



POLO REGIONALE DI COMO

**Master of Science in
Management, Economics and Industrial Engineering**

**BUSINESS ENVIRONMENT OF KOSOVO AND ITS IMPACT ON FOREIGN
INVESTMENT**

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ABSTRACT

Kosovo's unresolved status issue remains a key obstacle to its attaining the overarching objectives of political integration and socioeconomic development. Kosovo's economic growth has been steady and generally at rates above those in neighboring countries. The average growth rate of 4 percent during 2009–12 has largely been attributable to public investments in post-conflict reconstruction, donor assistance, and remittances. However, Kosovo's current growth model is unsustainable over the longer term.

Increasing foreign investments and private sector activities will become more and more critical as engines to generate growth and, in turn, improve job and income perspectives.

Foreign Direct Investment (FDI) is an important source of capital and economic growth for developing countries. It provides a package of new technologies, management techniques, finance and market access for the production of goods and services. However, attracting FDI is a major challenge for host countries as it opens the challenge of identifying the major factors that motivate and affect the decision for FDI location.

In this context, this study aims at learning the Business Environment of Kosovo and its impact of foreign investment, perception of foreign companies and business associations regarding the business environment and the investment climate in Kosovo.

Additionally it tries to understand what do they latter consider to be the strongest potentials that Kosovo provides, and the areas that need to be improved.

Finally, the results from the questionnaire taken with existing foreign investors, interviews with business associations and analyses of the World Bank reports "Doing Business2011", "Doing Business2012", "Doing Business2013", and "European Court of Auditors Special report no. 18" "European Union Assistance to Kosovo related to the rule of law" published on October 16, 2012 will be the main focus of this project. The results of this study aims to give a clear picture of motivations, concerns and suggestions for improving the investment and business environment in Kosovo.

PREFACE

I dedicate this work to my family, without their enduring patience and support I could not embarked on Master study program at Politecnico di Milano and enjoy the opportunity to meet wonderful professors and students from all around the world. The lectures, the work in various projects, open discussions, pragmatic examples taken from multinational enterprises and other businesses in the globe and sometimes the work in the field enabled me to see things in different way and get a more pragmatic approach.

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ABBREVIATIONS

BIT	Bilateral Investment Treaty
CEFTA	Central European Free Trade Agreement
CSR	Corporate Social Responsibility
EECA	Eastern Europe and Central Asia region
EPZ	Export Processing Zone
EMEA	Europe, the Middle East and Africa
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
ICAS	Investment Climate Advisory Services
IFC	International Finance Corporation
IP	Intellectual Property
IPAK	Investment Promotion Agency of Kosovo
JI	Joint Implementation
KEK	Corporate Energy of Kosovo
M&A	Mergers and Acquisitions
MIGA	Multilateral Investment Guarantee Agency
MTI	Ministry of Trade and Industry
OPIC	Overseas Private Investment Corporation
PPP	Purchasing Power Parity
PPP	Public Private Partnership
PSD	Private Sector Development
SEE	Southeast Europe
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TNC	Transnational Corporation
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
USAID	United States Agency for International Development
WiiW	Vienna Institute for International Economic Studies
WIPS	World Investment Prospects Survey
WIR	World Investment Report

EXECUTIVE SUMMARY

Kosovo more than ever needs FDI in order to generate employment, increase exports and improve its standard of living. Therefore, an important government policy and strategy for investment promotion is the creation of a good business environment for foreign investments. Progress has been marked by adopting laws to enhance the business environment and offer investment services. The Law on Foreign Investments and the establishment of the Investment Promotion Agency of Kosovo (IPAK) are a step in the right direction. However, there is still a lot to be done. The goal of this study is to identification of the barriers and concerns of foreign investors operating in Kosovo, focuses on Kosovo's internal and external environmental analysis based on the Political-Economic-Social-Technological framework. Through findings and recommendations we offer concrete ideas to create a better business environment in Kosovo. This work has concentrated on analyzing the current situation through:

- Foreign Investment in Kosovo Questionnaire
- Interviews conducted with representatives of the business associations and officials of relevant government departments
- Analyses about business environment examining the WB Doing Business Reports
- Analyses of the structure of the foreign businesses operating in Kosovo
- Analyses of the European Court of Auditors Special report ‘European Union Assistance to Kosovo related to the rule of law ‘

Research's Questions and Hypothesis

This research attempts to answer the following main question:

Q: What are the most relative important factors for FDI location in the Republic of Kosovo?

The main question is broken into sub-questions to clarify the purpose of the research as follow:

Q1: What is the relative importance of the cost factors on FDI location decision?

Q2: What is the relative importance of market factors?

Q3: What is the relative importance of infrastructure and technological factors?

Q4: What is the relative importance of political and legal factors?

Q5: What is the relative importance of social and cultural factors?

According to this, the following hypothesis will be tested:

H1: Cost factors that play a major role on FDI location decision in the Republic of Kosovo

H2: Market factors

H3: Infrastructure and technological factors.

H4: Political and legal factors

H5: Social and cultural factors

Objectives

The major goal of this capstone project is to analyze the business environment of Kosovo and its impact of Foreign Direct Investment. Identifying and synthesizing the main macro-environmental phenomena potentially affecting competition in the geographical area under scrutiny.

The major objectives are employment generation, increase of the Gross Domestic Products (GDP), attraction of foreign technical know-how/skills, enhancement of convertible foreign exchange earnings, increasing capital inflows and monitoring capital outflows, contribute to economic growth and social development of the country, and encourage the private sector contribution to enhance country's economic growth and development.

Major components of this hypothesis are:

- Conduct a survey through questionnaires with 150 foreign companies in Kosovo (wherein 20-25 are face to face and for the rest via e-mail conversation);
- Survey of business associations, relevant government departments for economic development, (SME Agency and Investment promotion) and other independent advisers;
- Provide a detailed analysis of FDI in the country, covering the period 2000-2011;
- World Bank Doing Business Report analyses;
- European Court of Auditors Special report 'European Union Assistance to Kosovo related to the rule of law
- Success stories for existing foreign investors in Kosovo / case studies, Banking Sector, Energy and Mining Sector, Agriculture Sector, Telecommunications Sector, Industrial Manufacturing Sector, Services Sector, etc..

Research Methodology

The surveys, which were sent to companies engaged in FDI in the Republic of Kosovo will be used to test the hypothesis and FDI factors. The data for this research will be gathered using a questionnaire with FDIIs operating in Kosovo.

The problem to be tackled in this project has been identified in collaboration with Ministry of Trade and Industry (MTI) who provide sufficient records. MTI records all foreign equity ventures operating in the Republic of Kosovo (names, addresses and information about the FDI operating in the Republic of Kosovo and represents the overall population of FDI, total paid-in capital, proportions of foreign equity share holding, locations of the investment, countries of origin and entry date).

After reviewing the related literature on FDI location factors and studying the FDI in the Republic of Kosovo I have chosen different factors and sub factors.

The questionnaire was divided into two major parts.

In “Part I”, the respondents should produce general information about FDI in Kosovo, the advantages and disadvantages, etc.

In Part II, scale of 1 to 5 using Likert scale, the five major factors identified for the study include Political / Government regulations / Legal Factors, Social and Cultural Factors, Geographical / Location Factors, Financial Factors, and Economic and Market factors. Each of the major factors consists of several items.

Geographically Limited Research

The Research Questionnaire has limited geographical focus, as it focuses only on FDI in the Republic of Kosovo. Therefore, it is likely that the findings will not apply similarly to other countries. On the other hand the analysis and findings of the business environment and indicators used by the World Bank Report “Doing Business” report are valuable for states for which comparative analysis were conducted. All recommendations that will come out of this study except for Kosovo can be used as well for other countries of the region.

1. INTRODUCTION

Within the former Yugoslavia, Kosovo was an autonomous province in the Republic of Serbia, one of the six republics originally making up the country¹.

It had an ethnic Albanian majority but with a significant Serb minority. Following a constitutional reform in 1974, Kosovo was granted increased autonomy, allowing it to have its own administration, assembly, and judiciary.

During the 1980s ethnic tensions mounted and in 1989 Kosovo's autonomy was revoked by the nationalistic Serbian government led by Slobodan Milošević.

The 1990s witnessed the disintegration of Yugoslavia and in Kosovo increasing repression by the Serbian government resulted in the outbreak of war led by the Kosovo Liberation Army and a total breakdown in the rule of law.

Between 1997 and June 1999 an estimated 10 000 Kosovo Albanians were killed. In response to the rapidly deteriorating situation the North Atlantic Treaty Organization (NATO) bombed Serbia and Serbian armed forces in Kosovo to drive the latter out of Kosovo.

In June 1999, the United Nations (UN) Security Council adopted Resolution 1244/99 which set up a United Nations Interim Administration Mission in Kosovo (UNMIK) in place of the Government of Serbia.

It mandated UNMIK to carry out all aspects of civil administration, establish democratic institutions and create the basis for eventually resolving Kosovo's status².

The immediate task of UNMIK in conjunction with the NATO-led Kosovo Force (KFOR) was to establish law and order by ending the violence and repression and allowing for a safe return of all refugees.

From 2003, under a constitutional framework established by UNMIK, the structures of the so-called 'Provisional Institutions of Self-Government' slowly began evolving.

While UNMIK retained ultimate authority, a gradual transfer of power from UNMIK to Kosovo institutions took place.

Following negotiations over the period 2005-07, the UN Special Envoy, Martti Ahtisaari, proposed a 'supervised independence' for Kosovo. While this proposal was not endorsed by the UN Security Council, two key parts of the Ahtisaari proposal were nevertheless subsequently implemented:

(a) The EU Council of Ministers established a Common Security and Defense Policy (CSDP) mission, the 'European Union Rule of Law Mission in Kosovo' (EULEX), to monitor, mentor and advise on all areas related to the rule of law and carry out certain executive functions.

¹ (Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, and Slovenia was one other autonomous province, Vojvodina, also in the Republic of Serbia)

² This designation is without prejudice to positions on status, and is in line with UN Security Council Resolution 1244 and the ICJ opinion on the Kosovo declaration of independence.

(b) A group of states supporting Kosovo's independence, the International Steering Group, established an International Civilian Office (ICO) to monitor the implementation of the proposal.

The Head of the ICO has the authority to annul decisions or laws adopted by Kosovo authorities and sanction or remove public officials.

Kosovo unilaterally declared independence from Serbia in February 17, 2008 but this step was not followed by universal recognition of Kosovo since as of 24 December 2012, 98 countries have recognized Kosovo³. Five EU Member States (Cyprus, Greece, Romania, Slovakia and Spain) have not recognized Kosovo's independence which has led the EU to adopt what is termed a 'status neutral' position means that the European Union neither supports nor opposes Kosovo's independence⁴.

Kosovo became a member of the World Bank and the International Monetary Fund in June 2009. And, as the second newest recognized country in the world, Kosovo is now fully open for business. The message suggests substantial opportunities, and foreign investors are gradually becoming aware of the business opportunities in Kosovo.

Kosovo is a potential candidate for European Union (EU) membership. In October 2012, the EU confirmed in its feasibility study- an inventory of the country's political, economic, and legal environment that there was in legal obstacle and Kosovo was ready to open negotiations on a stabilization and association agreement (once four short-term policy priorities were met). In parallel, the European Commission (EC) has opened a visa liberalization dialogue. The international Steering Group agreed to end Kosovo's supervised independence on September 10, 2012 closing the International Civilian Office, which had acted in the role of final authority regarding the interpretation of the Ahtisaari Plan. Kosovo's economic growth has been steady and generally at rates above those in neighboring countries. The average growth rate of 4 percent during 2009-12 has largely been attributable to public investments in post-conflict reconstruction, donor assistance, and remittances. The particular structure of Kosovo's economy with limited financial linkages and a small export base has implied that, similar to the aftermath of the global crisis in 2008-9, spillovers even from the worsening Eurozone crisis have been less severe than in neighboring countries. In particular, remittances (recorded as transfers in the balance of payments), Foreign Direct Investment (FDI), and other non-debt creating flows from Kosovars living in Germany and Switzerland are expected to remain relatively stable. FDI inflows covering close to 60percent of the current account deficit are expected to surge over the medium-term horizon, reflecting considerable investor interest in the

³ <http://www.kosovothanksyou.com/>

⁴ <http://eca.europa.eu/portal/pls/portal/docs/1/19168748.PDF>

telecommunications and energy sectors⁵.

