how the construction sector measures up: The average monthly salary in an SOE is €100 to €150. In a public administration position (teachers, municipal government), salaries average €150. Overall private enterprises pay an average of €300 and international organizations pay up to €1,000 month salary. (United Nations Development Programme, May 2002) Though construction sector salaries are slightly lower, the rates are still higher than for those employed by a state enterprise or in the public sector and are in line with other private enterprises.

Construction Material Prices

Construction product prices have leveled off over the past year, showing little increase from September 2001 to September 2002 (See Figure 8). Gravel had the greatest increase, up 20% in the past year, mainly reflecting the increased cost of complying with new quarrying regulations. Interior Doors and Rebar prices also were up strongly, with 15% and 14% increases respectively.

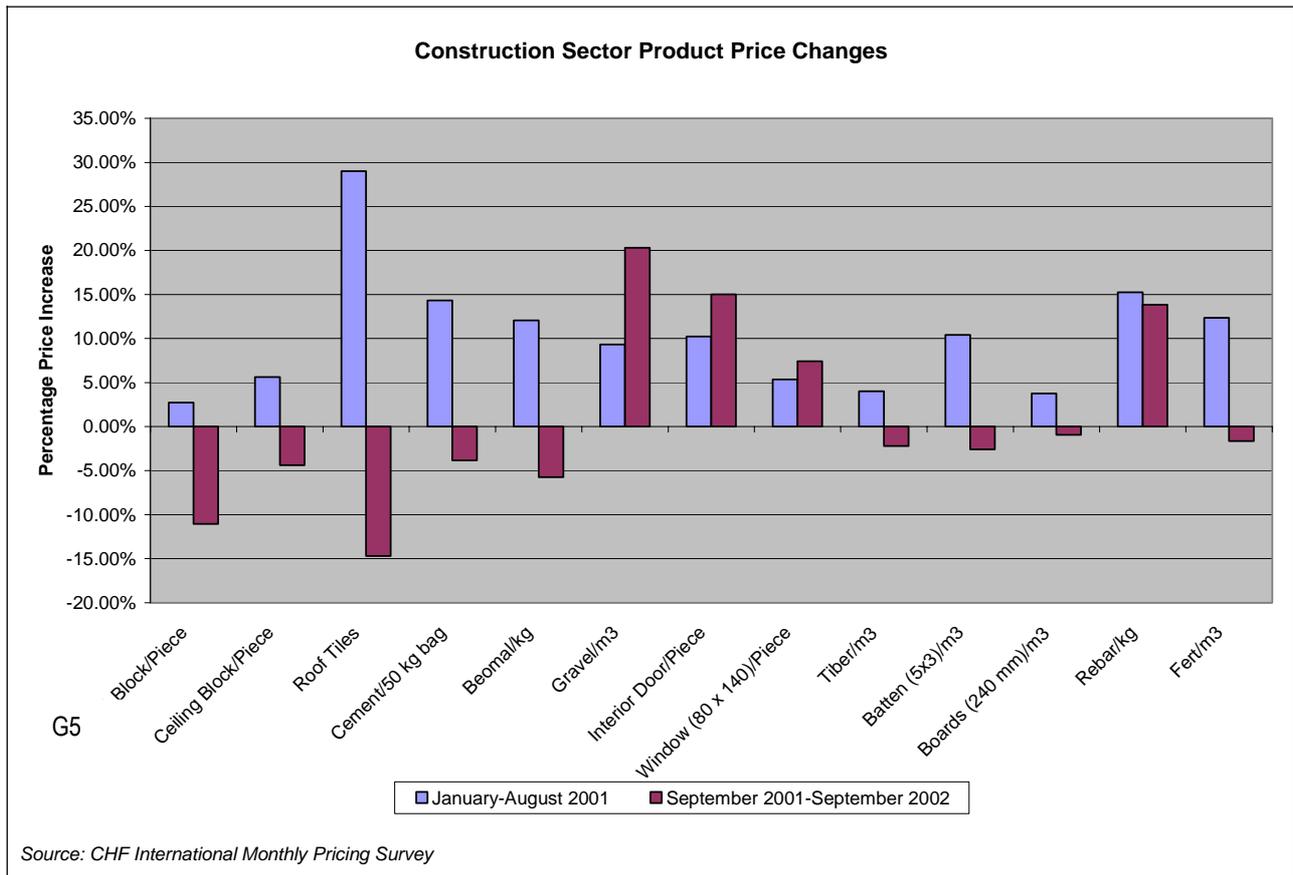


Figure 8: Construction Products - Price Changes

Many products have seen an average decrease in price. Roof tile prices have fallen almost 15% with G5 block a close second at minus 11%. The fall in roof tile prices may be attributed to increased competition with the start of domestic production in November 2001 by IMN. The remaining products overall are leveling off. This data is another indicator that the reconstruction boom is over as prices are stabilizing or falling slightly with the decrease in demand.

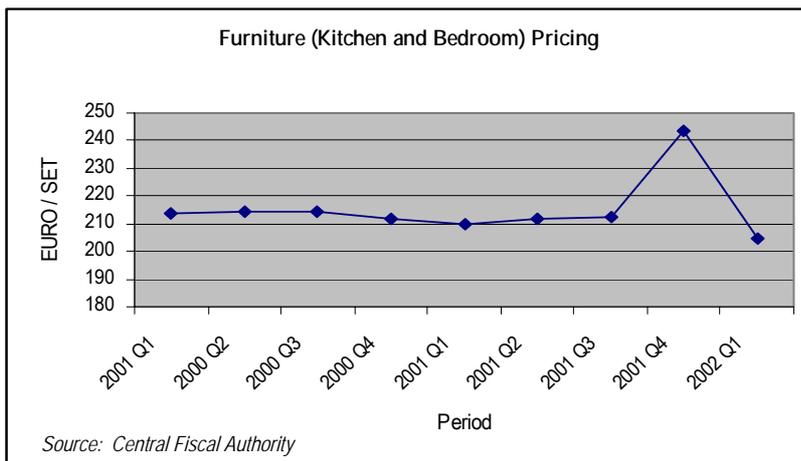


Figure 9: Furniture Prices

Figure 9) for example has shown an overall decline from Quarter 1 2001 from € 209.97 per set to € 204.38 per set in Quarter 1 2002. However, there is one extreme outlier in Q4 2001 (€ 248) that cannot be explained, but may be due to inconsistency in data collection. (Monthly Macroeconomic Monitor, June 2002)

The leveling off of construction sector prices corresponds to the slight increase (1.3%) in consumer prices overall between January and May 2002, as captured by the CFA pricing analysis.³ The CFA results may be due to a seasonable slow-down, or related to an economic slow-down from the previous year. The CFA pricing survey report indicates wide swings across the regions in prices of both construction materials and consumer commodities. Furniture (basic kitchen and bedroom furniture) (See

³ The consumer prices tracked by CFA are bread, milk, beef, tomatoes, tobacco, electricity, furniture, and gasoline.

Problems and Barriers

The CHF International Annual Construction Survey asked construction sector businesses to identify their top 3 problems or barriers in doing business. The same survey questions have been used during the past 3 years to provide accurate comparison of responses. (See Figure 10)

Capital Requirements – Lack of capital -- for working capital, business expansion, and equipment -- is still the number one barrier identified by businesses, despite the growth in the lending sector in the past year. A greater inflow of capital in the form of credits, local investment, and foreign investment is needed. The lending process is still fairly rigorous in terms of collateral (typically 200%) and guarantor requirements, and, depending on the lender, is perceived by businesses to be bureaucratic and lengthy in processing time, lasting months in some cases.

Low Profits – The issue of low profits continued to be mentioned by over 50% of the business—58% in this survey—which pushed it to second place in the listing. Construction sector businesses are struggling with a combination of tighter margins, higher raw material prices, expensive labor, high taxes, inefficiencies due to their inability to finance expansion and new equipment, and “too much competition” driving businesses to compete on price and push down the profit margin.

Too Much Competition – Businesses listed “too much competition” as the third major problem within their sector. Especially noted in the 2002 survey were several participants that stated that ‘illegal’ competition or ‘un-loyal’ competition as a major problem. These responses are related to businesses that are not certified or qualified to be contractors and/or are not conforming to the existing building codes.

