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## Foreword

### Survey on Non-observed Economy in Kosovo

The Kosovo Agency of Statistics (KAS), namely the Department of National Accounts (DNA), with the support of the World Bank (WB), for the first time has measured the non-observed economy in Kosovo in four (4) sectors: transport, hotels, construction and restaurants.

Complete coverage of economic production is a vital aspect of the quality of the national accounts. This exhaustiveness is hard to achieve because of the difficulties in accounting for certain types of productive activities. Activities that are missing from the basic data used to compile the national accounts because they are underground, illegal, informal, household production for own final use, or due to deficiencies in the basic data collection system are referred to as non-observed. They are said to comprise the non-observed economy (NOE), and including them in the national accounts is referred to as measurement of the NOE.

The term is used by the European Union (EU) in connection with its programme to guarantee full coverage of GDP. A European Commission decision (1994) states that "within the limits of production, national accounts provide exhaustive production measurements when they cover production, primary incomes and expenditures that are directly or indirectly observed in statistical or administrative data".<sup>1</sup>

The data in this Survey represent the situation in these sectors in the quarter of Q3 2018 and year of 2017. Based on this data and other available data sources, KAS will also produce other indicators in the relevant sectors for the informal economy. The final indicators derived from this Survey and another surveys that will be conducted in 2019 on informal economy in households and other formal sectors will be integrated into the data of Gross Domestic Product.

The Kosovo Agency of Statistics is grateful to the World Bank and to all other actors that have directly or indirectly contributed in this publication.

Suggestions, proposals and remarks regarding this publication are welcome and can be sent to e-mail: [economic@ks-gov.net](mailto:economic@ks-gov.net).

March, 2019

Chief Executive Officer, KAS  
Isa Krasniqi

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<sup>1</sup> Measuring the Non-Observed Economy, A Handbook - OECD (Bloem, A., Calzaroni, M., Charmes, J., Hussmanns, R., Ivanov, Y., Kazemier, B., et. al. (2002).

## List of Abbreviations

KAS	-	Kosovo Agency of Statistics
WB	-	World Bank
EU	-	European Union
DNA	-	Department of National Accounts
NOE	-	Non-observed Economy
SBR	-	Statistical Business Register

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## Methodology

The sampling for the four sectors (restaurants, transport, hotels and construction) was compiled by the Kosovo Agency of Statistics on the basis of the Statistical Business Register, taking into account the relevant criteria such as business size and economic activity. The survey was conducted across the entire territory of Kosovo.

**Table 1. Sampling frame and selection from Statistical Business Register**

<b>SAMPLING</b>	
Sector	Number of businesses
Restaurants	2.074
Road transport	578
Hotels	143
Construction	1.486

**Non-observed economy activities are grouped into seven types, as follows:**

**Statistical background: non-response (type 1 of NOE)**

The main impact of non-response is the bias included in the statistical production if all non-respondents are assumed to have zero production.

**Statistical background: units that have not been updated (type 2 of NOE)**

The business register may be outdated due to the following reasons:

- Includes enterprises that no longer exist (so-called outgoing units);
- New enterprises are excluded;
- Wrong information about the enterprises due to merging, separation, etc;
- Incorrect details regarding the economic activity, size of the enterprise or address.

**Statistical background: not-registered units (type 3 of NOE)**

Enterprises may be completely lacking in data sources due to statistical reasons and not because they try to hide from the authorities.

For example, this may be due to the high level of turnover of enterprises, which is a common problem in countries where the number of small productive units is particularly high, or due to the lack of adequate statistical laws and regulations, or inefficiency in the statistical system.

**Economic background: under-reported (type 4 of NOE)**

As previously observed, the added value may be underestimated to avoid taxes, social payments-contributions, etc.

**Economic background: not-registered units (type 5 of NOE)**

Some enterprises may not be available because the owners have deliberately avoided the obligation to register in order to avoid the additional costs of various types such as value added taxes, social security contributions, health-related costs, and security, etc.

Non-registration includes unregistered companies that are completely not available, or enterprises that are registered but one or more of their units are not registered.

**Informal sector: not-registered units (type 6 of NOE)**

As observed and stated above, non-registration may be a criterion for defining the informal sector and enterprises may not be available simply because they are not required to be registered by any kind of legislation.

**Illegal production: not-registered units (type 7 of NOE)**

In most cases, illegal production units are not registered. In some cases they may be registered but with inaccurate activity descriptions. For example, illegal public houses can be described as health clubs or house for massage, illegal gambling can be described as nightclubs, and so forth.<sup>2</sup>

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<sup>2</sup> Measuring the Non-Observed Economy, A Handbook, OECD, 2002

## **Eurostat tabular approach - types of full non-coverage / non-exhaustion<sup>3</sup>**

### ***Not-registered***

#### **N1 – Producer deliberately is not registered - underground**

The producer deliberately does not register in order to avoid taxes and social security obligations. Most often this refers to small-scale producers that exceed the threshold levels over which they should be registered. Producers who do not register because they are engaged in illegal activities fall under type N2. Type N1 does not include all underground activities, some of which are related to type N6.