Kosovo's huge trade imbalance is negatively impacting GDP growth, current account deficit, job creation and poverty reduction. The main challenge for Kosovo's economy is to reduce this deficit. One way to do so is by aggressive export promotion through FDI and joint ventures⁶. FDI can also contribute towards substitution of imports with domestic products and potentially increase exports, thus closing the trade deficit. Thus, the Republic of Kosovo needs to do substantially more to attract foreign capital and "outside" investors as a means to achieve long-term, sustainable growth. In addition to the obvious direct benefits – capital investment and jobs – FDI also supports integration into regional and international economies, owing to the fact that it is very often export-oriented; it involves transfers of technology, management best practices, and skills, thereby indirectly promoting innovation and competition in recipient countries; etc. – all of which leads to improved standards of living and helps to strengthen a country's overall competitive profile. Increasing foreign investments is one of the main strategies to improve Kosovo's economy⁷.

⁵ <http://siteresources.worldbank.org/INTKOSOVO/Resources/121019-RKS-Snapshot.pdf>

⁶ Aitken, Brian, G. Hanson, and A. Harrison. 1997. Spillovers, Foreign Investment and

⁷ Export Behavior. *Journal of International Economics*. 43:103-132

2. CONCEPT OF FOREIGN DIRECT INVESTMENT

In its classic definition, Foreign Direct Investment (FDI) is an organization's physical financial investment into establishing facilities in an economy other than its economy of origin⁸. In recent years, this definition has been broadened and includes a long-term relationship between the direct investor and the direct investment enterprise and implies that the investor has a significant degree of influence on the management of the enterprise⁹.

Foreign direct investment (FDI) is often regarded as an essential element in any given country's quest for economic growth. Organizations such as the International Monetary Fund (IMF) and the World Bank contend that attracting large inflows of FDI will result in economic development by stimulating infrastructural development and growth across different sectors of the affected economies.

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property. In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI. New information technology systems and decline in global communication costs have made management of foreign investments far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of

⁸ Graham, J., and Barry, R., 2004. — Understanding Foreign Direct Investment in Citibank Business Portal. [Online] Available: http://www.going-global.com/articles/understanding_foreign_direct_investment.htm [27 July 2010].

⁹ OECD, Glossary of Foreign Direct Investment Terms and Definitions. [Online] Available: <http://www.oecd.org/dataoecd/56/1/2487495.pdf>.

restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI's expanded role.

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to a yearly average of less than \$20 billion in the 1980's, to explode in the 1990s from \$26.7 billion in 1990 to \$179 billion in 1998 and \$208 billion in 1999 and now comprise a large portion of global FDI. Driven by mergers and acquisitions and internationalization of production in a range of industries, FDI into developed countries last year rose to \$748 billion, from \$481 billion in 1998¹⁰.

2.1 TYPES OF FDI

Greenfield Investments¹¹: direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.

However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and use up resources (labor, intermediate goods, etc). Another downside of Greenfield investment is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth.

Mergers and Acquisitions: occur when a transfer of existing assets from local firms to foreign firms takes place, this is the primary type of FDI . Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when: the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company.

Unlike Greenfield investment, acquisitions provide no long term benefits to the local economy. In most deals the owners of the local firm are paid in stock from the acquiring firm,

¹⁰ UNCTAD World Investment Report 2012 (WIR),

¹¹ <https://www.wbinvestmentclimate.org/toolkits/>

meaning that the money from the sale could never reach the local economy. Nevertheless, mergers and acquisitions are a significant form of FDI and until around 1997, accounted for nearly 90 % of the FDI flow into the United States.

Horizontal Foreign Direct Investment: is the investment in the same industry abroad as a firm operates in at home.

Vertical Foreign Direct Investment: takes two forms:

- Backward vertical FDI : where an industry abroad provides inputs for a firm's domestic production process
- Forward vertical FDI: in which an industry abroad sells the outputs of a firm's domestic production processes.

2.2 ECONOMIC AND OTHER BENEFITS FROM FOREIGN DIRECT INVESTMENTS (FDI)

When politicians consider Foreign Direct Investments, they tend to focus on near-term benefits such as employment and revenue. This is understandable. These are legitimate benefits, and politicians need to produce tangible results in short periods of time¹². However, if a location is to take full advantage of Foreign Direct Investments, IPAK (Investment Promotion Agency of Kosovo) and the government must consider all possible benefits, both direct and indirect. Some of the most common benefits are the following:

Capital. A new investor will bring in capital with which a new production facility will be constructed, or a local company acquired¹³.

Employment. While the number of jobs created varies in accordance with the size of the investment and the production process itself, the most common benefit associated with Foreign Direct Investment is increased or protected employment. And, of course, with new employment comes additional income and spending power for local residents.

Revenue benefits. Foreign Direct Investments widens the local tax base and contributes to government revenues. Even if foreign investors are granted complete relief from taxes for a short period of time through investment incentives, governments can earn increased revenue

¹² Investment Generation Toolkit (Investment promotion practitioner's guides, best practice examples and practical tools for successful investment promotion efforts). <https://www.wbginvestmentclimate.org/toolkits/>

¹³ Brewer, T., and S. Young. 1998. *The Multilateral Investment System and Multinational Enterprises*. Oxford: Oxford University Press.

from the payment of personal income taxes because of the new jobs created by Foreign Direct Investments. In addition, export-oriented investment generates foreign exchange earnings.

Favourable impact on local investment. Foreign Direct Investments inflows tend to lead to an increase in domestic investment as companies gain access to distribution channels opened by TNCs, become suppliers to TNCs (Transnational Corporation), or respond to competition from TNCs (Transnational Corporation).

Technology transfer. Foreign Direct Investment can improve a country's access to technology through licensing, joint ventures, and local trade. Employees of TNCs (transnational corporation) may take know-how they have acquired and set up new companies, or join existing local companies. Whatever the form, technology transfer tends to lead to improved productivity growth¹⁴.

Improved labor skills. Foreign firms usually carry out more on-the-job training than do local firms, and TNCs (transnational corporation) in particular frequently engage in activities that use relatively high levels of skilled workers. These skills are often transferred to other sectors and activities when employees seek new jobs or establish their own businesses. Employees are also often exposed to new organizational and management skills, exposure that can stimulate higher productivity, entrepreneurship, and openness to education.

Improved exports. Much Foreign Direct Investment is export-oriented, and TNCs (transnational corporation) often account for a significant share of host-country exports. Because of their size and access to overseas marketing and distribution networks, foreign firms typically find it easier to enter export markets. Many developing countries have been able to use Foreign Direct Investment as a way to increase their export levels and improve foreign exchange earnings. In addition, the presence of foreign-owned exporting firms has been influential in many countries in encouraging local firms to enter export markets.

Improved international competitiveness of local firms¹⁵. The opportunity to sell inputs or supplies to foreign-owned firms encourages local companies to raise their quality levels and delivery reliability. Foreign firms often introduce new products to the local economy, and domestic firms are often encouraged to compete with these products. Finally, through their interaction with a foreign-owned company, suppliers, customers and competitors in the

¹⁴ Bende-Nabende, Anthony. 1998. A Static Analysis of the Impact of FDI on the Host Developing Countries' Economic Growth: A Case for the ASEAN-5 Economies. Presented at the ESRC Conference "Finance and Development," Birmingham, UK, September 7-8, 1998. Mimeo.

¹⁵ Investment Generation Toolkit (Investment promotion practitioner's guides, best practice examples and practical tools for successful investment promotion efforts). <https://www.wbginvestmentclimate.org/toolkits>

host country are often stimulated to higher levels of investment, productivity and innovation. The result is often greater economic efficiency and higher-quality production by domestic firms.

Increased competition. Foreign Direct Investment can improve overall economic growth by increasing competition in sectors previously dominated by only one or two local firms. Once a government decides that attracting Foreign Direct Investment is an objective, it must recognize the trade-offs associated with any type of investment. Labor-intensive assembly activities, for example, generate both exports and jobs, but these activities typically rely on imported intermediate goods rather than on local inputs. As a result, they may not create linkages with the domestic economy or encourage technology transfer. In addition, the jobs associated with assembly operations are frequently low skilled. Foreign Direct Investment that occurs through privatization can result in technology transfer, particularly through staff training and the introduction of modern management and production techniques. As a trade-off, substantial job losses may occur when the new owners restructure the company to make it more efficient. However, the pay-back comes in terms of longer term competitiveness and viability. “Governments must also be realistic about the probable economic impact of FDI.

Empirical evidence demonstrates the positive role that FDI plays in promoting economic growth in developing host countries -- for example, foreign investment has a stronger impact on economic growth than does domestic investment”¹⁶ However, research also demonstrates that middle- and high-income developing countries derive greater benefits than do low-income developing nations¹⁷.

Enhanced backward linkages. Studies indicate that TNCs (transnational corporation) typically obtain only a small portion of their economic inputs from local suppliers¹⁸. This is partly due to technological, quality, and managerial gaps that exist between foreign firms and local companies. Local firms frequently cannot produce inputs of sufficient quality and/or deliver them on time. This problem has become even greater with the globalization of the economy, because TNCs are able to search world markets to obtain the lowest-cost and highest-quality inputs. Nonetheless, local sourcing -- or “backward linkages” between foreign investors and domestic firms -- brings considerable economic benefits to a location in terms of local employment, improved sales for local firms and favourable impact on the balance of payments. It also exposes the local company supplying the goods to internationally competitive management and organizational methods.

¹⁶ http://www.going-global.com/articles/understanding_foreign_direct_investment.htm

¹⁷ Brewer, T., and S. Young. 1998. *The Multilateral Investment System and Multinational Enterprises*. Oxford: Oxford University Press.

¹⁸ www.columbia.edu/cu/libraries/indiv/business/guides/forinv.html

Government policy can help to create backward linkages between TNCs and local firms¹⁹. Technical assistance and programs of management development and training can be used to upgrade the capabilities of local firms. In addition, the IPAK and other government agencies can work with TNCs to help match TNC (transnational corporation) needs with the capabilities of local suppliers²⁰.

Building human capital. A key way to increase the economic impact of Foreign Direct Investments is to bring in higher value-added investment. While the availability of low-cost, unskilled labor is important to some types of Foreign Direct Investments, particularly export-oriented investment, attracting higher value-added FDI requires a well-educated, and trained or trainable workforce. A location's ability to attract this higher value-added FDI, therefore, is dependent upon greater investment in education and training, particularly at the technical and managerial levels. As part of their national promotion strategies, IPAK should be linked with educational institutes to improve labor skills in certain areas. In Costa Rica, for example, the government worked with the country's technical institutes to develop skills in electronics manufacturing as part of the government's strategy to increase electronics investment²¹.