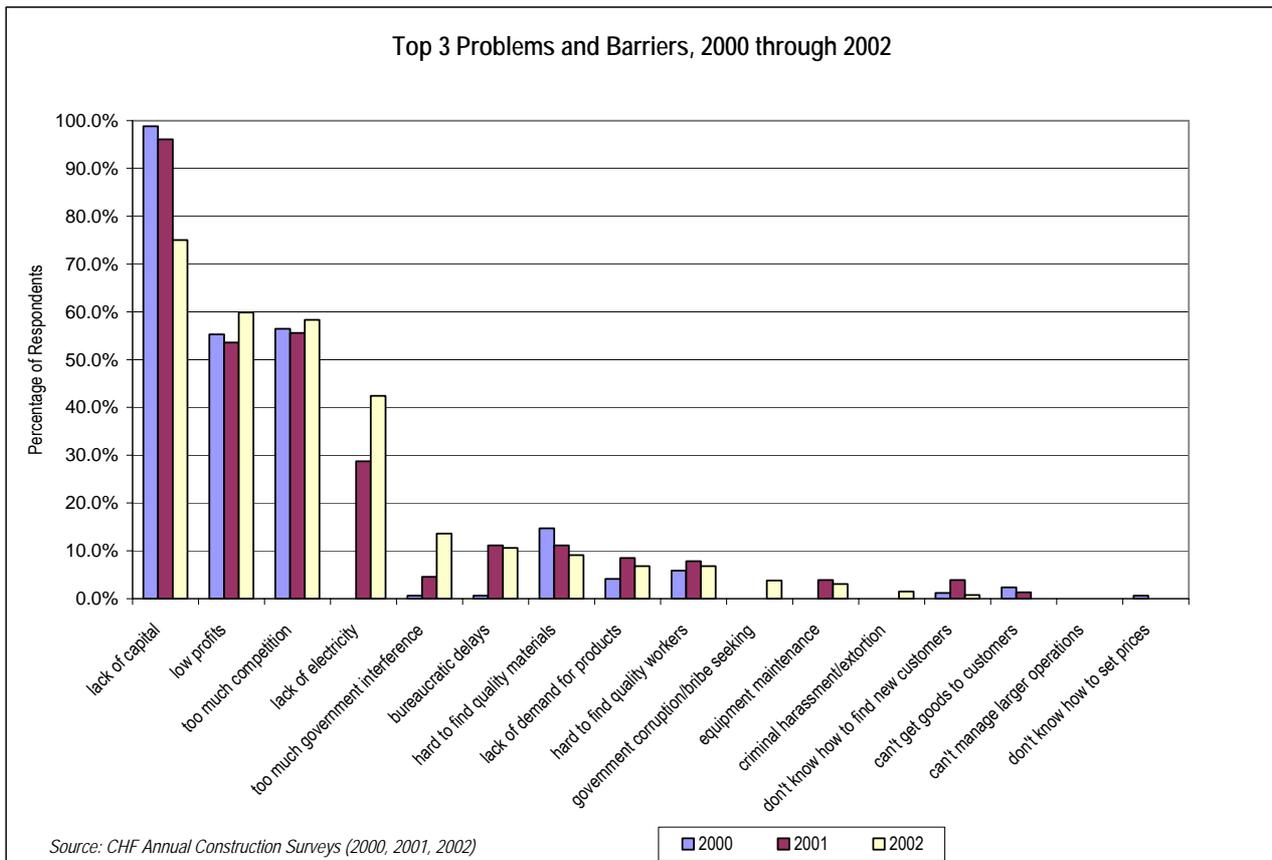


Figure 10: Construction Sector Businesses – Problems and Barriers 2000 through 2002

Lack of Electricity – The lack of electricity was a leading problem in 2001 (29%), but has become an even greater problem in 2002 (42%). Most manufacturing businesses require a steady supply of electricity and building contractors are also often unable to continue work when electricity outages occur. Reliance on private generators adds to business costs. While the electricity supply had improved greatly in the Spring of 2002, there was a significant set back in July 2002 when the damage from a storm left Kosovo Electricity Corporation (KEK) unable to provide enough power continuously. This has resulted in longer, regular blackout periods during the latter months of 2002.

Government Interference/Government Corruption – In the 2002 survey, respondents identifying Governmental Interference as a problem almost tripled from 5% to 14%. This is related to the perception by business owners that customs duties and other taxes “interfere” with their ability to be successful and compete effectively in both Kosovo and in export markets. Government Corruption was not identified by respondents in the 2000 and 2001 survey, but elicited 5% of the responses in 2002. Some respondents said that they were asked for bribes (e.g. a percentage of the tender) to ensure tender awards.

Best Construction Sector Activity and Future Outlook

Businesses were asked for their view regarding the best construction sector business activity. The highest number (42%) responded that manufacturing or production was the best, with trading/retailing coming in second (23%). This indicates a complete switch in perceptions of these two opportunities from a year ago. In 2001 trading/retailing was chosen by roughly 37% of the responses, and manufacturing by 26%. Services/Contracting received the same percentage of responses (18%) in both 2001 and 2002.