#### **N2 - Producer deliberately is not registered - illegal**

The producer deliberately does not register as a legal entity or as an entrepreneur because it is involved in illegal activities. Type N2 excludes illegal activities from registered legal entities or entrepreneurs who report (or report incorrectly) their activities under code of legal activity.

#### **N3 – Producer is not required to register**

The producer is not required to register because it has no production for the market. Typically, these are non-commercial households engaged in the production of goods for own final consumption, for the creation of own capital, construction and repair of houses. Or, the producer produces for the market but is below the level at which the producer is required to register as an entrepreneur.

### ***Not surveyed***

#### **N4 - Legal entities that are not surveyed**

Legal entities that are not surveyed due to several reasons such as: the business register is outdated or the update procedures are inadequate; classification data (activity, size or geographic code) are incorrect; the legal entity is excluded from the sampling frame because its size is below the threshold, etc. This leads to the (systematic) exclusion of the legal entity from the surveys, when by principle it must be included.

#### **N5 - Registered entrepreneurs who are not surveyed**

Registered entrepreneurs are not surveyed for the following reasons: the statistics office does not carry out research of registered entrepreneurs; the registered entrepreneur is not on the list of entrepreneurs registered in the registers of the statistical office, or if he is in the register, is systematically excluded; the registered entrepreneur is not in the sampling frame because the classification data (activity code, size code, geographic code) are incorrect.

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<sup>3</sup> Non-Observed Economy in National Accounts – Survey of Country Practices, United Nations Publication, New York and Geneva 2008.

***Incorrect reporting / misreporting***

**N6 – Producers deliberately misreport**

Gross production is under-reported and / or intermediate consumption is over-reported in order to avoid income tax, value added tax, other taxes or social security contributions. Incorrect reporting often involves the maintenance of two sets of books, wage payment in envelopes that are recorded as intermediate consumption; payments in cash without a bill and fraud with VAT.

***Other***

**N7 - Other statistical deficiencies**

Type N7 is divided into N7a - incomplete data that is not collected or aggregated directly and N7b - data that is treated, processed or mistakenly analyzed by statisticians. The following areas should be researched: treatment of non-response; production for own use by producers for the market; tips; wages and salaries in the form of goods or services; and secondary activities.

## Survey: Road transport

In this survey were interviewed businesses operating in the road transport activity and the reference period for data collection was the third quarter of 2018 (Q3 2018). The survey included businesses that operated in the following types of vehicles: cars, buses with less than 20 seats, buses with more than 20 seats, trucks with a capacity of 3.5 tons and less, and trucks with a capacity of over 3.5 tons.

According to the classification of NACE Rev. 2, about 34% of businesses in this survey deal with other land transport of passengers, about 31% of businesses operate as a taxi, continuing with road freight transport (29%) and urban and suburban land transport (6%).

**Table 1. Structure of surveyed businesses according to the classification of NACE Rev.2**

<b>SECTOR H - TRANSPORT AND STORAGE</b>	
<b>Class</b>	
4931 - Urban and suburban land transport	6%
4932 - Taxi	31%
4939 - Other land transport of passengers	34%
4941 - Road freight transport	29%

Table 2 indicated the structure of the vehicles according to their type and age, where the results indicate that the largest number of vehicles belongs to category of *age 10 and older*, except for *cars* with about 45% of them being 0-5 years old.

**Table 2. Vehicles by type and age in percentage**

<b>Type of vehicle</b>	<b>Vehicles by age</b>		
	<b>age 0-5 years</b>	<b>age 5-9 years</b>	<b>10 or more years</b>
Cars	45%	15%	40%
Buses with less than 20 seats	16%	23%	60%
Buses with more than 20 seats	9%	21%	70%
Trucks 3.5t and under 3.5t	3%	23%	74%
Trucks over 3.5t	3%	36%	61%