Using Foreign Direct Investments to promote decentralized growth. Many countries have attempted to increase their economic benefits from Foreign Direct Investments by encouraging investors to set up operations in underdeveloped or peripheral areas of the country. Governments typically offer specialized, generous investment incentives to encourage investment in these "growth poles" frequently through industrial free zone or export processing zone (EPZ) programs. While these types of decentralization policies have sometimes been effective in developed countries, they are often unsuccessful in emerging economies due to the poor transport and communications infrastructure found in rural or peripheral locations, and limited access to utilities such as water and electricity. While decentralization is a potential way to improve the economic impact of FDI, the cost of offering such incentives must be carefully evaluated. In addition, governments that place too much pressure on foreign investors to locate in rural areas run a serious risk of losing the investment to neighbouring countries that allow investors to select their own investment sites.

¹⁹ Advani, A. 1997. *Industrial Clusters: A Support System for Small and Medium-Sized Enterprises*. PSD Occasional Paper No. 32. Washington, D.C.: World Bank (Private Sector Development Department).

²⁰ Investment Generation Toolkit (Investment promotion practitioner's guides, best practice examples and practical tools for successful investment promotion efforts). <https://www.wbginvestmentclimate.org/toolkits>

²¹ Investment Generation Toolkit (Investment promotion practitioner's guides, best practice examples and practical tools for successful investment promotion efforts). <https://www.wbginvestmentclimate.org/toolkits>

2.3 COUNTRY FDI STAGES

Not only must countries be realistic about the trade-offs associated with different types of investment, they must also be realistic about the types of investment they will be able to attract. This is important because governments with unrealistic expectations are likely to waste valuable financial resources targeting firms that will never invest. In general, the types of investment that a location will be able to attract depend on its economic characteristics and policies. This relationship is illustrated below, which categorizes countries according to their level of economic development and economic reform. For example, the poorest developing countries -- those characterized by unskilled labour, small markets, and import–substitution policies -- are probably unable to attract most forms of FDI, with the possible exception of firms seeking to invest in natural resources. By contrast, small developing countries that have adopted market reforms and have a good supply of low-cost labour will be attractive investment sites for export-oriented firms. Larger developing countries that have similar reforms are attractive to investors wishing to produce goods for these growing domestic markets; in addition, these countries may also offer attractive investment opportunities in infrastructure development and privatization. Transition economies have even greater prospects for attracting FDI. These countries are attractive to investors seeking to serve both domestic and regional markets, to investors seeking Merger and Acquisition (M&A) opportunities resulting from privatization, and to investors interested in infrastructure development. Finally, newly industrialized countries have the greatest potential for attracting Foreign Direct Investments in a broad range of activities. It is important to note that these categories are purely illustrative and that wide divergences and notable exceptions exist within each category. Nonetheless, the table illustrates two important points: First, an important linkage exists between a country's level of economic development and its economic policies on the one hand, and its ability to attract FDI on the other. Second, the types of FDI that a location is able to attract vary in accordance with its size, level of economic development, and economic policies. From a policy perspective, market reform and economic liberalization, reform of the public sector and privatization, and a switch from inward-oriented to outward-oriented economic development strategies are all important factors in encouraging FDI and are within the government's control²².

²² Advani, A. 1997. *Industrial Clusters: A Support System for Small and Medium-Sized Enterprises*. PSD Occasional Paper No. 32. Washington, D.C.: World Bank (Private Sector Development Department).

Table 1 Illustrative country FDI stages

ILLUSTRATIVE COUNTRY FDI STAGES				
	Country Category	Country Characteristics	Economic Policy Dimensions	Inward FDI Prospects
I	Poorest developing country	Unskilled, untrained labor ; low incomes; small markets	Relatively closed markets ; import-substitution development policies	Some natural resource-seeking FDI in raw materials and commodities; little or no inward FDI manufacturing
II a	Small, emerging developing countries	Availability of low-cost, trained or trainable labor; growing incomes and markets	Market reform and opening; export-oriented development policies	Inward FDI in labor-intensive , export-oriented manufacturing ; efficiency-seeking (rationalized) FDI
II b	Larger , emerging developing countries	Growing incomes and markets; plentiful supply of low-cost labor	Market reform and liberalization ; privatization priorities ; shift to export - oriented development policies	Slower pace of reform than in category II a ; market seeking FDI , primarily to serve growing domestic markets; opportunities for FDI in privatization and in infrastructure development
III	Economies in transition	Plentiful supplies of skilled , relatively low-cost labor ,growing , but volatile markets.	Public-sector reform and privatization priorities ; market reform and liberalization ; cautious shift to export-oriented policies	Market-seeking FDI to serve domestic and neighbouring markets; merger and acquisition opportunities in privatization ; FDI in infrastructure development
IV	Newly industrialized countries	Manufacturing of higher value-added products and services; skilled workforce and higher income , sophisticated consumers	Investment in research technological development , education , and other public goods, open or opening markets, support for outward FDI by indigenous companies (to obtain lower costs and avoid protectionism)	FDI to serve regional or global markets, plant upgrading or divestment of labour-intensive operations, range of marketing , production , or other activities at subsidiary level

Source: MIGA (*Multilateral Investment Guarantee Agreements*), 2006

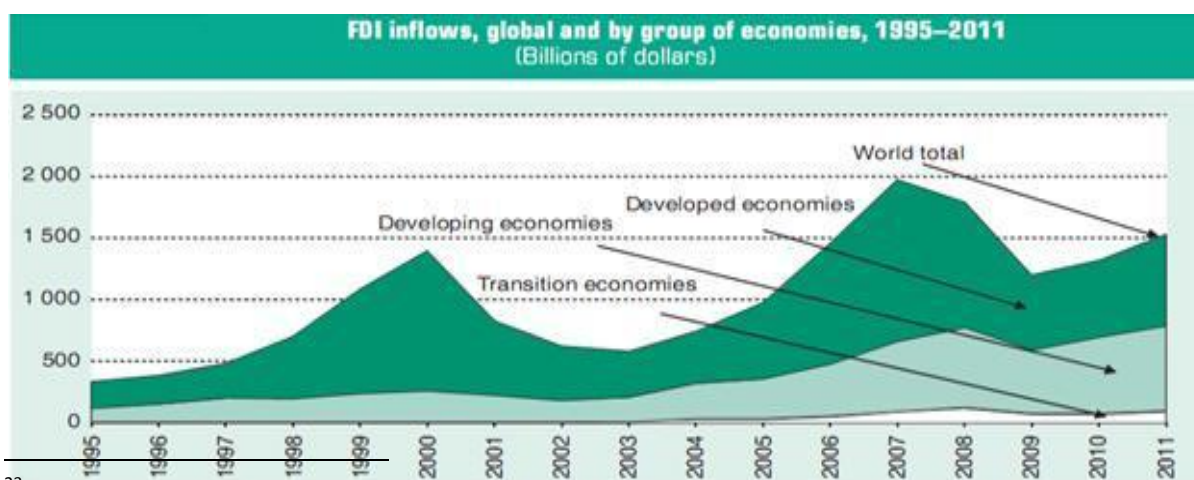
3. AN OVERVIEW OF FOREIGN DIRECT INVESTMENT FLOWS

3.1 GLOBAL FOREIGN INVESTMENT (FDI) FLOWS (WIR 2012)²³

During the recession time as well when FDI was heavily decreasing developing and transition economies attracted more than half of global FDI. This is proven as well in the Information report of James Zhan, the Director of Division on Investment and Enterprise related with UNCTAD's Investment Policy Monitor: “The bad news is "global FDI flows remain stagnant". The good news is "developing and transition economies, for the first time, attracted more than half of global FDI"²⁴. Such a practice of attracting investments continues even nowadays when the Global foreign direct investment (FDI) flows exceeded the pre-crisis average in 2011, reaching \$1.5 trillion.

FDI inflows increased across all major economic groupings in 2011. Flows to developed countries increased by 21 per cent, to \$748 billion. In developing countries FDI increased by 11 per cent, reaching a record \$684 billion. Foreign Direct Investment in the transition economies increased by 25 per cent to \$92 billion. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global FDI. This increase occurred against a background of higher profits of transnational corporations (TNCs) and relatively high economic growth in developing countries during the year.

Figure 1. FDI inflows; Source: UNCTAD/WIR 2012



²³ World Investment Report 2012 - (UNCTAD/WIR/2012) 05 Jul 2012, 236 page(s),

²⁴ www.unctad.org/diae

Based on UNCTAD predictions in 2012 there is slowness of FDI growth, with flows levelling off at about \$1.6 trillion. Leading indicators – the value of cross-border mergers and acquisitions (M&As) and greenfield investments – retreated in the first five months of 2012. Longer-term projections show a moderate but steady rise, with global FDI reaching \$1.8 trillion in 2013 and \$1.9 trillion in 2014, barring any macroeconomic shocks. In the following you can find the summary of econometric results of medium-term baseline scenarios of FDI flows by region.

Figure 2. FDI inflows; Source: UNCTAD/WIR 2012

Summary of econometric results of medium-term baseline scenarios of FDI flows, by region (Billions of dollars)								
Host region	Averages					Projections		
	2005–2007	2009–2011	2009	2010	2011	2012	2013	2014
Global FDI flows	1 473	1 344	1 198	1 309	1 524	1 495–1 695	1 630–1 925	1 700–2 110
Developed countries	972	658	606	619	748	735–825	810–940	840–1 020
European Union	646	365	357	318	421	410–450	430–510	440–550
North America	253	218	165	221	268	255–285	280–310	290–340
Developing countries	443	607	519	617	684	670–760	720–855	755–930
Africa	40	46	53	43	43	55–65	70–85	75–100
Latin America and the Caribbean	116	185	149	187	217	195–225	215–265	200–250
Asia	286	374	315	384	423	420–470	440–520	460–570
Transition economies	59	79	72	74	92	90–110	100–130	110–150

Source: UNCTAD estimates, based on UNCTAD (for FDI inflows), IMF (G20 growth, GDP and openness) and United Nations (oil price) from the Link project.

^a The variables employed in the model include: market growth of G-20 countries (G-20 growth rate), market size (GDP of each individual country), price of oil and trade openness (the share of exports plus imports over GDP). The following model, $FDI_t = \alpha_0 + \alpha_1 * G20_t + \alpha_2 * GDP_{t-1} + \alpha_3 * Openness_t + \alpha_4 * Oil_price_{t-1} + \alpha_5 * FDI_{t-1} + \epsilon_{it}$, is estimated with fixed effect panel regression using estimated generalized least squares with cross-section weights. Coefficients computed by using White's heteroscedasticity-consistent standard errors.

3.2 FDI INFLOWS IN BALKAN REGION

Western Balkans is a geopolitical term that refers to the following countries: Albania, Bosnia and Herzegovina, Serbia, Croatia, Kosovo, Macedonia and Montenegro. The term Western Balkan has been used for the first time in the beginning of 1990's and is often explained as Yugoslavia minus Slovenia plus Albania. Balkan countries are still in the economic development stage and are characterized by lack of cooperation with the rest of Europe and slow reform process toward modernization and democratization of their societies.

Attracting FDI and improving the climate for investment is a strategic economic priority to all WB countries not only to finance their budgets, but moreover to improve their economic performance and standard of living.

Many of the policy reforms needed to strengthen the investment climate are also necessary for membership in the European Union, to which countries in the region generally aspire. Competition for attracting foreign investments is becoming always stronger between countries and this becomes even more difficult when one considers the difficulties through which the world economy is going through. Therefore, a greater inter-institutional coordination is required to advance both, the so-called "strong" infrastructure and the "soft" infrastructure, advancing not only in terms of attractiveness (tempt foreign investors) but also from the aggression side (launch of services and products for export)²⁵.

Table 2. FDI Inflow in Balkan Country

Countries	2008	2009	2010	2011
Albania	665	717	793	742
Bosnia & Herzegovina	1,337	353	340	612
Macedonia	400	145	159	304
Montenegro	656	1,099	574	401
Serbia	2,018	1,410	1,003	1,949
Croatia	4,219	2,415	298	1,075
Kosovo	366	287.4	365.8	394.6

Source: own calculations based on World Bank online database and WIIW data statistics.