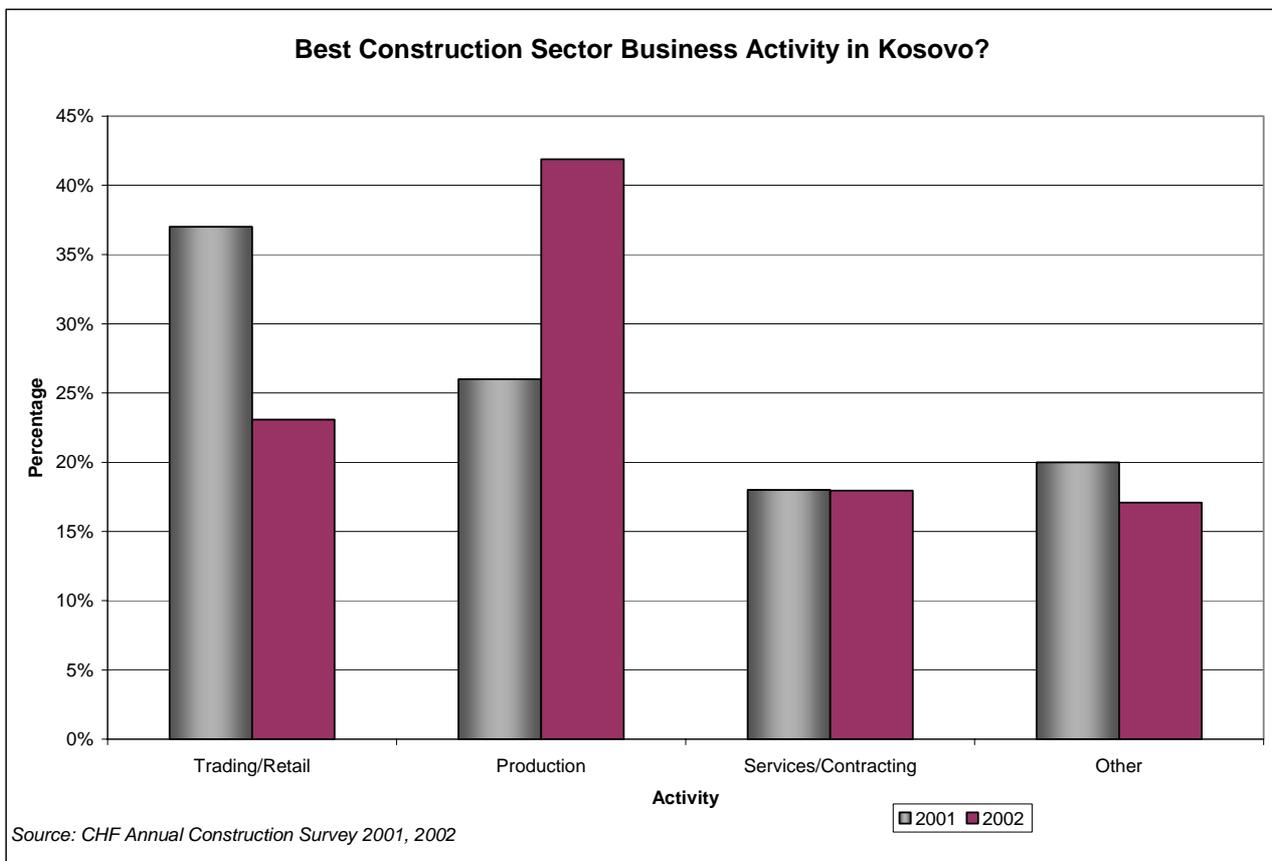


Figure 11: Best Construction Sector Business Activity in Kosovo

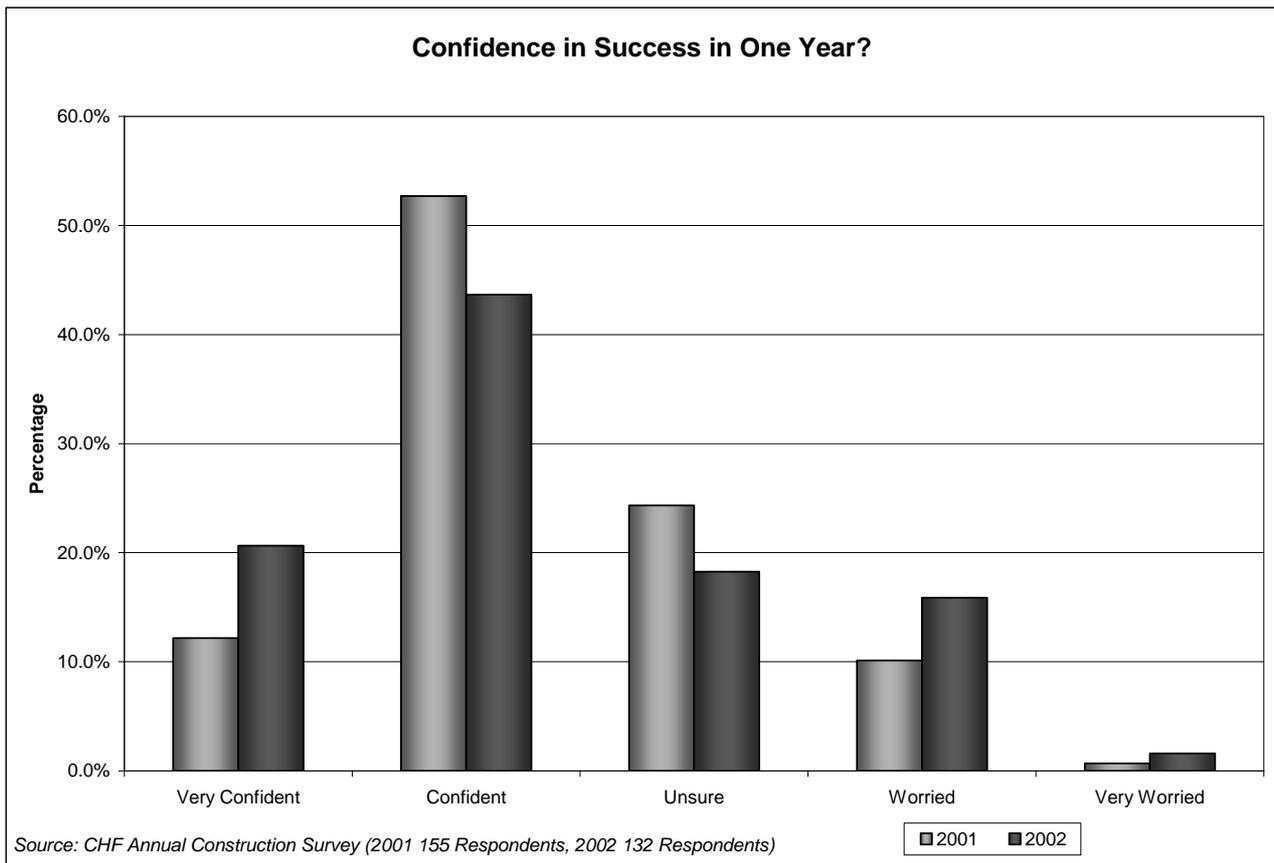


Figure 12: Business Confidence

The construction sector businesses remain confident, with 64% responding that they are either Very Confident or Confident in the business outlook for the next year, almost the same as 2001 when the combination of these responses was 65%. There was a slight shift in the past year from Unsure to Worried or Very Worried. The latter 2 categories garnered a 17.5% response rate in 2002, up from 11% in 2001. Overall, though, businesses remain optimistic about their opportunities for success in the next year.

Construction Sub-Sector Highlights

Within each of the construction sector core activities (contracting, manufacturing, distribution) there are a number of sub-sectors related to particular raw materials or finished products. Several construction sector participants (businesses, investors, and NGOs) identified the following manufacturing sub-sectors as ones which offer particular business opportunities for growth. In these sub-sectors some raw materials are available locally, but most of the raw materials are imported.

Finished Wood Products (Doors, Windows, Furniture, etc.)
 Doors and Windows (Plastic, Metal)
 Clay Brick, Block, Roof Tile
 Cement (Blocks, Tiles, Tubes)
 Sand, Gravel
 Metals Production
 Polystyrene Insulation and Building Materials

Table 13: Manufacturing Sub-Sectors with Growth Potential

The finished wood products, insulation, concrete pipe, ceramics, and roofing sub-sectors were selected for more in-depth research. Opportunities vary among these sub-sectors and products including: strong growth potential in insulation and ceramics; a more mature market shifting to new products in finished wood products and concrete pipes; and relatively new construction materials, bitumen shingles/roof coverings.

Finished Wood Products – Gjakova/Djakovica-Decan Region

The finished wood products sub-sector is one of the key activity areas among SMEs and entrepreneurs in the construction sector. A number of family-owned carpentry workshops sprang up following the conflict, responding to the reconstruction demand. In just the Gjakova/Djakovica and Decan regions alone, there are today about 35. Barriers to entry are low, requiring a small amount of seed capital; the operations are based on traditional craft skills. The principal finished products are doors, windows, stairs, custom kitchen cabinets, and furniture. Doors and windows were heavily produced during 1999 and 2000 for the major reconstruction, but demand for them has decreased as donor funding for reconstruction has been sharply reduced. During 2001 the workshops shifted to more interior products like stairs, cabinets, and furniture.

Sub-Sector Map

The process of converting raw materials to finished wood products includes several key business firms engaged in various parts of the supply chain. The flow from raw material to consumers is outlined in Figure 13 for the Gjakova/Djakovica-Decan region. The basis for the number of firms (N) in each activity was developed through interviews with key stakeholders in each function of the sub-sector.

Sub-Sector Map Explanation

Sub-Sector Maps are a tool designed to identify the key stakeholders, their relationships, and the flow of goods or services from raw materials to an end consumer within a product sub-sector. The left column of the map lists the key activities (functions) in the sub-sector; the flow starts from the bottom (raw materials) to the top (finished products). The key firms are in the boxes and are aligned with the activities that they perform in the sub-sector and the number of firms listed in that area (N). Arrows indicate the flow of materials or goods, ending at the top, where half-circles identify end-consumer good groups.

Table 14: Sub-Sector Map Explanation

Because of current strict laws regarding the harvesting of wood in Kosovo, most timber for finished wood products is imported from Bosnia, Montenegro, and Slovenia. In the Gjakova/Djakovica-Decan-Peja/Pec region there is a single large importer of timber (LikaTrans) plus three smaller importers. The main reason carpenters purchase timber from a larger importer is the immediate availability of inventory. Smaller importers are unable to maintain a large inventory and primarily do everything on a custom order basis; this requires more lead-time and increases the time needed for workshops to deliver customers' orders. The volume purchases of the larger timber importers also give them the advantage of offering lower prices. Rough cut timber prices vary with quality and width. The most widely used wood for doors, windows, stairs, and furniture is pine (95%), but there are some oak products produced by custom order (5%). The importers may sell the timber directly to the carpentry workshop, or the timber may be sold to a distributor/supplier who, in turn, sells it to the workshop. Another path in which timber enters the sub-sector is through private landowners harvesting timber which is then rough cut at a saw mill (there are 3 in the region) before it is sold to workshops. (Saw mills may also cut rough timber imported by a trader into roofing boards, but typically do not supply items to the carpentry workshops.) Finally, the SOEs in forestry management are operating at a small capacity. In Decan, Gjeravica employs 154 people (750 in 1990) and does some forest exploration, harvesting, and processing with 13,000 hectares under their jurisdiction. The main product is roof batons and rafters. Since most of their wood is lower quality, they do not currently supply timber for finished wood products, but potentially could in the future if their technology was improved. (Tahirukaj, 2002)

Timber – Raw Material Prices	
Pine/Fir	5 cm width - € 300 / m3
Pine/Fir	8 cm width - € 350 / m3
Oak	5 cm width - € 600 / m3