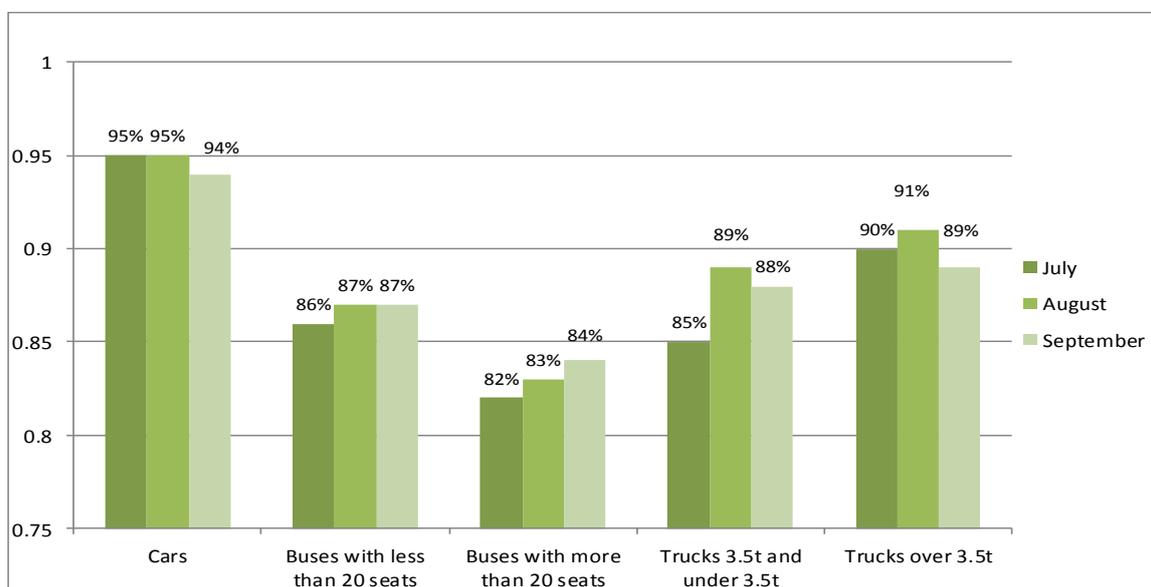
Table 3 indicates the number of businesses in percentage by type of fuel they use to perform their daily activity. Generally, for most businesses, regardless of the type of vehicle they use for economic activity, the type of fuel they use most for their vehicles is oil, namely about 94% of businesses operating by cars use diesel, buses with less than 20 seats (91%), buses with more than 20 seats (98%), trucks with 3.5 tons and less than 3.5 tons (83%) and trucks with over 3.5 tons (100%).

**Table 3. Number of businesses in percentage by the use of type of fuel**

Type of vehicle	Type of fuel		
	Oil	Gasoline	Gas
Cars	94%	4%	1%
Buses with less than 20 seats	91%	6%	4%
Buses with more than 20 seats	98%	2%	0%
Trucks 3.5t and under 3.5t	83%	17%	0%
Trucks over 3.5t	100%	0%	0%

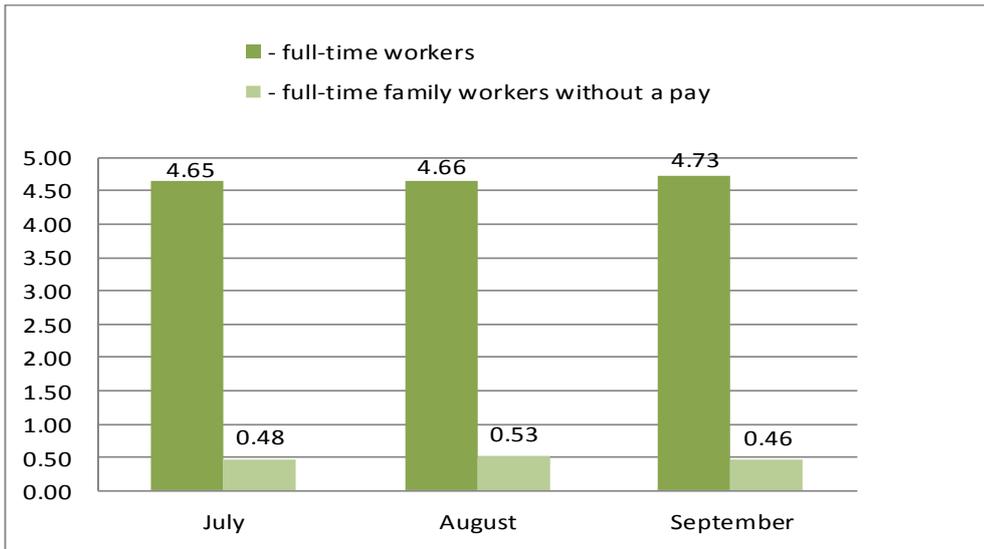
The Graph below represents the average use of the total business capacity available in Q3 2018. Businesses that operate with cars used about 95% of total capacity while businesses that operate with buses with more than 20 seats did not use more than 82% of their capacity. The capacity used for all types of vehicles is similar over the three months. Among the reasons for not using the total available capacity, which could be the lack of customers, lack of workers, technical problems or other reasons, businesses often reported that they lacked customers.

**Graph 4. Use of average capacity in Q3 2018 by the type of vehicle**



The Graph below indicates that in July, the number of full time employees was 4.65 in average, in August it was 4.66 and 4.73. Meanwhile, the number of unpaid family workers is higher in August (on average 0.53 persons), compared to July (0.48 on average) and September (0.46 on average).

**Graph 5. Regular full-time workers and unpaid family workers**



Of the total of 427 businesses in the sample, in July, about 22% of them stated that they had at least one unpaid family member working for them, in August about 23% and in September about 22%.

## Survey: Hotels

In this survey were interviewed businesses performing their activity as hotels throughout the territory of Kosovo and the reference period for data collection was the third quarter of 2018 - Q3 2018. Data was collected for the capacity of hotels for accommodation.