²⁵ The Vienna Institute for International Economic Studies (wiiw)<http://www.wiiw.ac.at/>

Table 3. FDI in Albania


	FDI Albania (Years)	2008	2009	2010	2011
	Population (1000 persons)	3,182	3,194	3,210	3,220
	GDP per capita (EUR at PPP)	6,400	6,500	6,600	6,800
	FDI inflow ,EUR mn	665	717	793	742

Table 4 FDI in B&Herzegovina


	FDI (B&Herzegovina)	2008	2009	2010	2011
	Population (1000 persons)	3,842	3,843	3,843	3,840
	GDP per capita (EUR at PPP)	6,700	6,400	6,600	6,700
	FDI inflow ,EUR mn	1,337	353	340	612

Table 5 FDI in Macedonia


	FDI (Macedonia)	2008	2009	2010	2011
	Population (1000 persons)	2,047	2,051	2,055	2,059
	GDP per capita (EUR at PPP)	8,400	8,500	8,900	9,500
	FDI inflow ,EUR mn	400	145	159	304

Table 6: FDI in Montenegro


	FDI Montenegro	2008	2009	2010	2011
	Population (1000 persons)	629	632	619	620
	GDP per capita (EUR at PPP)	10,700	9,700	10,100	10,500
	FDI inflow ,EUR mn	656	1,099	574	401

Table 7: FDI in Croatia



	FDI (Croatia)	2008	2009	2010	2011
	Population (1000 persons)	4,435	4,429	4,418	4,403
	GDP per capita (EUR at PPP)	15,800	14,600	14,500	14,800
	FDI inflow ,EUR mn	4,219	2,415	298	1,075

Table 8: FDI in Serbia²⁶²¹

	FDI (Serbia)	2008	2009	2010	2011
	Population (1000 persons)	7,350	7,321	7,291	7,280
	GDP per capita (EUR at PPP)	9,000	8,400	8,400	8,700
	FDI inflow ,EUR mn	2,018	1,410	1,003	1,949

A positioning of Kosovo as a country of low level of business attraction compared to the other Balkan countries that is presented in the table comparing countries of the region shows that Kosovo in the period from 2008 – 2011 has attracted less FDI than other countries despite the considerable attraction of FDI in Kosovo as a result of the privatization of the public enterprises, therefore the attraction of FDI especially in Greenfield was very small.

The Graphic presentation of the FDI in Balkans below shows the trend of FDI for the year of 2011. It is clear that Kosovo in comparison to other countries beside Macedonia has attracted less FDI. Such a low trend in attracting foreign investments has followed Kosovo in the last five years compared to other countries in the region. This conclusion makes more necessary the engagement of Kosovo in the creation of more favourable investment policies and a better investment climate in order to increase FDI especially when the competition in attracting investments is becoming fiercer.

Graphic presentation of the FDI attraction for the countries in the region in 2011

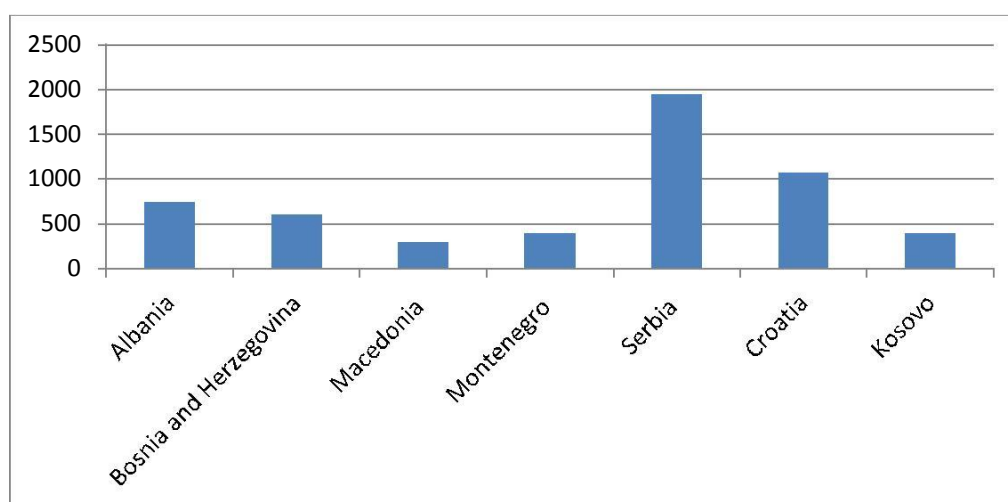


Figure 2. 2011 FDI inflow in Balkan Region, Source: The Vienna Institute for International Economic Studies (wiiw)

²⁶ http://publications.wiiw.ac.at/?action=publ&id=details&publ=FDI2010_05_ZIP

3.3 FOREIGN DIRECT INVESTMENT IN KOSOVO

Foreign direct investment is the overall important component for economic development of a country. This evaluation is no exception for Kosovo, especially as a country in a developing process; Foreign Direct Investments are presented as cumulative effects "of energy" for economic redevelopment. And this statement is important having in consideration that Kosovo 12 years ago went through a conflict- war.

Since 2004, when the "Law on Foreign Investment" was approved, taking into account the business environment, Kosovo had relatively good foreign investment. Considering that post war country (Kosovo) has had problems of different natures in terms of economic, energy, political, ethnic, etc., it is no surprise that the investors hesitated to invest their capital at a country with no adequate legislation. There was a lack of laws, lack of economic development policies, lack of a clear strategy for economic development, old infrastructure, lack of financial stability, unfair competition, and many problems with ethnic relations, etc. This non-favourable environment, no doubt requires a consistent approach to provide a change of these parameters that are essential determinants for foreign investments in Kosovo. Under these conditions, policy makers are challenged to encourage new investment. Creating a friendly and adequate business and institutional environment to attract FDI is one of the most important priorities for economic policy and reform. There is not enough investment capacity in Kosovo to ensure sustainable growth. It is known that FDI alone cannot accelerate investment activities. The promotion of FDI is more difficult in Kosovo than in many competing destinations due to the circumstances specific to Kosovo. For these reasons, the aim of FDI promotion needs to be combined with the provision of alternative financing instruments and guarantees in which the FDI component could be increasingly important.

Though FDI alone cannot accelerate investment activities, it is quite necessary. FDI should become an important source to complement other financing sources. Experiences of economic development in the last decade, particularly those of developing countries, indicate that private FDI is important because:

- There is a positive correlation between FDI and GDP growth, increased opportunities for export and, stimulation effects for local businesses and competition improvement,
- FDI as risk-capital offers better prospects for sustainable development than interest-bearing credits,

- FDI stimulates social and human capital development through transfer of technology, knowhow and training
- FDI improves budget revenues as a result of tax revenue increase, hence decreasing the need for subsidies of public utilities

For all these reasons, it is clear that Kosovo needs an active policy aimed at improving promotion of opportunities for cooperation with foreign investors, increasing competitiveness in the FDI market and cultivating absorptive capacities for partnership and joint ventures.

3.4 FDI INFLOWS IN KOSOVO 2007-2011

An analysis of the FDI inflow in Kosovo and its structure, is in the tables below introduce FDI Flows 2007-2011, divided by a sector where investments occurred and countries where the investments came from. Investments in 2007 were higher as result of privatization that happened at the time. In the following years up to 2010 there is a decrease but these investments never overcame 400 million euro. The sectors in which most of the investments were done are in the financial sector, construction processing and real estate while countries that have invested mostly in Kosovo are Germany, Austria and Slovenia.

le 9. Foreign direct investments in Kosovo - by economic activity

Description	Total	Financial services	Production	Real estate	Transport & Telecommunication	Electricity	Mining	Construction	Processing industry	Agriculture	T
2007	100%	23.1%	9.0%	7.0%	29.3%	0.6%	9.4%	1.2%	8.0%	1.8%	
2008	100%	34.9%	6.0%	16.8%	13.8%	4.5%	4.7%	3.7%	8.5%	2.3%	
2009	100%	25.5%	17.1%	14.9%	7.4%	2.9%	2.4%	12.0%	2.4%	4.4%	
2010	100%	11.8%	39.3%	14.3%	0.8%	0.2%	0.3%	27.8%	0.3%	0.8%	
2011	100%	12.0%	12.6%	21.5%	0.3%	0.0%	0.1%	39.8%	0.0%	0.0%	

Table 10: Foreign direct investments in Kosovo - by countries

Description	Total													
		AT	DE	SI	GB	CH	TR	NL	AL	LU	RS	US	FR	BG
2007	440.7	35.4	48.1	56.2	116.2	9.7	5.4	41.2	3.4	13.1	...	8.8	8.6	14
2008	366.5	51.3	44.0	44.3	36.6	32.1	23.8	22.5	21.9	6.0	5.5	4.8	3.5	2.
2009	287.4	15.5	75.2	50.8	6.2	22.7	14.5	15.1	23.3	8.3	0.6	11.8	6.0	...
2010	365.8	21.1	91.5	34.0	38.9	35.1	4.9	14.5	20.3	0.4	0.4	12.6	3.8	0.
2011	394.6	19.6	66.6	16.2	80.1	30.9	34.7	14.2	11.2	0.5	0.4	14.3	0.2	3.
Total		142.9	325.4	201.5	277.9	130.6	83.3	107.5	80.1	28.3	7.0	52.4	22.1	20

Source of information: Central Bank of Kosovo

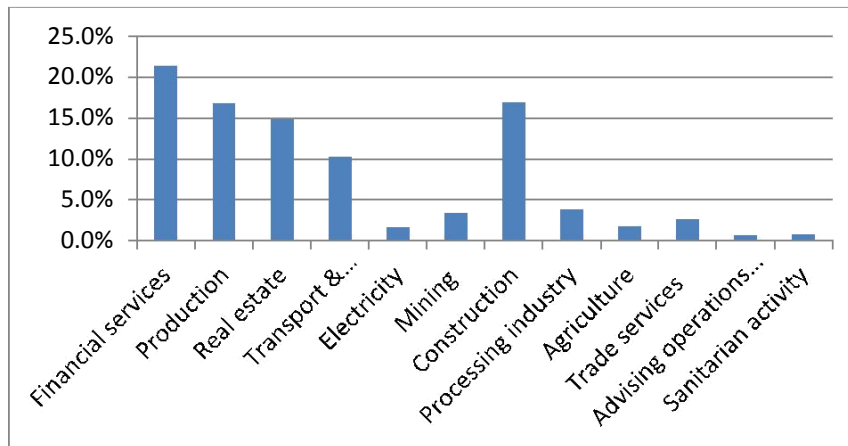


Figure 3, FDI Trends in Balkan Region 2011

The biggest investments are in the financial sector which can be as well illustrated with an example of current banks of Kosovo. Out of 8 commercial banks operating in Kosovo 6 are foreign investments.

The construction sector is the second most attractive in absorbing foreign investment , it is a crucial sector for Kosovo that has made a lot of investments in road infrastructure including the building of roads, bridges and water supply and drainage systems.

Finally the real estate sector included privatization of hotels, restaurants, agricultural land and other facilities from the privatization process in Kosovo. It is ranked among the sectors with the highest FDI level in Kosovo.