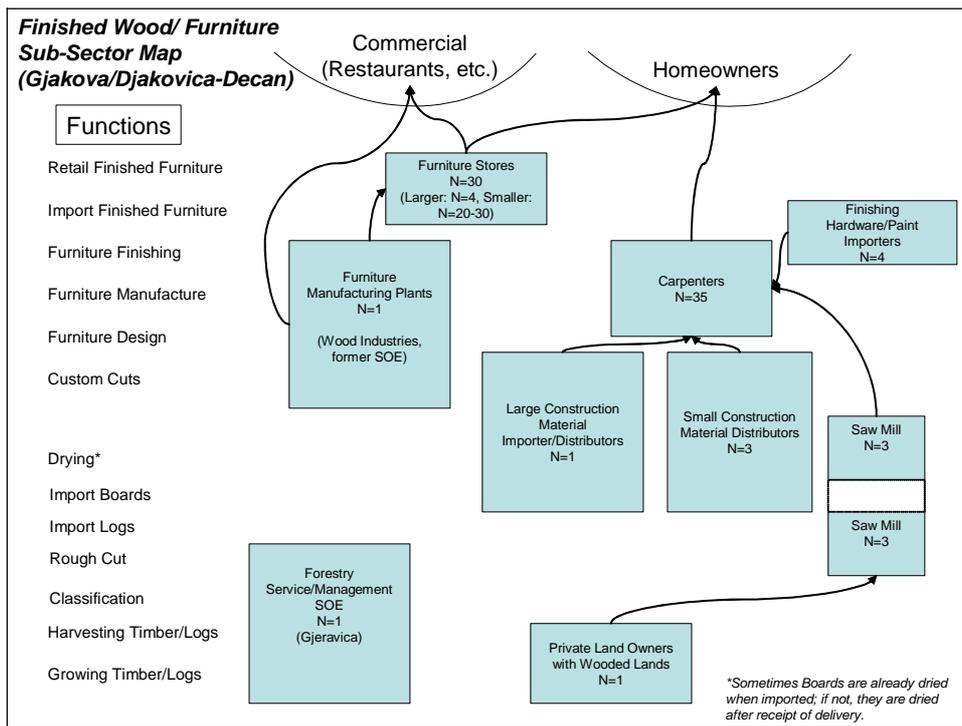


Figure 13: Finished Wood/Furniture Sub-Sector Map - Gjakova/Djakovica and Decan Region

Carpentry workshops sell their finished products directly to consumers, not going through any retail outlets, since everything is produced on a custom order basis. The other key players in the market are furniture and cabinet retailers which import primarily from Slovenia and Italy. In the Gjakova/Djakovica-Decan area there are about 5 more established furniture retailers, with several smaller stores.

Foreign Investment in IMM, Decan

The former state-owned furniture manufacturing plant in Decan, IMM, signed an agreement in October 2002 with KFW, Inc., an American firm, to start assembling pine furniture for export to the United Kingdom. The new local entity is Wood Industries LLC. The leasing agreement is for 10 years and includes investment in renovating and refurbishing the 10,000 m² manufacturing area – a portion of which was heavily damaged by a fire during the conflict – and installation of new equipment. The plan will initially employ 50 employees, although this is projected to increase in the future. It is estimated that in the first 6 months the plant will process 350 m³ of materials a month. (Avdiu, 2002)

Opportunities

- Focus on custom products (kitchen cabinets, custom moldings, stairs) to exploit a niche for products that are not heavily imported
- Share large capital expenditures for equipment through joint purchase and ownership of the equipment by associations; this will provide opportunities to improve finishing capabilities and processing of raw materials (e.g. drying of “green” wood)
- Develop quality certification through associations
- Expand market, with unique products and designs
- Partner with retailers who are importing finished wood products to gain a better understanding of the consumer market, and use this information to expand locally-produced products
- Offer higher quality materials and designs to take advantage of the consumers who are shifting their purchases from what they can afford to what they want
- Expand market reach by exploring partnerships with local banks to offer financing to consumer segments that have steady incomes but not large savings bases

Threats

- Imported goods, desire for western European designs and finishes
- Crowded marketplace, low entry barriers
- Shrinking market for high volume items, such as windows and doors

Polystyrene Insulation and Alternative Building Materials

The insulation sub-sector has firms in both the manufacturing and trading/retailing areas of the construction sector. The two types of insulation predominately used in Kosovo are polystyrene and glass wool. Some of the polystyrene insulation is produced in Kosovo, while all other insulation materials used are imported.

Industry experts estimate that insulation is used only 10 to 20% of the time in current home construction in

Key Advantages of Using Insulation During the Winter

- Reduction of heat loss , decreased energy needs
- More comfortable due to higher surface-temperatures, allowing for a lower thermostat setting
- Captures benefits from other electrical appliances producing heat
- Reduction of environmental pollution (through decreased energy consumption)

Kosovo. Because there has been a crisis in providing adequate electricity for the past 2 years in Kosovo, the use of insulation is seen as a solution to improve efficiency and reduce the need for energy. The investment can be realized in a relatively short

time period; the payback time for insulating homes (floors, roof, walls, hot water tanks and pipes) is estimated to be five years. (Ministry of Environment and Spatial Planning, 2002)

Many groups have been active in training contractors and builders regarding the advantages of insulation and on available insulating materials. Through a partnership between the United Nations Development Program (UNDP) and CHF, contractors were recently trained on new building materials available from Western Europe and specifically on the benefits of insulation. Additionally, the Ministry of Environment and Spatial Planning has held seminars on insulation and its energy saving benefits.

The initial barrier to increased insulation usage in Kosovo is economic. When individuals are building a home they have very limited funds; their primary focus is on shelter and obtaining a finished living space. Typically the outside façade of homes is left as a final step (see Housing in Kosovo section) and, therefore, installation of insulation (which is part of this final step) is delayed. Villages and towns across Kosovo contain many homes with unfinished exterior clay brick walls, little or no insulation, and thus little protection from the elements, resulting in substantial heat loss in the winter.

Sub-Sector Map

The key firms in the insulation market are the local producers, construction material traders, and construction material distributors/retailers. Most raw materials are imported from Western Europe or neighboring countries (Greece, Croatia, Bulgaria). Most local producers sell their production through distributors, but, depending on their size and reach, sometimes sell to individual homeowners and contractors.

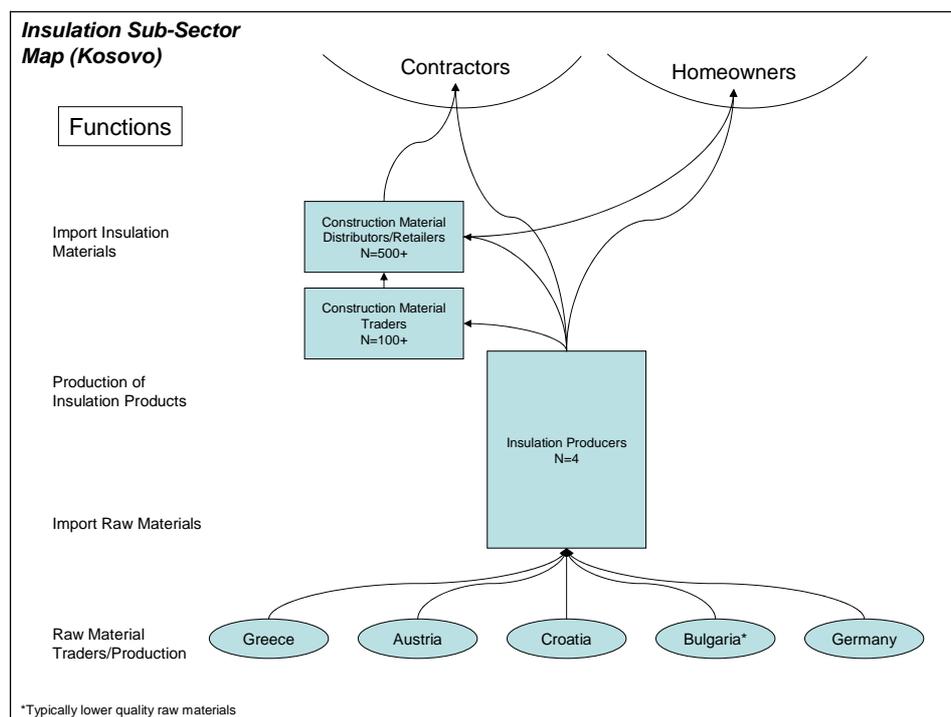


Figure 14: Insulation Sub-Sector Map - Kosovo

Kosovo Insulation and Alternative Building Material Production

Kosovo currently has four firms manufacturing polystyrene panels and blocks used for insulation. The oldest firm, KosovoPlast has been producing polystyrene for several years as a SOE. However, there are a number of new firms in the market that started production during 2002. A single producer of "light cement", similar to the branded product Siporex™ is providing a second alternative building material with insulating qualities.