Table 1 indicates the total number of hotel rooms by category, where about 47% of rooms are with one bed, 41% with two beds, 7% with 3 and more beds, 4% apartments, 0.1% residence and 1% other.

**Table 1. Capacity of hotels for accommodation**

Category	Total number of rooms
With 1 bed	352
With 2 beds	304
With 3 or more beds	56
Apartment	30
Residency	1
Other	4
<b>Total</b>	<b>747</b>

Table 2 indicates the total number of rooms by category and equipment in these rooms, including: in-room baths, TV, internet, minibar, air conditioning and hairdryer.

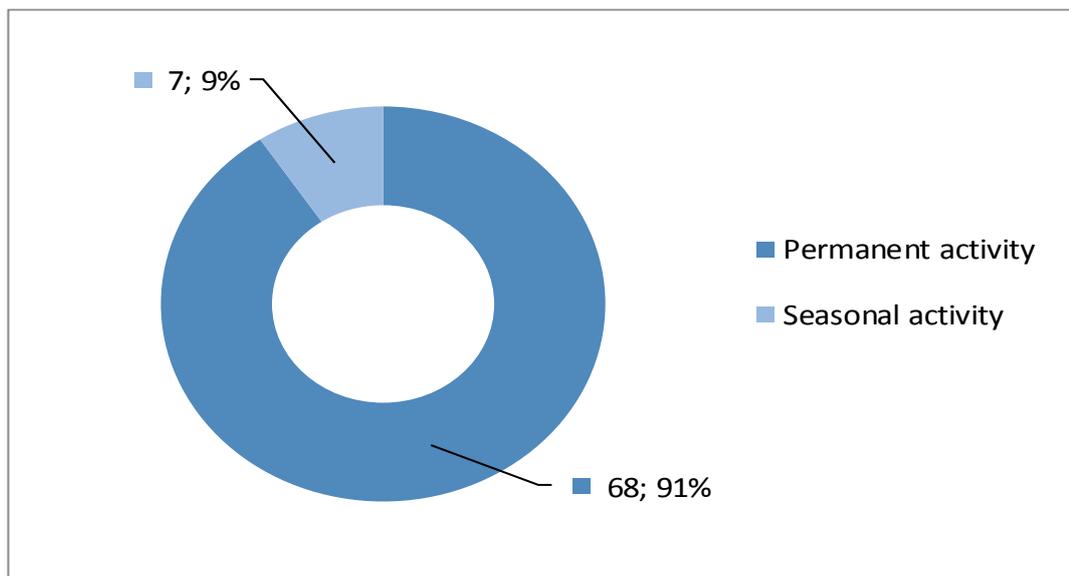
**Table 2. Capacity of hotels for accommodation and equipment in rooms**

Category	Number of rooms	Bathroom inside the room	TV	Internet	Minibar	Air conditioner	Hairdryer	Other
With 1 bed	352	312	275	304	153	223	169	26
With 2 beds	304	237	222	178	50	26	133	20
With 3 or more beds	56	45	44	11	13	12	38	10
Apartment	30	28	30	28	16	30	27	7
Residency	1	0	1	1	0	0	0	0
Other	4	0	4	2	0	3	0	0
<b>Total</b>	<b>747</b>	<b>622</b>	<b>576</b>	<b>524</b>	<b>232</b>	<b>294</b>	<b>367</b>	<b>63</b>

The average number of rooms reported by the surveyed hotels is 9 rooms. The smallest number of rooms is one, while the largest number of rooms reported is 67.

Most of the surveyed hotels operated permanently throughout the last year (91%), while 9% of them operated only during the season. On average, hotels that worked only during the last year's season said they worked for approximately three months this year.

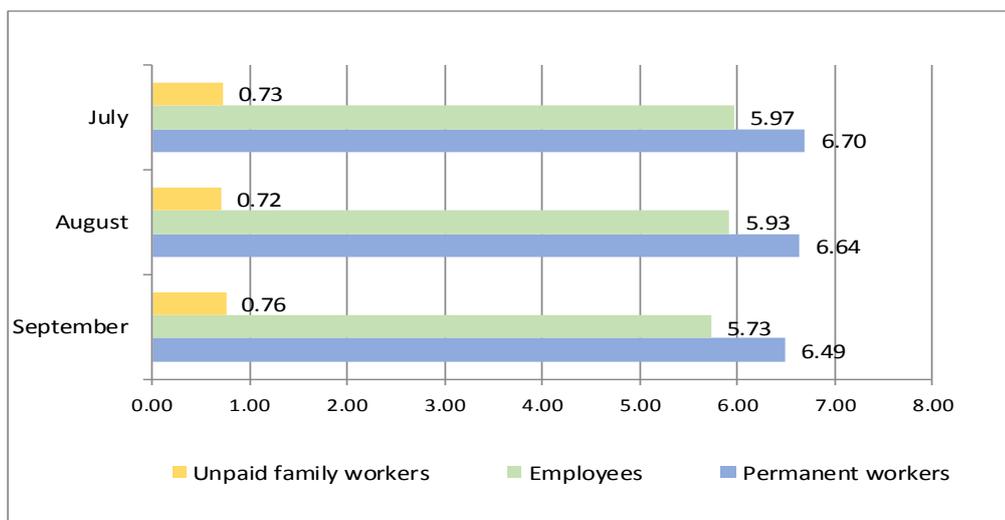
**Graph 3. Duration of activity during the last three months Q3 2018**