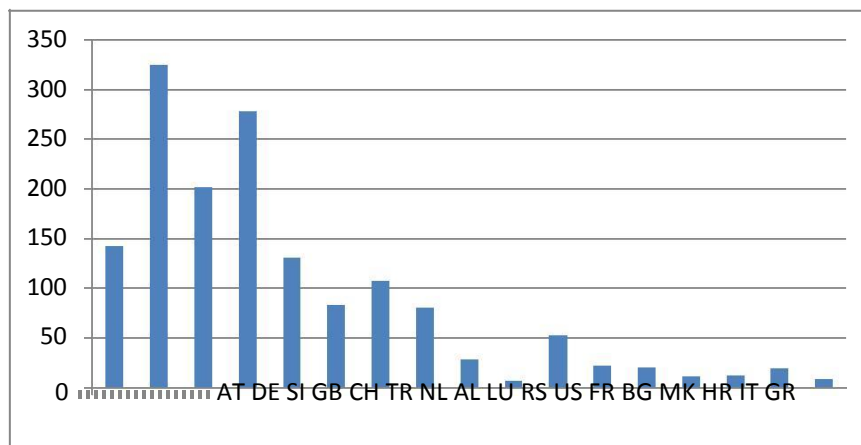


Figure 4 FDI by Country 2007-2011

Germany, Great Britain, Austria, Slovenia, Holland, Albania, Switzerland are the states where these investments came from contributing towards the major part of the FDI in Kosovo. A major reason why FDI originates from these countries is because of our compatriots that work and live abroad (i.e. in the above mentioned countries). An example of this is Germany, where over 250,000 Kosovo Albanians live and work.

4. KOSOVO'S FOREIGN COMPANIES PROFILE

Analysis of foreign companies that invest in Kosovo has been done in the following areas:

- Number of workers who are engaged in these companies
- Location where foreign companies are located in Kosovo
- Year of founding of the company in Kosovo
- Origin of company
- Basic Capital
- Sectors where foreign companies operate

4.1 ANALYSIS NUMBER OF WORKERS WHO ARE ENGAGED IN THESE COMPANIES

According to the MTI categorization of foreign companies in Kosovo operate these types of enterprises:

- Micro enterprises 1-9 employees
- Small enterprises 10-49 employees
- Medium enterprises of 50-249 employees
- Large enterprises over 250 employees

Data gathered from the registration of companies and also based on the categorization of the companies in Kosovo, is shown in the table below.

Table 11 Categorization of foreign companies

<i>Type of enterprises</i>	<i>Number of employees</i>	<i>Number of enterprises</i>
<i>Micro enterprises</i>	<i>1 - 9</i>	<i>4032</i>
<i>Small enterprises</i>	<i>10 -49</i>	<i>199</i>
<i>Medium enterprises</i>	<i>50 - 249</i>	<i>46</i>
<i>Large enterprises</i>	<i>Over 250</i>	<i>18</i>

The above data shows that the largest number of foreign investment, ie the number of enterprises, are micro enterprises (1-9 employees) thus taking over about 94% of the total

number of foreign enterprises in Kosovo. The rest of enterprises are small (about 5%), medium (about 1%) and large (less than 1%).

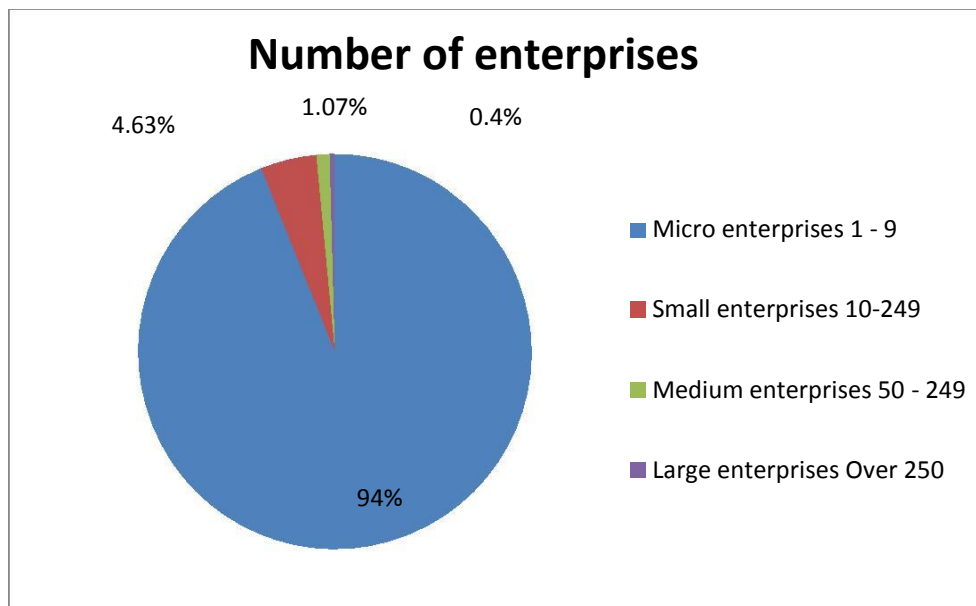


Figure 5: Number of Foreign Enterprises

Despite the large number of small enterprises, an important note should be made about these companies. A large number of foreign enterprises have only one employee registered. The numbers of such enterprises is over 1574, which means that while the enterprise is registered it is still in the market research or business analysis phase and have not yet started their activity. They may have only one employee in Kosovo and work only when required.

4.2 LOCATION OF FOREIGN COMPANIES IN KOSOVO

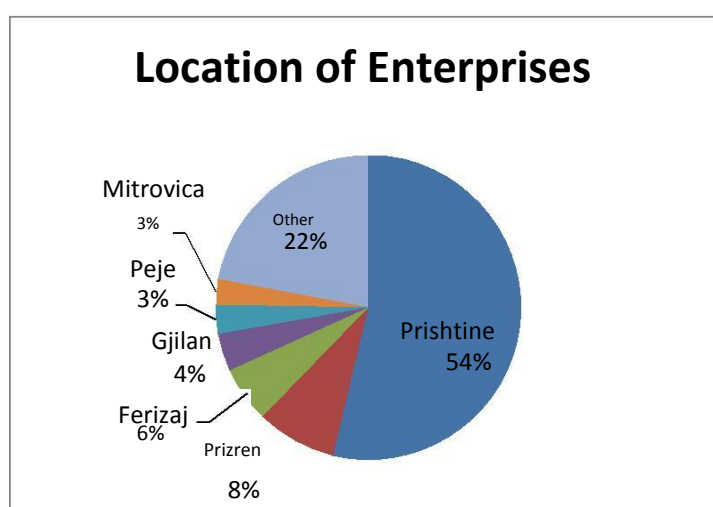
Based on an analysis of where the foreign enterprises are located in Kosovo, there is a clear indication that these companies are mainly located in Prishtina. The capital accommodates over half of foreign enterprises (about 54%) and is followed by Prizren as a second location recommended by foreign companies (8%) and third Ferizaj (6%), ect.

The largest concentration of foreign enterprises in Kosovo (i.e Prishtina) is mainly due to infrastructure (administrative and traffic) that contributes towards easy development of foreign enterprises and their activities in the country. The municipalities supported by a USAID (BEEP) Programme are creating favorable policies for foreign businesses which may have an impact on the increase of number of foreign companies outside of Prishtina in the future.

Table 12 Location of FDI in Kosovo

No	Municipality	Number of Enterprises
1	Prishtine	2404
2	Prizren	380
3	Ferizaj	267
4	Gjilan	176
5	Peje	138
6	Mitrovica	121
7	Other	985

Figure 6 Location of FDI in Kosovo



4.3 YEAR OF ESTABLISHMENT OF COMPANIES IN KOSOVO

Based on an analysis of foreign companies that have invested in Kosovo, it appears that in the past 10 years the largest numbers of companies were registered in 2009. Starting from 2000, the number of companies has grown until 2006. It then decreases about 35% compared to the previous year and it continues to grow in 2007 but not at the same level as in 2005.

The number of foreign businesses registered in 2008 and 2009 shows a slight increase while in 2010 the number of foreign businesses registered in Kosovo declines for about 26%. From this analysis it can be concluded that the number of registered businesses in Kosovo was growing. However it has not been stable, as seen from the different decreases and increases in the curve of registrations of foreign businesses in certain time periods.

Table 13 Number of enterprise registered from 2000 – 2011

<i>No</i>	<i>Number of Enterprises</i>	<i>Year of Foundation (registration) in Kosovo</i>
1	32	2000
2	31	2001
3	59	2002
4	157	2003
5	307	2004
6	419	2005
7	273	2006
8	272	2007
9	612	2008
10	717	2009
11	734	2010
12	682	2011

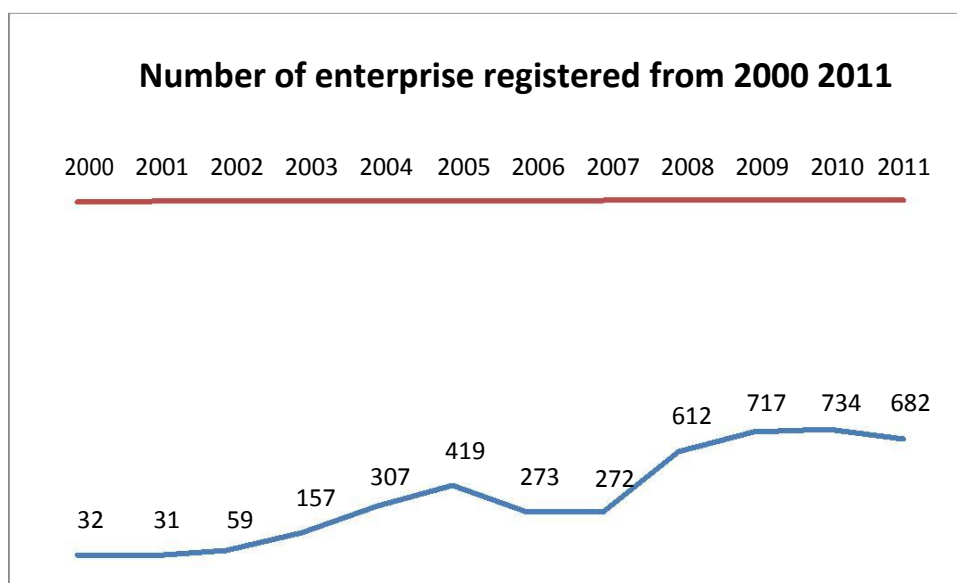


Figure 7 Year of registration

4.4 ORIGIN OF ENTERPRISES

In Kosovo, foreign investors have originated from an array of countries. According to the data and research available until the time of preparation of the report, in the aftermath of Kosovo's war (1999) there appear companies that have invested from 88 countries. The greatest numbers of companies originate from the region's countries, with -Balkans about 30% of companies (Albania, Macedonia, Montenegro, Serbia, Bulgaria, etc.) But there are also countries outside the above mentioned region that have invested in a big number of companies (China, Germany, Italy, Switzerland, etc.).

The table with names of countries of origin of companies is presented below. In the table can be seen representation of states depending on the number of companies that have originated from that country.