Company	Chief Products
KosovoPlast, Hani Elezit/Djeneral Jankovic	Polystyrene Panels for Insulation Polystyrene Blocks for Floor and Wall Construction/Insulation Decorative Polystyrene Polystyrene Packaging
Egi Bau, Prizren	Polystyrene Blocks for Floor and Wall Construction/Insulation (Licensee Plastbau® technology, Plastedil – Swiss firm)
Lindi, Ferizaj/Urosevac	Polystyrene Panels for Insulation
Fitosha, Xerxe/Zrze	Polystyrene Panels for Insulation (starting in November 2002)
Silkapor, Kaqanik	Panels and Block - Porous Concrete: 'Lightweight Concrete'

Table 15: Insulation Manufacturing - Kosovo

Two groups of products are being produced, the flat panels of polystyrene thermal insulation and a newer product in which polystyrene “blocks” are produced that replace the clay and cement blocks used in traditional housing construction. The polystyrene ‘blocks’ are estimated to generate an overall cost savings of 30% when compared to the traditional block/cement method of constructing walls and ceilings. The installation time is estimated to be reduced from 2 months (the typical time for an average house) to 2 weeks, mainly due

Insulation – Pricing

Polystyrene Panels	€ 2 / m ² (avg.)
Glass Wool	
High Quality	€ 7 - 9 / m ²
Low Quality	€ 2 - 3 / m ²

to the fact that several courses of blocks (rather than just one) can be placed at the same time. The reduction in time and costs include: lower block work labor costs, less hand work overall, lower transportation costs of elements, and reduced lifting equipment costs. Used for the past 30 years in Europe and the United States, this type of technology is relatively new to Kosovo and has been introduced to the market by three companies in 2002. Because the thermal

conductivity value for expanded polystyrene is very low, it has been identified as an excellent insulation material. The initial cost of the materials may be higher, but the savings in the construction come from lower labor costs and increased heating and cooling efficiency.

The second type of product manufactured locally is a ‘lightweight concrete,’ made by Silkapor, a SOE in Kaqanik. Though completely different from polystyrene, the highly porous concrete has lower thermal conductivity than traditional concrete and thus is another alternative to provide greater insulation in buildings.

Thermal conductivity (λ) is the most important factor in selecting insulation and comparing various materials. The lower the coefficient the better, meaning that heat does not travel through the material easily. Table 16 compares typical coefficients for some common building materials; the exact value for a particular sample will depend on the specific composition of the material and/or the quality of production.

Material	Density (kg/m ³)	Thermal Coefficient (λ)
Reinforced concrete	2500	1.30
Concrete Blocks	2300	1.10
Solid Bricks	1650	0.90
Bricks with holes	1300	0.62
Clay Blocks	1000	0.23
Wood	780	0.40
Light Concrete, Siporex™	550	0.10
Foam glass	120	0.045
Mineral insulation materials	100	0.04
Plastic insulation materials	50	0.03

Source: Siporex™ and Hukseflux Corporation

Table 16: Thermal Coefficient Comparison

Imported Insulation

Construction material import suppliers have been importing insulation materials in the last two years from Europe. The majority of insulation materials are imported from Macedonia (58%) and Slovenia (18%), with the remaining coming from other European countries. The classification of materials is too general to permit detailed analysis, but the overall customs reporting shows that €1.7 million of insulation or isolation materials were imported in 2001.

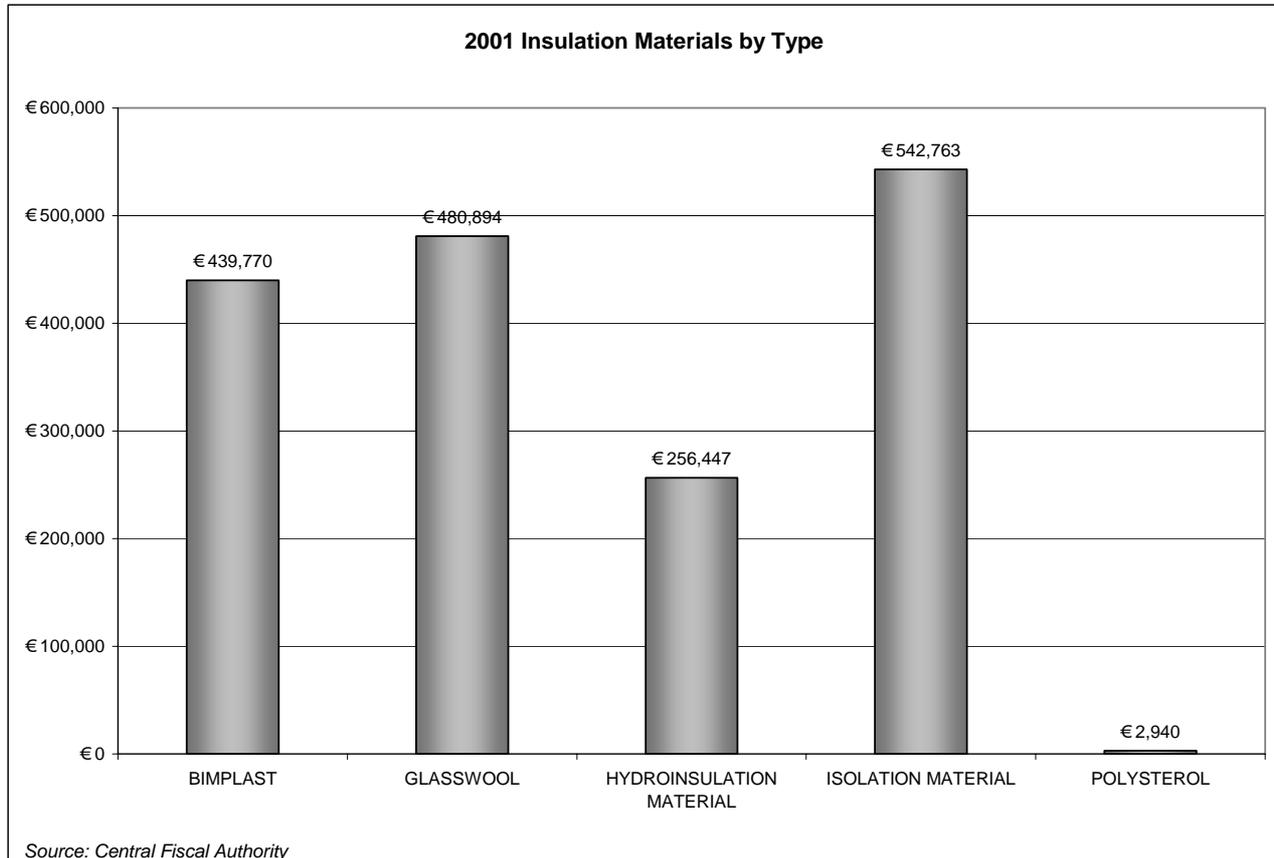


Figure 15: Imported Insulation Materials, 2001

Opportunities

- Provide insulation products to meet major needs and potential demand driven by increased consumer knowledge of insulation and new building materials, and consumer shift from basic shelter needs to higher quality products
- Increase the insulation market by expanding awareness of the importance of insulation during current energy crisis among government officials
- Develop partnering programs with government entities to build in incentives for use of insulation
- Prepare for an increased market after EU building regulations, which will demand the use of insulation, become effective

Threats

- Caution among many key groups (consumers, architects, contractors) regarding acceptance of alternative building materials
- Quality of domestic production not meeting imported product standards and EU standards

- Custom taxes on raw materials squeezing margins for domestic producers
- Increased competition (2 new firms in 2002)
- Consumer perception of not having enough money to afford installing insulation

Concrete Pipe

The manufacturing of cement is limited to a single producer in Kosovo. Sharrcem is a SOE that mines limestone near Macedonia (Hani Elezit/ Djeneral Jankovic) and produces roughly 350,000 tons of cement annually. Because cement production and manufacturing requires significant capital investment there have not been any new entrants to this market despite significant demand. Many firms import cement from Serbia and Macedonia, depending on the price of the domestic product. Among 37 construction material distributors and retailers surveyed, 38% mentioned cement as the “best seller”. Among all construction businesses -- manufacturers, distributors and contractors – cement production is often viewed as a profitable business because of the significant demand for the product in building the basic structure of buildings (used with G5 block and fert) and in the manufacture of concrete products.

Primary Concrete Products

Blocks
 Tiles
 Pipes
 Paving Tiles
 Decorative Elements

The main concrete products manufactured in Kosovo currently are for both infrastructure (e.g. sewage systems, roads) and for the basic structure of buildings. Concrete pipes are a growing product area for small manufacturers. The market demand will continue to be strong as the construction focus turns to long-term infrastructure for Kosovo, including the provision of utilities to a growing urban and suburban population. In the Prizren area alone there are 6 concrete pipe manufacturers. Many pipe manufacturers have indicated increased competition over the past year with new entrants shifting from other concrete products to pipes.