In general, the results of the survey indicate that the hotel sector is likely to employ more workers in July and August, compared to September. The average number of unpaid family workers in the hotel sector is relatively small and has not undergone major changes over the last three months.

As indicated in the Graph below, the average number of permanent employees in the surveyed hotels was slightly higher in July (averaging 5.97 persons) and August (averaging 5.93), as compared to September (averaging 5.73). However, the average number of employees working during these three months did not change much in the hotel sector. Many businesses in this sector reported having family members working for them and their number remained similar over the three months (averaging 0.7 persons).

**Graph 4. Average number of permanent full-time employees**



The total number of employees in the hotel sector consists of full-time workers, paid or unpaid family workers, full-time seasonal workers and part-time seasonal workers. More businesses reported having employed full-time workers than others who work in other conditions. In general, most of the hotels surveyed did not report having employed part-time workers.

Only four businesses reported having employed full-time seasonal workers during the last three months: July (on average 9 persons), August (average 10 persons) and September (8 on average).

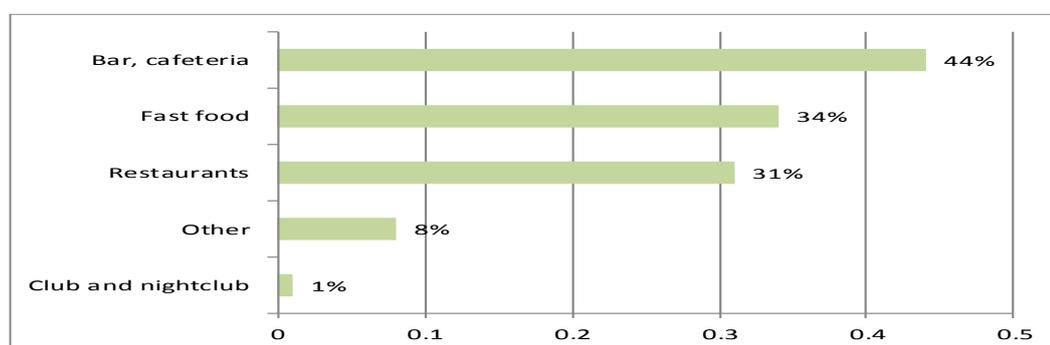
In accordance with the largest number of employees during July and August, reported wages during these two months were higher than in September. Moreover, wages represent the category with the highest expenditure over the three months, where on average in Q3 2018, hotels have spent about 1,735 euros in wages. Other products and services for which hotels expended more are water supply, food supply for breakfast, detergents and taxes.

## Survey: Restaurants

In this survey were interviewed businesses performing their activity as restaurants throughout the territory of Kosovo and the reference period for data collection was the third quarter of 2018 – Q3 2018. Data was collected for the capacity of restaurants and the services they provide for consumers.

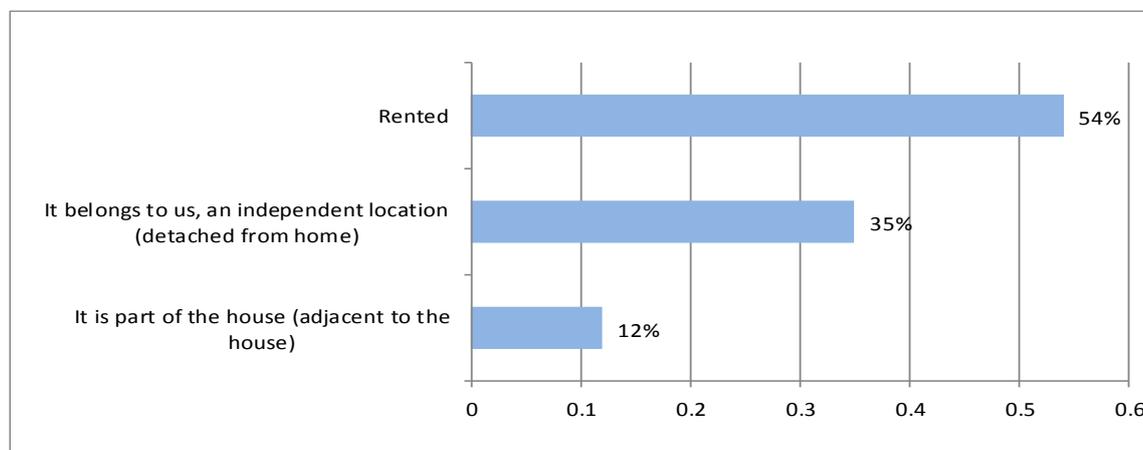
Regarding the activity of surveyed businesses, as indicated in Graph 1, the most frequent activity was bar, cafeteria (44%), fast food (34%), restaurants (31%) and clubs (1%). A business could have practiced one or more activities. About 8% of businesses also reported that they provide other services. From this number, main services include traditional food service, cake shops, specialties and fast foods - kebab.