Table 14: Number of companies and country code

<i>No</i>	<i>Country</i>	<i>Country code</i>	<i>Number of Companies</i>
1	Albania	AL	481
2	Macedonia	MK	424
3	China	CN	401
4	Turkey	TR	372
5	Germany	DE	288
6	Serbia	RS	199
7	Slovenia	SI	167
8	Italy	IT	148
9	USA	US	111
10	Swiss	CH	108
11	Bulgaria	BG	98
12	Austria	AT	82
13	Bangladesh	BD	75
14	Croatia	HR	73
15	UK	GB	72
16	Greece	GR	54
17	India	IN	53
18	Pakistan	PK	49
19	Netherland	NL	43
20	Other		472

Number of Companies by country code

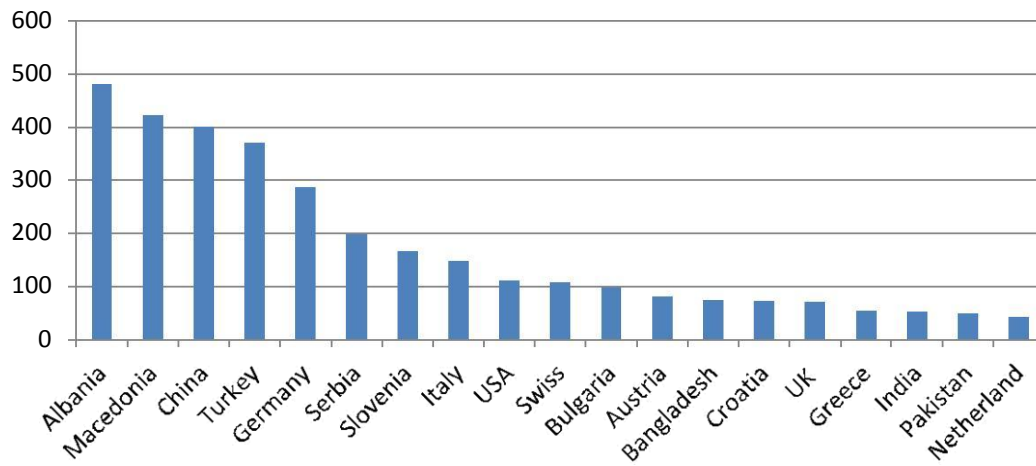


Figure 8 Number of companies by country code

4.5 BASIC CAPITAL

Basic capital of foreign companies differs from a value of under € 1000 up to values over 100 million €. According to the analysis made in terms of basic capital it is proved that most of the foreign enterprises have basic capital from 1000 up to € 10 000 (about 55% of companies). 20 companies that have a value of basic capital from 10 up to 100 million and 6 of them have underlying capital of over 100 million €.

Table 15: Founding capital category

Founding Capital category	Total
Up to 1000 €	2344
1000 € to 10000 €	1398
10 000 € to 50 000 €	251
50 000 € to 100 000 €	82
100 000 € to 500 000 €	91
500 000 € to 1 million €	29
1 to 10 million €	74
10 to 100 million €	20
over 100 million €	6
Grand Total	4295

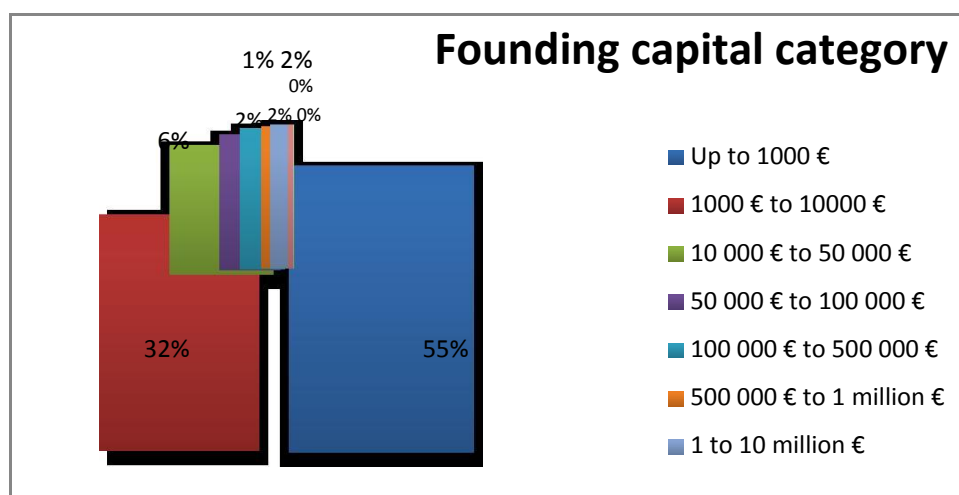


Figure 9: Founding Capital

4.6 SECTORS WHERE FOREIGN COMPANIES OPERATE

The sector where foreign enterprises operate in Kosovo, based on an analysis of data on foreign companies registered in Kosovo follows. The largest concentration of foreign enterprises is found in trade, manufacturing, services activity and construction.

Table 16: FDI by sectors

Sector	Total
BANKING AND FINANCIAL SECTOR	126
CONSTRUCTION	512
EDUCATION	35
HOTELS AND TOURISM	311
MEDICAL	52
OTHER SERVICES	172
PROCESSING	638
SERVICES	14
SERVICES ACTIVITY	468
TELECOMMUNICATION	101
TRADE	1704
TRANSPORT	162
Grand Total	4295

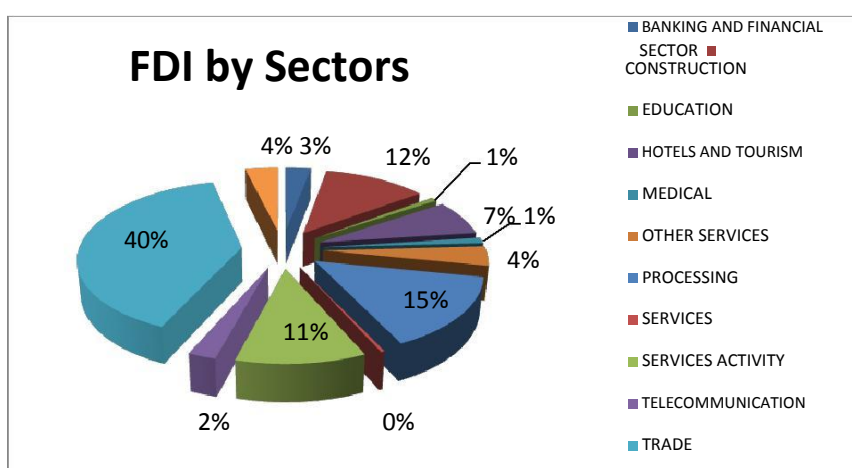


Figure 10: FDI by Sectors

If we combine and compare the data from FDI according to sectors and type of companies that have made investments it is noticeable that the total number of trading enterprises operating in Kosovo, (which is 1704) have made less investments and have a smaller number of employees compared to other enterprises that have invested more, but which are few. Such an indicator should serve as an example for creation of policies to attract investors in those sectors that can create more job opportunities and bring more investments. It is important to define the priority sectors that bring more investments and attract investors, making it is one of the main objectives of the policy making and strategies for promotion of the investments by the Investment Promotion Agency.

4.7. LARGEST FDI IN KOSOVO

Table 17: Largest FDI in Kosovo

Business	Country code	Year
Newco Ferronikeli Complex L.L.C.	NL	2005
Sharrcem	CH	2004
Trofta	B	2005
Stone Castle	US	2005
Kosovo Wood	US	2005
Peja Brewery	SI	2006
British Airways Plc	GB	2005
Enka Insaat Ve Sanayi A.S. - Kosovo Branch	TR	2010
Royal Mining Ltd Branch Office Kosovo	CH	2009
Siemens	AT	2000
Raiffeisen Bank Kosovo J.S.C.	AT	2009
Ipko Telecommunications L.L.C.	GB	2009
Bechtel International Inc Kosovo Branch	US	2010
N.T.T. Adria Airways Predstavništvo Prishtina	SI	2002
Procredit Bank Sh.A	DE	2008
Thyssenkrupp Fordertechnik Gmbh - Branch Office In Kosovo	DE	2008
I.M.N.Tulltorja Sh.P.K.	GB	2008
Nlb Prishtina	SI	2008
Strabag Ag Branch Office Kosovo	AT	2008
Enk Invest Group Sh.A.	AL	2008
Petrol - Oti -Slovenija L.L.C.	SI	2007
Banka Ekonomike Sh.A	CH	2008
Banka Për Biznes Sh.A.	IT	2003
Dg Beton Ad - Skopje - Branch Kosovo	MK	2007
Ramiz Sadiku Sh.P.K.	AL	2009
Zagorje -Tehnobeton D.D. Varaždin Republic Of Croatia Kosovo Branch Office	HR	2009
Inokos Sh.P.K.	MK	2009
Alstom Power Service -Representative Office In Kosovo	FR	2007
M & Sillosi Sh.P.K.	CH	2010
Alb Star Sh.P.K. -Përfaqësia Në Kosovë	AL	2009
Standardplin Sh.P.K.	GR	2003
Banka Kombëtare Tregtare - Dega Në Kosovë	AL	2007
Nlb - Banka E Re E Kosovës Prishtinë Sh.A.	SI	2003
Kujtesa Net Sh.P.K.	LU	2008
Kompania E Sigurimeve Insig Dega Kosovë	AL	2005
Futura Plus D.O.O. Beograd -Predstavništvo Mitovica	RS	2006
Fima Bank - J.S.C.	HR	2008
Pestova Sh.P.K.	GB	2008
Elektronabava D.O.O.-Branch Office In Kosovo	SI	2009
Snajder Elektrik Bulgariaeood-Përfaqësia Kosovë	BG	2008
Sky Group Sh.P. K.	TR	2009
Magdeburger Forderanlagen Und Baumaschinen Gmbh- Branch Office In Kosovo	DE	2010
Bis Oil Teamsh.P.K.	MK	2010
Mb-Gurthyesi Sh.P.K.	DE	2008
Xella Kosovo L.L.C.	AT	2008
Fondi Slloveni - Kosovor I Pensioneve Sh.A.	SI	2009
Newko Balkan L.L.C.	TR	2008
Wibrem Turbomachinery Service Sp.Z O.O.- Branch In Kosovo	PL	2006
Sol - K Sh.P.K.	IT	2008
Ind & Kos Group Sh.P.K.	IN	2010
Kompania Për Sigurimin E Jetës Illyria - Life Sh.A.	SI	2008
Kompania E Sigurimeve Illyria Sh.A.	SI	2008
Hotel Union Sh.P.K.	LU	2009

The above list of the largest FDI in Kosovo was created by using data from the database of the Ministry of Trade and Industry (Business Registration Agency). The main indicators used in order to rank FDI organizations were considered the number of employees and initial capital.

In order to fill out the questionnaire, I visited 25 companies in person selecting the companies based on the list of the largest FDI. The meetings were held with enterprise owners or responsible managers who were able to answer the questionnaire and make presentations about their business experience in Kosovo. Some of the companies that were considered most successful based upon their large number of employees, export potential and corporate social responsibility were selected and presented as Success Stories.

4.8 SUCCESS STORIES OF FDI IN KOSOVO

4.8.1 SHARRCEM (SWITZERLAND)



Holcim is one of the world's leading suppliers of cement and aggregates, and other products such as ready-mix concrete and asphalt including associated construction services. It is established in 2000 and now employs over 500 people. Holcim offers a working environment that creates development opportunities based on performance, attitude and skills. The company treats its employees with respect and trust, sharing information and knowledge through all levels and the benefits of the success. Sharrcem is the only cement producer in

Kosovo and main supplier of cement. Located in the small village of Hani Elezit, on the southern part of Kosovo and right on the border with Macedonia, it supplies cement throughout Kosovo²⁷²².

4.8.2. RAIFFEISEN BANK KOSOVO J.S.C.



Raiffeisen Bank Kosovo J.S.C. is a member of RZB Group and a subsidiary of Raiffeisen Bank International AG. Raiffeisen Bank International entered into Kosovo at the end of 2002. At that time Raiffeisen Bank had purchased shares of the American Bank of Kosovo to complete it in June 2003. In that year, Raiffeisen Bank International became the owner of 100% of the shares. In 2003 they renamed the bank Raiffeisen Bank.

By September 30th 2010, total assets of Raiffeisen Bank Kosovo were €635 million, while the total customers' deposits were €507 million whereas the lending balance was €345 million. Raiffeisen Bank has a capital of €58 million, making it the best capitalized bank in Kosovo. The bank in 2011 had 750 employees.