Concrete Pipe Facts

Lengths: 1 meter
 Diameters: 10 cm – 1 m
 Price Point: 1 m diameter, purchased in quantities of 100 pieces, € 35 to 40/piece

The primary barrier to growth is quality; many concrete producers do not certify the quality of their production. This has not been a major barrier to growth to date, but will increasingly become a requirement as regulations are put in place and the market demands that EU standards be met. Several businesses said that product certification is becoming a requirement to compete on tenders and some have started this process.

Certification

Material certification is conducted at the University of Prishtina. The most common material to be certified is concrete. 28 days are required to complete the tests and receive a certification that the concrete meets all the requirements for the building code. As of October 2002, only a small percentage of construction manufacturers have gone through the certification for their products (20 certifications issued in 2002). Other products can be certified, such as cement, asphalt, sand, and polystyrene. As quality becomes more important in the construction sector and EU standards are put in place for materials, the certification process will become a part of business that cannot be omitted.

Importing and Distributing

The distribution of construction materials remains a major portion of the sector activity. Distributors have continued to expand their product offerings – having greater depth and variety in response to a trend toward higher quality materials being demanded by consumers. Some importers have developed specific products

niches such as ceramics and built them through exclusive distributor agreements, creating entry barriers for new businesses.

Ceramic Products

Ceramic tile and sanitary ware are basic finished products for construction; all the products used today are imported. Ceramics represent 8% of all imported construction products, with most coming from Spain, Italy, and Turkey. The four main import suppliers are located in Prishtina with distributors in other regions.

The largest importer of ceramic tiles is Besholli Commerce located in Prishtina. It is estimated that they have about 70% of the ceramic tile market in Kosovo, importing tiles from Spain, and granite and marble from Italy. They have developed exclusive relationships with single distributors in each municipality, giving them wholesale and retail outlets throughout Kosovo. The volume of their imports can reach 40,000 m² / month depending on demand and typically reaches 500,000 m² annually. Retail prices on ceramic tile range from €8.20 to €9.20 / m². Two of the smaller importers, Dermak-Keramika and Fjolla, import between 22,000 and 50,000 m² annually and wholesale their tiles between €6 and € 8.50 /m² depending on the size and design.

There is potential for ceramic tile production in Kosovo. Karaqeva, located in Kamenic/Kamenica, produced ceramic wall and floor tile as a SOE, but is now not operational. Though it would require a significant capital investment to establish efficient volume production, the appropriate raw materials are available in Kosovo and this may be a growth area in the future.

Roof Coverings

The roof coverings used in Kosovo fall into two categories – traditional clay roof tiles and asphalt/bitumen shingles. The latter was introduced following the conflict and represents only a small portion of the market; the preference is for clay tiles. Consumers believe that a clay tile roof will have a longer life in the Kosovo climate, with the cost being similar and in some cases asphalt shingles being more expensive. Some suppliers surveyed said that they thought the actual life of the asphalt shingles was closer to 5 years (versus industry estimates of 15), which may be a result of improper installation (not always installed on a solid surface) but certainly is an indication of the skepticism among the sector towards the product.

The main use of asphalt shingles in Kosovo today is for highly designed roofs that include multiple pitches and rounded elements where rigid clay roof tiles cannot be used. Because the asphalt shingles come in a variety of colors, the decorative element is also an advantage; green is the most popular color.

10 m x 10 m section	Clay Tiles – Kosovo	Clay Tiles – Imported (Austria)	Asphalt/Bitumen Shingles
Tiles or shingles	€ 570.00	€ 1200.00	€ 750.00
€ / piece	0.38	0.80	0.50
Pieces / m ²	15	15	15
Labor	€ 300 to 500	€ 300 to 500	€ 300 to 500
Total Cost	€ 870 to 1,070	€ 1,500 to 1,800	€ 1,050 to 1,250
Estimated Life**	15 to 20 years	30 years	10 to 15 years

** Estimated Life is based on interviews, not documented evidence

Table 17: Roof Covering Options - Cost Comparison

Construction Sector Observations and Opportunities

The construction sector offers many opportunities and certainly is a sector to watch now and in the future. Competition has increased in 2002, bringing with it the opportunity for businesses to develop new skills to engage not only the market, but also other economic stakeholders (e.g. government, financial sector, local communities) to ensure their business success.

The key market risks in Kosovo are those that are seen in many emerging markets – corruption, potential civil instability, and economic policies that are inadequate to stimulate growth. Though there are risks, the opportunities within the construction sector remain high. CHF submits the following observations and thoughts on opportunities:

Regulation, Standards, and Certification

Issue/Opportunity	
Building Standards	<i>The development of revised building standards/code is a priority. The applicable Yugoslavian standards are outdated and government entities as well as businesses want to see the implementation of new building codes based on EU standards.</i>
Urban Planning	<i>Urban Planning goes hand in hand with building codes to provide a strategic direction in which the construction sector can partner with communities to develop commercial and residential areas that meet the needs of the community and are profitable investments for private businesses.</i>
Material Certification and Standards	<i>Driving towards quality as a competitive advantage, businesses have the opportunity to regulate themselves through business associations in the short-term until government bodies have resources to devote to the implementation of standards.</i>
Professional Certification	<i>Professional certification for builders, architects, engineers, and craftsmen will give serious businesses an advantage in the market and provide consumers confidence in investing in construction, potentially expanding the existing market.</i>
Tax Issues	<i>As the top advocacy issue for most business associations, the current tax regulations need to be reviewed to provide the needed income to the government, while providing an environment in which business activity is encouraged and businesses can compete globally.</i>
Export and Import Relationships	<i>Existing barriers to cross-border trade in the region and Europe need to be reviewed, significant opportunities will open up if reciprocal trade agreements can be negotiated that will alleviate the current barriers.</i>

Building Technology and New Product Development

Issue/Opportunity	
Insulation	<i>The domestic energy crisis has brought insulation to the forefront of building materials. Insulation materials domestically produced and imported will grow in importance and are a significant opportunity for sector growth.</i>
Alternative Building Materials	<i>With the expense of construction rising and an economic environment in which unemployment is 50-60%, evaluating building materials that provide alternatives to traditional concrete and clay block is critical. Though there are considerable barriers based on culturally embedded views, opportunities to utilize new building technologies that are cheaper and more efficient could potentially open new markets and provide sustained sector growth.</i>
Education	<i>Construction sector entities demand exposure to trends in European and other Western construction materials, tools, equipment, and technology. Additionally, there is significant opportunity to build cross-border partnerships between businesses and associations to share experience and build on the existing market.</i>
Design and Finishing Techniques	<i>Imported products generally appeal to consumers because they perceive that they cannot find a similar domestic product with the quality and design features they want. Kosovar producers of home consumer products, such as furniture and cabinets, have an opportunity to gain new customers by partnering with associations to gain access to market and technical information and to international investors. This will enable them to offer products incorporating the latest design trends and finishing techniques.</i>

Capital Inflows

Issue/Opportunity	
Home Improvement Lending	<i>With the short-term success in home improvement lending, the market demand has been proven. This will be a major source of increased capital to the construction sector to stimulate sustainable growth.</i>
Home Mortgages	<i>Though not a product of any lender as of December 2002, due to lack of a supportive legal framework, home mortgages are a logical next step as lenders expand their product portfolio to reach out to new customers. As lenders advocate for new laws mortgages may become available to provide funds for substantial growth in the construction sector.</i>
Business Sector Lending	<i>With the increased competition among lending institutions and the benefit of a stable economy, interest rates on business loans could decline and repayment periods could expand beyond the average 16-24 months, providing yet more growth in the construction sector.</i>

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Appendix

Appendix A – Imported Construction Sector Products, 2001

PRODUCT	Quantity Metric Tons	% of Total Quantity	Value (€)	% of Total Value
WOOD / TIMBER / BOARDS	83,940	34.2%	14,506,458	30.7%
BLOCKS	82,832	33.7%	4,485,304	9.5%
TILES	21,512	8.7%	5,991,515	12.6%
CERAMIC / CERAMIC PRODUCTS	20,289	8.3%	6,793,251	14.3%
GLASS/GLASSWARE	7,361	3.0%	2,813,856	5.9%
ROOF TILES	7,212	2.9%	1,182,993	2.5%
INSULATION MATERIAL	4,154	1.7%	1,274,136	2.7%
BUILDING MATERIAL	3,565	1.4%	1,077,619	2.3%
DOORS AND WINDOWS	2,902	1.2%	2,964,747	6.3%
PARQUET	2,733	1.1%	853,552	1.8%
MARBLE	2,384	1.0%	587,629	1.2%
OTHER	2,329	0.9%	956,554	2.0%
WOODEN DOORS AND WINDOWS	1,738	0.7%	2,532,948	5.3%
WOODEN ARTICLES	1,683	0.7%	642,343	1.4%
GLASSWOOL	607	0.2%	480,894	1.0%
GRANITE	411	0.2%	196,688	0.4%
METAL	141	0.1%	33,248	0.1%
CONCRETE	121	0.0%	8,398	0.0%
TOTAL CONSTRUCTION SECTOR PRODUCTS	245,914	100.00%	47,382,133	100.00%