**Graph 1. Structure of restaurants by type of activity**



As described in the Graph below, most businesses stated that they do not have any other business units in any other location except the one they are operating in. However, 7% of businesses reported that they provide business services in the unit or other location as well. More than half of the businesses that were part of this survey reported that the business unit in which they operate with their economic activity is rented, about 54%. About 35% of businesses reported that the business unit belongs to them, regardless of location, while 12% of businesses operate in a unit that is part of their home.

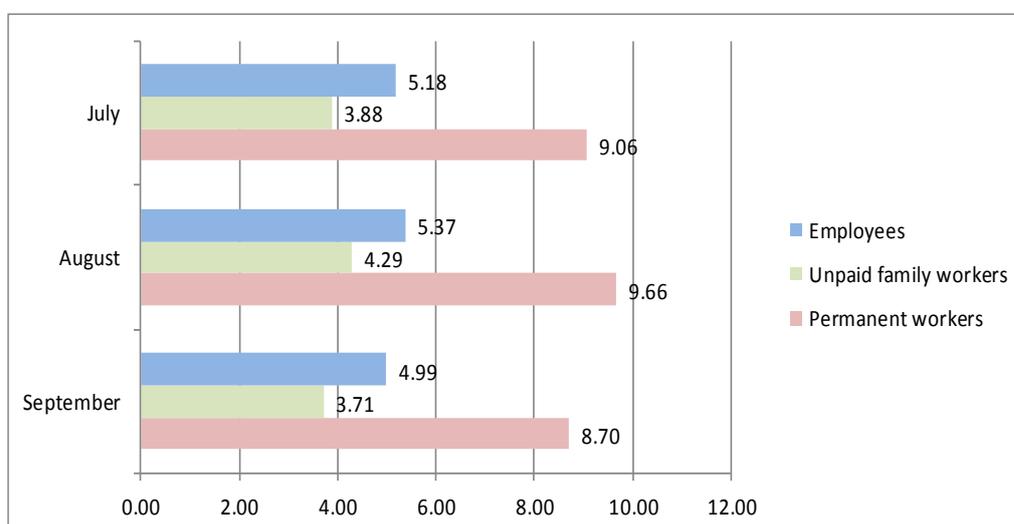
**Graph 2. Status of business units**



Out of a total of 1,408 businesses surveyed, most of them reported that over the last year their business activity was permanent, about 97%, while about 3% of other businesses reported having seasonal activity, averaging about 5 months during the year.

In total, the results indicate that restaurants employed more workers in July and August, compared to September. Similarly, the average number of unpaid family workers also indicates an increase from July (3.88) in August (4.29) and a slight decrease in September (3.71). The Graph below indicates the results that show that businesses had averaged 9.06 workers in July, 9.66 in August and 8.70 in September.

**Graph 3. Average number of permanent employees by category**



A significant part of the businesses that were part of this survey reported having employed unpaid family workers in the last quarter, whether permanent or part-time or seasonal (full-time and part time).

The following table indicates the number of businesses that reported having at least one unpaid family worker working for them.

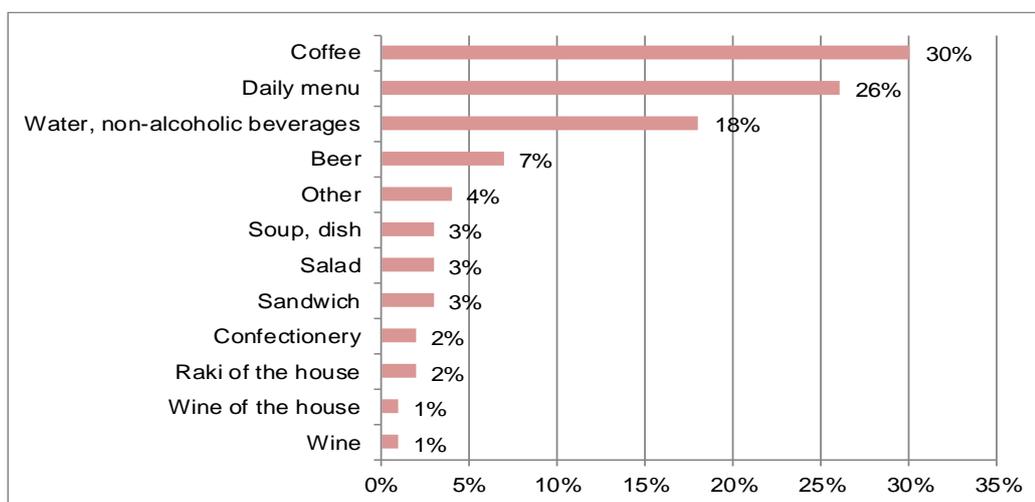
**Table 4. Businesses that hired unpaid family workers in percentage**

	July	August	September
Number of businesses	1.132	1.229	1.087
Number of businesses from sampling (1,408)	80%	87%	77%

Most of the businesses surveyed reported that they have a large number of customers every day (73%), while 19% reported that they have a large number of customers over the weekend or other periods (8%) as in friday evening or any specific day of the week.