Here are few achievements of Raiffeisen Bank in Kosovo:

In 2007, the renowned world magazine of the Financial Times Group "The Banker" awarded Raiffeisen Bank Kosovo as the "Bank of the Year" whereas in 2008 it was recognized by Euromoney. In 2008, Finance Central Europe awarded Raiffeisen Bank as the Best Bank in Kosovo by Capital Strength 2008. In 2009, Euro money magazine for the second time in a row awarded Raiffeisen Bank Kosovo as the "Best Bank"

However, from the management's point of view, since 2002 these achievements were accomplished by finding Kosovo's population as young, talented as well as motivated. In

²⁷ <http://www.sharrcem.com/>

addition Kosovo is an emerging market with a very high potential for a growth and with fast improvement in its infrastructure.

Raiffeisen Bank considers that if information about Kosovo were launched and spread more efficiently, it would make its market far more attractive to foreign investors. The improvement of the legal and administrative systems would, as well, be an ease to the investors and as a result make Kosovo more attractive.

But one of the most important elements that needs improvement, which would have a very positive impact on investment, Raiffeisen management believes is the coverage of the legislation in general and the review of the Law on Foreign Investment in particular^{28, 23}.

4.8.3. XELLA L.L.C. (GERMANY)



”Xella's construction bricks are the result of a very effective combination of high quality local raw materials and German technology. Xella has enjoyed a rapid development during its brief period in Kosovo. Access to raw materials and a suitable workforce were vital. We have found in Kosovo that there is a readily available, well-informed, well-educated, motivated and multilingual workforce.”^{29, 24}

Xella produces and sells construction materials and raw material. With three business units of construction materials, building systems and dry lime is the largest enterprise in the world for the production of calcium silicate and porous concrete.

²⁸ <http://www.raiffeisen-kosovo.com/>

²⁹ Xella, Financial Manger.

The enterprise today is present in over 30 countries and even outside Europe with its workshops in China, America and Mexico. The factory in Lipjan Xella Kosovo is one of the subsidiaries of the company Xella International, which has its destination-oriented production of silicate - Silk.

Xella Kosovo began silicate produced the first production in July 2007, while on the occasion of its formal opening in September of that year began to officially offer Kosovo market local construction products of German origin - Silk³⁰.

4.8.4. STRABAG



STRABAG SE is one of Europe's leading construction groups. With nearly 60,000 employees, STRABAG expects to post revenue from construction work of around EUR 11 billion in the financial year 2007. From its core markets of Austria and Germany, STRABAG is present via its numerous subsidiaries in all countries of Eastern and South-East Europe, in selected markets in Western Europe and the Arabian Peninsula, as well as in Canada, Chile and India. STRABAG's activities span the entire construction industry (Building Construction and Civil Engineering, Road Construction, Tunnelling) and cover the entire value-added chain in the field of construction. More information is available at www.strabag.com³¹.

³⁰ <http://www.kosova.xella.com>

³¹ http://www.strabag.com/databases/internet/_public/content.nsf/Navigation

4.8.5. IPKO (SLOVENIA)



IPKO Telecommunications LLC with over 450 employees is recognized as one of the fastest growing telecommunications companies in Europe. Established in 1999, IPKO has grown from being the first Kosovo-wide Internet provider to becoming a modern enterprise offering full range of integrated services as well as content, in mobile communications, fixed telephony, digital cable television, and Internet services as well as media.

IPKO is known as a modern company with advanced and affordable services, and has a reputation of a company who cares for its clients. Whether in the personal or business sectors, its innovation extends to products and services that are carefully tailor-made to suit customers' diverse needs. The company philosophy of tailoring tariff plans and personalized offers to cater to the changing needs of our customers with different lifestyles in Kosovo is reflected in the diversity of its services.

With its arrival in the Kosovo telecommunications market, IPKO introduced competition within mobile telephony in Kosovo. Within one year of mobile operations IPKO managed to cover its network more than 99.7 percent of the country's population. In less than one year IPKO achieved more than 35 per cent of market share in mobile telephony.

IPKO continues to be the leading internet provider both in terms of number of customers and network reach. The company is also the leader on digital cable TV services having the most qualitative content and the highest number of customers. IPKO has the largest landline-fixed network in Kosovo with 230.000 ports available, while the number of customers in fix telephony is increasing constantly³².

³² <http://www.ipko.com>

4.8.6. STONE CASTLE (US/KOSOVO)



“In just a few years since establishment in Kosovo the company can report a very positive experience. The company export 90% of production and they're looking to increase export sales considerably to North America and additional EU regions. They are very pleased with the skill level of their workforce – of course the region has enjoyed a tradition of winemaking for many years, and the company has its own vineyards. They are very happy with the suppliers in Kosovo, and most of the raw materials are sourced locally.”³³

The company owns 2240 hectares of land and is a major part of the vineyard area. The wine cellar has a capacity of processing about 70 000 tons of grapes per year and depositing capacity of about 500 000 hl. The winery has underground cellar with a storage capacity of 50 000 Hl in wooden barrels.

The company is committed to continue the long tradition with which the population of this area are rightfully proud of grape cultivation and production of wine in the valley of Rahovec³⁴.

³³ Stone Castle Operational Director

³⁴ <http://www.stonecastlewine.com/>

4.8.7. FERRONIKEL (UK)



“The privatization of Feronikeli gave a very strong signal to international investors that Kosovo is a stable and mature society, which welcomes international investment.”³⁵ ³⁰

“Feronikel” prior to 2006 was one of the giants which at that time was a socially owned enterprise. Now the plant consists of three open pit mines with ferronickel ore reserves and a metallurgical complex. The plant is one of the largest nickel smelting and mining operations in Europe, with 13 million tons of nickel ore in three open-pit mines valued at around 2 billion Euros: the Dushkaja mine with estimated reserves of 6.2 million tons; the Suka mine - 0.8 million tons and the Gllavica mine with 6.8 million tons.

Now the Feronikeli, via the British-based company Alferon/IMR, is part of Eurasian Natural Resources group which is among the world's largest private mining and metals groups.

On 2006 Alferon/IMR bought “Feronikeli” for 30.5 million Euros, and up to now Alferon/IMR has invested over 70 million.

Its annual turnover is above 100 million Euros, and it employs 1000 employees. The main export markets for “Feronikeli” are India, Italy, Germany and Belgium.

However the major strength that the “Feronikeli” company has found in Kosovo, apart for the emerging market, is the good education of youth, low tax rate, as well as growing political stability, high optimism, and, at least up to now, not much competition. In addition “Feronikeli” considers Kosovo has a young and dynamic labour with low cost³⁶.

³⁵ Manager of Administration & PR

³⁶ <http://www.cunicoresources.com/b/ferronikeli.php>

4.8.8. KOSOVATEX



In September 2010 the factory “Kosovotex” started its operation in production of jeans and confection. The factory currently has 300 workers. With production mainly oriented to exports “Kosovotex” aims to be the centre of textile production in the Balkans

The Kosovo factory cooperates with international clients such as Hugo Boss, Diesel, Levi’s, Replay, Otto Kern, Mustang, and Pierre Cardin³⁷.

³⁷ <http://www.kosovotex.com>

5. STUDY RESEARCH AND RESULTS

5.1 BENCHMARKING KOSOVO WITH NEIGHBOURING AND ITALY COMPETITORS BASED ON WORLD BANK REPORT ON DOING BUSINESS

The easy of doing business ranking is a simple average of country percentile rankings on each of the 10 topics covered by Doing Business.

Economies are ranked on their easy of doing business, from 1-185. A high ranking on the easy of doing business index means the regulatory environment is more conducive to the starting and operating a local firm. This Index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.

Table below lists details of Kosovo's standing across all *Doing Business* indicators for 3 years.

Doing Business Indicators	Kosovo 2011	Kosovo 2012	Kosovo 2013
GNI per capita (USD)	\$3,240	\$3,300	\$3,520
Population	1 800 000	1 800 000	1 794 303
Easy of doing business (rank)	119	117	98
Starting a business	163	168	126
Dealing with construction permits (rank)	173	171	144
Getting electricity (rank)	-	124	116
Registering property (rank)	65	73	76
Getting credit (rank)	32	24	23
Protecting investors (rank)	173	174	100
Paying taxes (rank)	41	46	44
Trading across borders (rank)	130	131	124
Enforcing contracts (rank)	155	157	138
Resolving insolvency (rank)	31	31	87

Table 18: Doing Business Ranking of Kosovo from 2011 until 2013

The World Bank in "Doing Business report for year 2013" proclaimed Kosovo as most dynamic reformer in Central and Eastern Europe, while investment protection indicator marked the largest increase in the world (74 positions higher). World Bank in "Doing Business report for year 2013" ranked Kosovo 119th out of 183 economies, in Doing Business 2012³⁸ ranked on 117th and in Doing Business 2013³⁹ ranked 98th out of 185 economies.

For the first time since Kosovo's involvement in the World Bank Doing Business Report, Kosovo marks the greatest progress in the ranking of this list, rising to 28 ranks higher.

Kosovo made starting a business easier by eliminating the minimum capital requirement and business registration fee and streamlining the business registration process.

³⁸ World Bank, *Doing Business* 2012

³⁹ World Bank, *Doing Business* 2013



Figure 11 : Easiness of Doing Business in Kosovo from 2011 until 2013

Country	Overall Rank	Starting a Business	Dealing with Construction permits	Getting Electricity	Registering Property	Getting Credit	Protecting investor	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Macedonia	23	5	65	101	50	23	19	24	76	59	60
Montenegro	51	58	176	69	117	4	32	81	42	135	44
Albania	85	62	185	154	121	23	17	160	79	85	66
Croatia	84	80	143	56	104	40	139	42	105	52	97
Serbia	86	42	179	76	41	40	82	149	94	103	103
Bosnia	126	162	163	158	93	70	100	128	103	120	83
Kosovo	98	126	144	116	76	23	100	44	124	138	87
Italy	73	87	103	107	39	104	49	131	55	160	31

Table 19: Doing Business report of 2013 for Kosovo, its Neighbors and Italy

Based on the countries mentioned in the table above we can rank from the best until the worst country of doing business. Macedonia ranks the highest positions 23 out of 185 countries, is among easiest countries in the world doing business, the most remarkable indicator is on starting a business in 5th ranks ,the second country is Montenegro (51) ,the most remarkable indicator of Montenegro easiness of getting credit in 4th ranks, the third country is Italy (73), the most remarkable indicators of Italy are in resolving insolvency in 31th rank and registering property (39), the best rankings on resolving insolvency and registering property compare with other countries on the table above. The fourth country is Croatia (84)with most remarkable indicators in Getting Electricity(56) and Enforcing contracts (52) the best compare with other countries.