Source: Central Fiscal Authority

Appendix B – Property Taxes

GJAKOVA/DJAKOVICA EXAMPLE

Property Type	Rates	Zone			
		One (€/m2)	Two (€/m2)	Three (€/m2)	Four (€/m2)
Apartment	0.1%	500	450	400	300
Housing	0.1%	400	350	300	250
Commercial	0.25%	1100	1000	800	600
Industrial	0.2%	800	700	600	450
Garage/Small Bldg.	0.1%	250	200	150	100

- Depreciation rate is 0.01%/ year
- Material coefficients
 - “Hard” materials 1.0
 - “Half Hard” materials 0.75
 - “Weak” materials 0.5
- Formula example
 - (Value of Structure – Depreciation)*Material Coefficient
- Invoices sent October 20, 2002

Source: Shala, Teki, Director of the Department of Budget and Finance, Municipal Assembly of Gjakova/Djakovica. [Interview] October 16, 2002

PRISHTINA EXAMPLE

Property Type	Rates	Zone			
		One (€/m2)	Two (€/m2)	Three (€/m2)	Four (€/m2)
Apartment	0.3%	550	480	400	300
Housing	0.3%	770	570	470	260
Commercial	0.75%	840	710	550	340
Industrial	0.4%	**	**	**	**
Garage/Small Bldg.	**	**	**	**	**

** Information Not Available

Source(s):

Buzhala, Berat, 'Kosovo Citizens are Complaining About High Taxes', Zeri, October 18, 2002

Dibran, Agim, Directory for Finance and Property, Municipal Assembly of Prishtina. [Interview] October 15, 2002

- First Invoices were mailed to a portion of the residents on September 19, 2002 and the balance will be mailed in batches over a period of time.

MALISHEVA/MALISEVO EXAMPLE

Property Type	Rates	Zone			
		One (€/m ²)	Two (€/m ²)	Three (€/m ²)	Four (€/m ²)
Apartment	0.15%	300	300	300	300
Housing	0.15%	250	200	180	150
Commercial	0.15%	600	550	500	450
Industrial	0.15%	150	150	150	150
Garage/Small Bldg.	0.15%	150	150	150	150

SOURCES:

"PROJEKT RREGULLORE MBI ÇAKTIMIN E TATIMIT NE PRONEN BANESORE-AFARISTE DHE INDUSTRIALE NE KOMENEN E MALISHEVES" (DRAFT REGULATION ABOUT SETTING THE TAX FOR HOUSING, BUSINESS PROPERTIES AND INDUSTRY IN THE MUNICIPALITY OF MALISHEVA/MALISEVO), 2001

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- Invoices will be sent January 2003

Appendix C – Construction Businesses in Kosovo

Section #	Letter	Class of Economic Activity	Sept. 2001	June 2002	Chg	%
1411	C	Quarrying of stone for construction	68	78	10	15%
1412	C	Quarrying of limestone, gypsum and chalk	9	11	2	22%
1413	C	Quarrying of slate	4	1	-3	-75%
1421	C	Operation of gravel and sand pits	174	195	21	12%
1450	C	Other mining and quarrying	8	9	1	13%
2010	D	Sawmilling and planing of wood, impregnation of wood	249	34	-215	-86%
2030	D	Manufacture of builder's carpentry and joinery	650	21	-629	-97%
2040	D	Manufacture of wooden containers	7	42	35	500%
2051	D	Manufacture of other products of wood	46	23	-23	-50%
2521	D	Manufacture of plastic plates, sheets, tubes and profiles	21	26	5	24%
2523	D	Manufacture of builders ware of plastic	67	32	-35	-52%
2611	D	Manufacture of flat glass	7	10	3	43%
2621	D	Manufacture of ceramic household and ornamental articles	4	4	0	0%
2630	D	Manufacture of ceramic tiles	3	27	24	800%
2640	D	Manufacture of bricks, tiles and construction products, in baked clay	18	11	-7	-39%
2651	D	Manufacture of cement	1	30	29	2900%
2652	D	Manufacture of lime	6	4	-2	-33%
2653	D	Manufacture of plaster	4	115	111	2775%
2661	D	Manufacture of concrete products for reconstruction purposes	121	18	-103	-85%
2662	D	Manufacture of plaster products for construction purposes	6	35	29	483%
2663	D	Manufacture of ready-mixed concrete	16	0	-16	-100%
2666	D	Manufacture of other articles of concrete, plaster and cement	34	44	10	29%
2670	D	Cutting, shaping and finishing of stone	108	93	-15	-14%
2721	D	Manufacture of cast iron tubes	1	10	9	900%
2722	D	Manufacture of steel tubes	1	9	8	800%
2742	D	Aluminium production	11	9	-2	-18%
2743	D	Lead, zinc and tin production	5	11	6	120%
2811	D	Manufacture of metal structures and parts of structures	77	86	9	12%
2812	D	Manufacture of builders carpentry and joinery of metal	162	3	-159	-98%
2822	D	Manufacture of central heating radiators and boilers	3	2	-1	-33%
2852	D	General mechanical engineering	89	5	-84	-94%
2875	D	Manufacture of other fabricated metal products	68	15	-53	-78%
2923	D	Manufacture of non-domestic cooling and ventilation equipment	6	16	10	167%
2940	D	Manufacture of machine-tools	2	4	2	100%
2952	D	Manufacture of machinery for mining, quarrying and construction	1	8	7	700%
3150	D	Manufacture of lighting equipment and electric lamps	2	23	21	1050%
3162	D	Manufacture of other electrical equipment	6	2	-4	-67%
3611	D	Manufacture of chairs and seats	45	59	14	31%
3612	D	Manufacture of other office shop furniture	11	22	11	100%
3613	D	Manufacture of other kitchen furniture	94	25	-69	-73%
3614	D	Manufacture of other furniture	56	2	-54	-96%
4511	F	Demolition and wrecking of buildings	145	50	-95	-66%
4512	F	Test drilling and boring	62	205	143	231%
4521	F	General construction of buildings and civil engineering works	1693	281	-1412	-83%
4522	F	Erection of roof covering and frames	68	180	112	165%
4523	F	Construction of highways, roads, airfields and sport facilities	34	153	119	350%
4524	F	Construction of water projects	9	43	34	378%
4525	F	Other construction work involving special trades	47	190	143	304%
4531	F	Installation of electrical wiring and fittings	162	129	-33	-20%
4532	F	Insulation work activities	25	94	69	276%

Section #	Letter	Class of Economic Activity	Sept. 2001	June 2002	Chg	%
4533	F	Plumbing	123	79	-44	-36%
4534	F	Other building installation	20	161	141	705%
4541	F	Plastering	180	143	-37	-21%
4542	F	Joinery installation	21	193	172	819%
4543	F	Floor and wall covering	77	624	547	710%
4544	F	Painting and glazing	128	412	284	222%
4545	F	Other building completion	162	91	-71	-44%
4550	F	Renting of construction or demolition equipment with operator	6	285	279	4650%
5113	G	Agents involved in the sale of timber and building materials	221	194	-27	-12%
5115	G	Agents involved in the sale of furniture, household goods, hardware and iron	39	39	0	0%
5153	G	Wholesale of wood, construction materials and sanitary equip and supplies	584	5	-579	-99%
5154	G	Wholesale of hardware, plumbing and heating equipment and supplies	143	1	-142	-99%
5161	G	Wholesale of machine tools	22	231	209	950%
5162	G	Wholesale of construction machinery	4	8	4	100%
5244	G	Retail sale furniture, lighting equipment and household articles	355	17	-338	-95%
6024	I	Freight transport by road	486	506	20	4%
7011	K	Development and selling of real estate	3	130	127	4233%
7031	K	Real estate agencies	35	46	11	31%
7132	K	Renting of construction and civil engineering machinery and equipment	1	26	25	2500%
7420	K	Architectural and engineering activities and related technical consultancy	154	24	-130	-84%
7430	K	Technical testing and analysis	11	61	50	455%
TOTAL			7291	5775	-1516	-21%

Source(s):

Statistical Office of Kosovo, 2002

Appendix D – Construction Material Prices

CHF International collects construction material prices for 13 different products in four different municipalities on a monthly basis. The prices include the 3% Presumptive Tax, but are excluding customs taxes. All prices are in Euros. The data for August 2002 and September 2002 for the city of Decan were collected in Peja/Pec.