Regarding consumption and expenditures, the data collected by the survey indicate that over a normal day, coffee accounts for 30% of total consumer consumption. This is followed by eating dinner as the main meal (26%), water and non-alcoholic beverages (18%) and beer (7%).

**Graph 5. Structure of consumption over a normal day**



As for the supply of restaurants with the necessary items, most of the items are offered directly by the supplier, including products such as coffee (76%), alcoholic and non-alcoholic beverages (70% and 60% respectively), wine (68%), rakia (60%), fish, eggs and sweets (52% each).

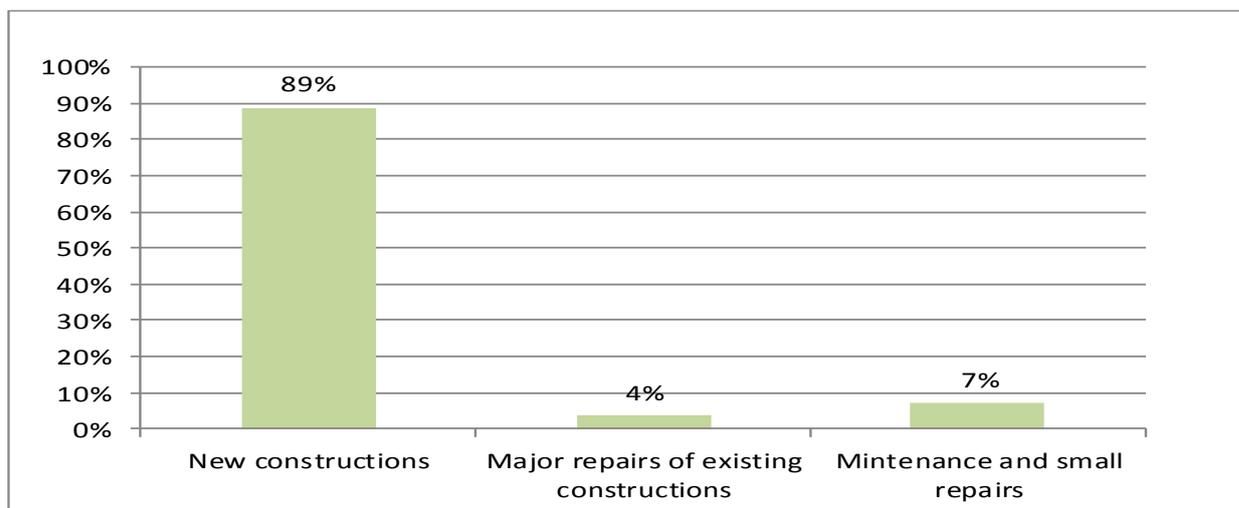
## Survey: Construction

In this survey were interviewed businesses that carry out their activity in the construction sector throughout the territory of Kosovo and the reference period for data collection was year of 2017.

The results indicate the value of construction, divided into categories of residential buildings, non-residential buildings, transportation infrastructure and other buildings, to better understand activities of the businesses and expenditure for different categories.

A common business in the construction sector reported that about 89% of the value of the works carried out in 2017 belongs to the category of *New construction*, about 7% belongs to the category of *Maintenance and small repairs* and 4% Major repairs of existing constructions.

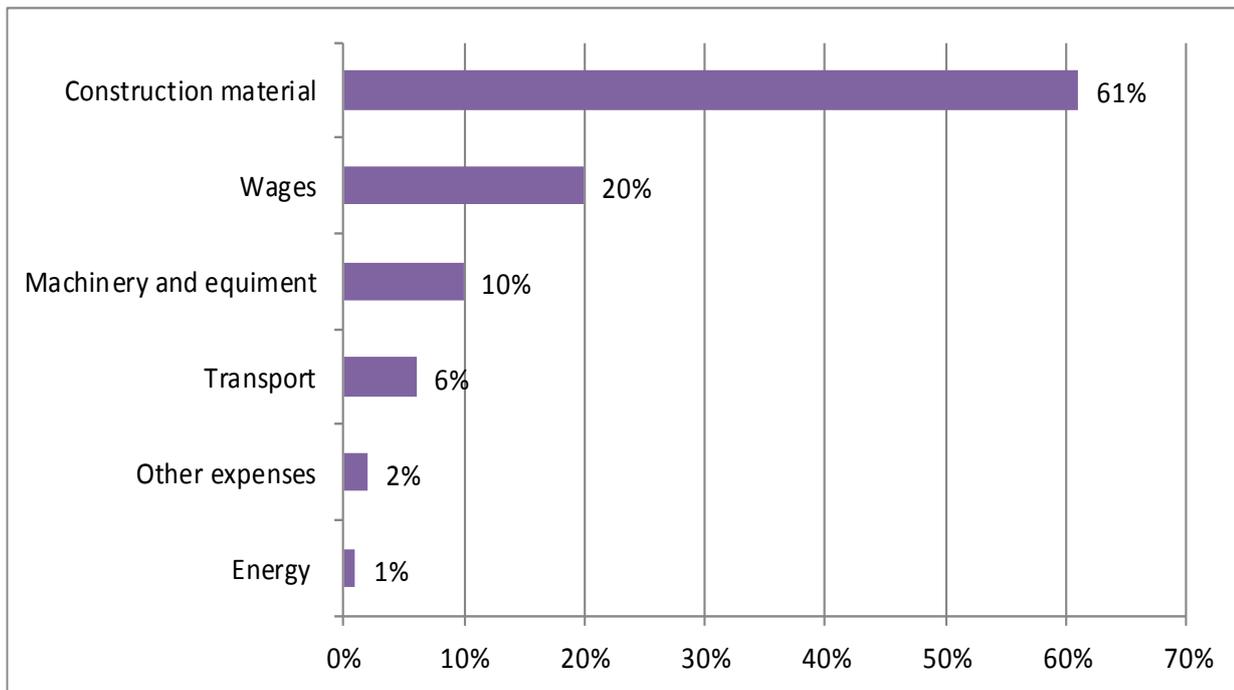
**Graph 1. Average value of construction work realized in 2017**



Construction materials are the largest cost for companies of all sizes, where large companies spent 84% of total expenditure on purchasing materials in 2017.

On average, material expenditures account for 61% of all costs of a construction company, followed by wages (20%), machinery (10%), transport (6%), energy (1%) and other expenditures (2%).

**Graph 2. Structure of expenditures by category by construction companies in 2017**



# Kosovo Agency of Statistics

## *short description*

**Kosovo Agency of Statistics** is a professional institution which deals with collection, processing and publication of official statistical data. As such acts since 1948 and has passed through several historical stages, structured according to state regulation of those times.

On 2 August 1999, the Agency has resumed his professional work (after nine years of interruption of all statistical series detrimental to the interest of Kosovo), as an independent institution under the Ministry of Public Administration. Since 12.12.2011 the Agency operates in the frames of the Prime Minister's Office. Office is funded by the Kosovo Consolidated Budget, but also by donors for specific projects and for technical professional support.

**Kosovo Agency of Statistics** acts according to the Law No. 04/L-036 which entered into force on 12.12.2011. Programme of Official Statistics 2013/2017 is in implementation for the development of statistical system in correlation with the European Union statistics (EUROSTAT).

**Kosovo Agency of Statistics** has this organizational structure: production departments; Department of Economic statistics, Department of National Accounts, Department of Agriculture and Environment statistics and Department of Social statistics. **Support Departments**; Department of Methodology and Information Technology, Department of Policy Planning, Coordination and Communication, Department of Census and survey and Department of Administration. **Within the Agency are also established Regional Offices**; Gjakove, Gjilan, Mitrovica, Peja, Prizren, Pristina and Ferizaj

In KAS are employed in total 155 workers, of whom 100 (68,0 %) at the headquarters of the Agency, while in the Regional Offices, 47 (32,0%). Agency's educational qualifying structure is as follows: 75,5% with university education, 12,3% with with non-tertiary education, and 12.3% with secondary education.

We have professional and technical cooperation with all Ministries of the Government of Kosovo, especially with the Ministry of Economy and Finance, Central Bank of Kosovo, with international institutions, EUROSTAT, International Monetary Fund, World Bank, Sweden's SIDA, DFID, UNFPA, UNDP, UNVEF, and with the statistical institutions of the countries in the region.

**Kosovo Agency of Statistics** almost completely covers the territory of Kosovo, based on the statistical structure of the enumeration areas as the basic unit and sole in the country from which it gets first hand information. All surveys conducted in the field use the extension of the samples in these enumeration areas but also a statistical methodology according to international recommendations. During the collection of statistical data and reports from reporting entities are involved professionals, technicians, administrators, servants of the country offices, field enumerators from regional offices, etc.

In 2011, the project of Population Census , Households and Dwellings was successfully implemented, and in 2014 was successfully carried out the Agriculture Census. The result obtained from these censuses will have an important role in the development policies.

**The mission of the Agency**; to meet the needs of users with qualitative statistical data, objective, in time and space so that users have reliable base to conduct regular analysis in the interest of planning and project development at the municipal and country level. To support government institutions, scientific institutes, research academies, businesses in order to provide proper information for decision-makers and other users in Kosovo.

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