ITEM	City	QTY.	Septembe r-01	October- 01	November -01	December -01	January- 02	February- 02	March-02	April-02	May-02	June-02	July-02	August-02	Septembe r-02
BRICKS (BLOCKS) G5	Decan	PCS	0.43	0.41	0.38	0.38	0.36	0.36	0.40	0.40	0.40	0.40	0.40	0.42	0.42
	Prishtina	PCS	0.51	0.51	0.51	0.49	0.51	0.36	0.35	0.35	0.35	0.35	0.35	0.35	0.35
	Gjakova/Djakovica	PCS	0.43	0.41	0.41	0.36	0.36	0.36	0.36	0.36	0.36	0.40	0.40	0.40	0.40
	Prizren	PCS	0.49	0.49	0.51	0.49	0.49	0.49	0.45	0.45	0.45	0.45	0.45		0.49
BLOCKS FOR CEILING CONSTR.	Decan	PCS	0.51	0.51	0.51	0.51	0.51	0.51	0.55	0.55	0.55	0.55	0.56	0.55	0.55
	Prishtina	PCS	0.64	0.64	0.61	0.59	0.59	0.56	0.55	0.55	0.55	0.55	0.55	0.55	0.55
	Gjakova/Djakovica	PCS	0.56	0.54	0.51	0.46	0.51	0.51	0.55	0.55	0.55	0.55	0.55	0.55	0.55
	Prizren	PCS	0.59	0.59	0.61	0.56	0.59	0.59	0.58	0.58	0.58	0.55	0.55		0.55
ROOF TILES	Decan	PCS	0.54	0.49	0.43	0.43	0.41	0.41	0.50	0.50	0.50	0.45	0.45	0.48	0.47
	Prishtina	PCS	0.51	0.51	0.51	0.49	0.51	0.41	0.40	0.40	0.40	0.40	0.40	0.40	0.40
	Gjakova/Djakovica	PCS	0.51	0.51	0.49	0.36	0.38	0.38	0.33	0.30	0.30	0.40	0.40	0.40	0.40
	Prizren	PCS	0.56	0.56	0.51	0.51	0.56	0.54	0.53	0.53	0.53	0.45	0.45		0.54
CEMENT 50 KG	Decan	PCS	4.60	4.09	4.09	4.09	3.99	3.99	4.50	4.50	4.50	4.50	4.50	4.60	4.50
	Prishtina	PCS	4.86	4.86	4.86	4.60	4.86	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
	Gjakova/Djakovica	PCS	4.60	4.35	4.35	4.09	4.09	4.09	4.50	4.50	4.50	4.50	4.50	4.50	4.50
	Prizren	PCS	4.60	4.60	4.60	4.35	4.60	4.60	4.60	4.60	4.60	4.60	4.60		4.60
BEOMAL (Lime & cement mix.)	Decan	KG	3.99	3.83	3.58	3.58	3.58	3.58	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	Prishtina	KG	4.60	4.60	4.09	3.99	4.09	3.83	3.85	3.85	3.85	3.85	3.85	3.85	3.85
	Gjakova/Djakovica	KG	4.09	4.09	3.94	3.58	3.58	3.58	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	Prizren	KG	4.35	4.35	4.35	4.09	4.09	4.09	4.10	4.10	4.10	4.20	4.20		4.20
GRAVEL	Decan	M³	8.18	7.67	8.18	8.18	7.67	7.67	8.00	8.00	8.00	10.00	10.00	13.00	12.00
	Prishtina	M³	12.78	12.78	11.76	10.74	11.25	11.25	11.30	11.30	11.30	11.30	11.30	11.30	11.30
	Gjakova/Djakovica	M³	7.67	8.18	7.67	7.67	7.16	7.16	9.00	9.00	9.00	10.00	10.00	10.00	10.00
	Prizren	M³	8.69	8.69	8.44	8.18	8.18	8.18	8.20	8.20	8.20	9.00	9.00		11.60

ITEM	City	QTY.	September-01	October-01	November-01	December-01	January-02	February-02	March-02	April-02	May-02	June-02	July-02	August-02	September-02
INT. DOOR (PLYWOOD) 90 X 205	Decan	PCS	71.58	66.47	66.47	66.47	63.91	63.91	70.00	70.00	70.00	70.00	70.00	75.00	75.00
	Prishtina	PCS	69.02	69.02	69.02	66.47	69.02	69.02	69.00	69.00	69.00	69.00	69.00	69.00	69.00
	Gjakova/Djakovica	PCS	81.81	71.58	71.58	71.58	66.47	66.47	70.00	70.00	70.00	75.00	75.00	75.00	75.00
	Prizren	PCS	76.69	76.69	71.58	71.58	76.69	76.69	76.00	76.00	76.00	80.00	80.00		125.00
WINDOW 80 X 140	Decan	PCS	76.69	69.02	71.58	71.58	69.02	69.02	70.00	70.00	70.00	75.00	75.00	85.00	85.00
	Prishtina	PCS	66.47	66.47	66.47	63.91	66.47	63.91	64.00	64.00	64.00	64.00	64.00	64.00	64.00
	Gjakova/Djakovica	PCS	81.81	71.58	71.58	71.58	71.58	71.58	62.00	70.00	70.00	85.00	85.00	85.00	85.00
	Prizren	PCS	76.69	76.69	92.03	92.03	76.69	76.69	76.00	76.00	76.00	85.00	85.00		90.00
TIMBER	Decan	M³	178.95	173.84	173.84	173.84	171.28	171.28	170.00	170.00	170.00	170.00	170.00	175.00	170.00
	Prishtina	M³	189.18	189.18	186.62	184.07	186.62	178.95	170.00	170.00	170.00	170.00	170.00	170.00	170.00
	Gjakova/Djakovica	M³	178.95	178.95	178.95	178.95	176.40	176.40	175.00	175.00	175.00	175.00	175.00	185.00	185.00
	Prizren	M³	184.07	184.07	189.18	189.18	173.84	173.84	174.00	174.00	174.00	174.00	174.00		190.00
BATTENS 5 X 3	Decan	M³	0.31	0.26	0.28	0.28	0.26	0.26	0.25	0.25	0.25	0.30	0.30	0.30	0.30
	Prishtina	M³	0.36	0.36	0.36	0.36	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
	Gjakova/Djakovica	M³	0.31	0.31	0.26	0.26	0.28	0.28	0.25	0.25	0.25	0.30	0.30	0.30	0.30
	Prizren	M³	0.33	0.33	0.33	0.31	0.33	0.33	0.33	0.33	0.33	0.33	0.33		0.34
BOARDS 24mm	Decan	M³	173.84	168.73	168.73	168.73	168.73	168.73	170.00	170.00	170.00	165.00	165.00	179.00	175.00
	Prishtina	M³	178.95	178.95	178.95	176.40	178.95	173.84	173.00	173.00	173.00	173.00	173.00	173.00	173.00
	Gjakova/Djakovica	M³	173.84	171.28	168.73	168.73	168.73	168.73	170.00	170.00	170.00	170.00	170.00	175.00	175.00
	Prizren	M³	178.95	178.95	189.18	173.84	168.73	168.73	168.50	168.50	168.50	170.00	170.00		176.00
RE-BAR	Decan	KG	0.43	0.38	0.35	0.35	0.33	0.33	0.40	0.40	0.40	0.38	0.38	0.71	0.71
	Prishtina	KG	0.43	0.43	0.43	0.42	0.41	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
	Gjakova/Djakovica	KG	0.43	0.41	0.38	0.36	0.36	0.36	0.40	0.40	0.40	0.40	0.40	0.44	0.44
	Prizren	KG	0.41	0.41	0.41	0.41	0.43	0.43	0.43	0.43	0.43	0.43	0.43		0.40
FERT	Decan	M³	2.15	2.05	2.05	2.05	1.94	1.94	2.50	2.50	2.50	2.50	2.50	2.10	2.10
	Prishtina	M³	2.30	2.30	2.20	2.15	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
	Gjakova/Djakovica	M³	2.05	2.05	1.94	1.94	1.94	1.94	2.50	2.50	2.50	2.20	2.20	2.20	2.20
	Prizren	M³	2.15	2.15	2.05	2.05	1.94	1.94	1.95	1.95	1.95	1.95	1.95		2.10