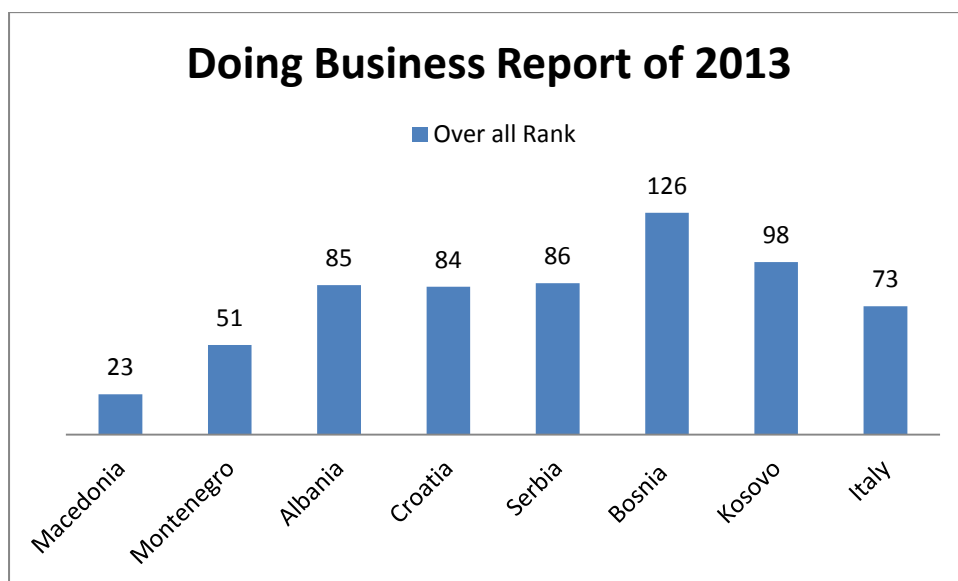


Figure 12 : Easiness of starting a business in Kosovo, its neighbors and Italy for year 2013

The fifth ranking is Albania (85), the best indicator is protecting investor (17) comparison with other countries, the worst indicator of the country is dealing with construction permits which is the last ranking in the world (185). In the sixth ranking is Serbia (86) there is not any indicator which is the best compare with other countries while the indicator of resolving insolvency is the worst (103) The seventh country is Kosovo (98), one before the worst countries compared above. Same as Serbia. Kosovo also does not have an indicator the best compare with others while the worst indicator is in trading across border (124). Taking into consideration this analysis it's important to mention that Kosovo must work much more to improve trading across borders indicator.

5.1.1. STARTING A BUSINESS

Starting a business is improved for 44 positions compare from the last year.

Starting a Business: within the 4 individual components Kosovo scores worst in **time taken**, **cost**. It is 2nd worst in required number of procedures and the best in and **minimum capital** .

Therefore there is a lot of work required in improving Kosovo’s position on this indicator; however all the components are concrete measurements and should be easier to target and address.

Now, businesses are registered without payment and within a short deadline: 1 day for individual business and 3 days for shareholder businesses. This was enabled through the integration of the system where businesses receive a certificate with two numbers: the business and fiscal number. Also, the initial capital has been removed and the registration procedures have been made easier.

Country	STARTING A BUSINES			
	Number of Procedures	Time Days	Cost	Minimum Capital
Macedonia	2	2	1.9	0.0
Montenegro	6	10	1.6	0.0
Albania	4	4	22.1	0.0
Croatia	6	9	7.3	13.4
Bosnia	11	37	14.9	29.1
Kosovo	9	52	23.0	0.0
Serbia	6	12	7.7	0.0
Italy	6	6	16.5	9.7

Table 20: Indicators of starting a business for Kosovo ,its neighbors and Italy for 2013



Figure 12 : Easiness of starting a business in Kosovo and its neighbors for year 2013

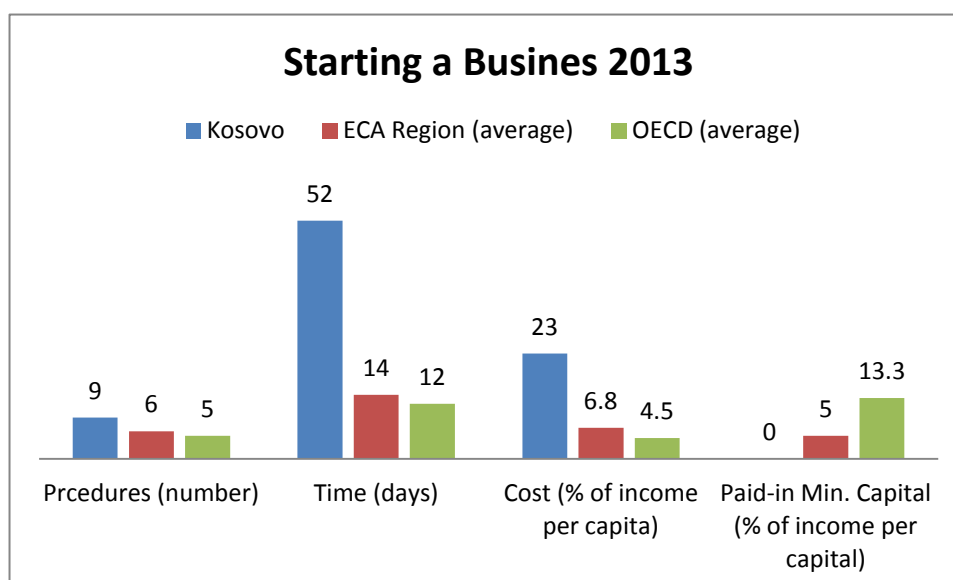
Doing Business measures the procedures, cost and time necessary for a domestic entrepreneur to register and formally operate a new (limited liability) company. Doing Business 2013 reported that entrepreneurs must go through 10 procedures, which take 52 days and cost EUR 525, or 23.0% of Kosovo’s per capita income, to start a business. Globally, Kosovo ranked 126rd in Doing Business 2013 on the ease of starting a business. Kosovo’s low ranking comparing globally on this indicator is mainly due to high costs of starting a business and lengthy procedures⁴⁰.

Indicator	Kosovo	ECA Region (average)	OECD (average)
Prcedures (number)	9	6	5
Time (days)	52	14	12
Cost (% of income per capita)	23.0	6.8	4.5
Paid-in Min. Capital (% of income per capital)	0.0	5.0	13.3

Table 21: Indicators of starting a business for Kosovo, ECA Region and OECD for 2013

From the table above there is possibility to compare Kosovo with Eastern Europe & Central Asia and OECD, we can say that Kosovo has advantage that has reduced the component of Minimum Capital to zero, while with other components must still working on improving .

Figure 13 : Easiness of starting a business for Kosovo, ECA Region and OECD for 2013



⁴⁰ World Bank, Doing Business report of 2013

5.1.2. PROTECTING INVESTORS (ALL INDEXED)

Kosovo has noted the biggest increase in the world of the indicator of investor protection coming up for 76 positions from the last year. As the leader in the progress ranking for this indicator, Kosovo has largely improved the protection of shareholders by improving among others the requests for publication of transactions in cases of conflict of interest between

Country	PROTECTING INVESTORS (ALL indexed)			
	Extent of disclosure index (0 -10)	Extent of Director Liability	Easy of S-holder suits	Strength of investor protection
Macedonia	9	7	5	7.0
Montenegro	5	8	6	6.3
Albania	8	9	5	7.3
Croatia	1	5	6	4.0
Bosnia	3	6	6	5.0
Kosovo	6	6	3	5.0
Serbia	7	6	3	5.3
Italy	7	4	7	6.0

corporate officials.

Table 21: Protecting Investors

This enabling the shareholders cover the damages caused by the transaction, and also enabling the court to invalidate the transaction if the shareholders are successful in their request.

Protecting Investors: in one of the 4 components (of this indicator) Kosovo scores worst ie the **ease of bringing shareholder suits**.

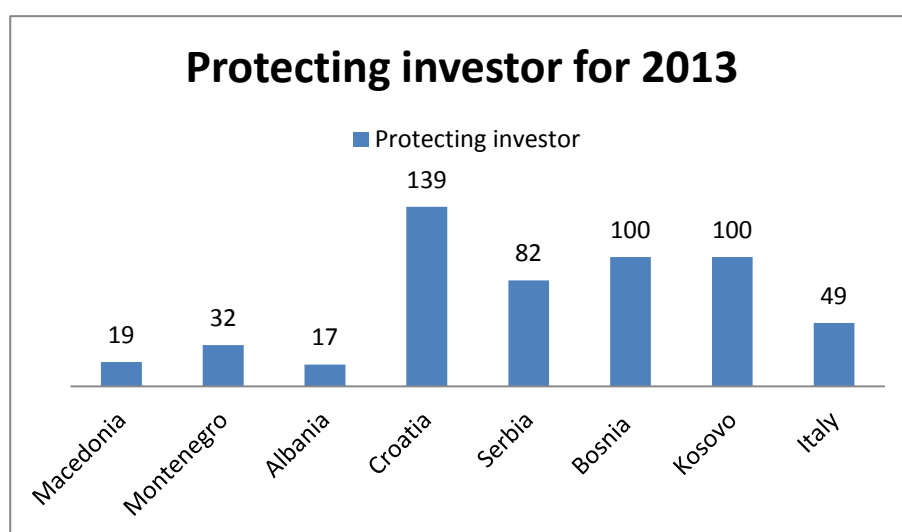


Figure 14 Easiness of Protecting Investor, ECA Region and OECD for 2013

Indicator	Kosovo	ECA Region (average)	OECD (average)
Disclosure Index	6	7	6
Director Liability Index	6	5	5
Shareholder Suits Index	3	6	7
Investor Protection Index	5.0	5.9	6.1

Table 22 Protecting Procedures – Indicator

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. Of particular interest is the treatment of a related-party transaction, i.e., when the same party (or closely related parties) stands on both sides of a transaction. On an index range of 0-10, Kosovo scores 5.0. This overall index of investor protections is an average of three sub indices. Low scores on shareholder suits indices (scores 3 respectively) indicate rather weak protections in this area. Kosovo ranking 100th in the world on the strength of investor protection.

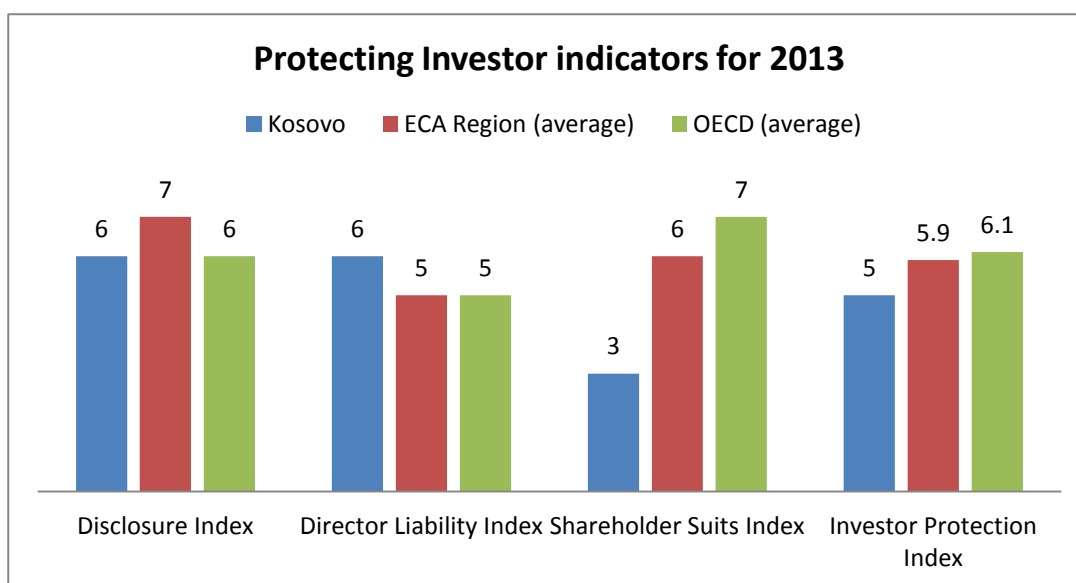


Figure 15 : Easiness of protecting Investor indicators for Kosovo, ECA Region and OECD for 2013

Kosovo improved minority shareholder protections the most in the past year, through a comprehensive revision of its Law on Business Organizations. The amended law requires shareholder approval of related-party transactions and mandates greater disclosure both by directors to their board and by companies in their annual reports. In addition, the law allows shareholders to petition a judge for rescission of a prejudicial related-party transaction and clarifies the liability of directors. If found liable, directors must now pay damages and disgorge any profit made from the transaction.

Made it easier to sue directors, increased disclosure requirements, regulated approval of related-party transactions, Kosovo amended its Law on Business Organizations. Now only disinterested shareholders can approve related-party , and transactions, allowed the rescission of prejudicial related party transactions.

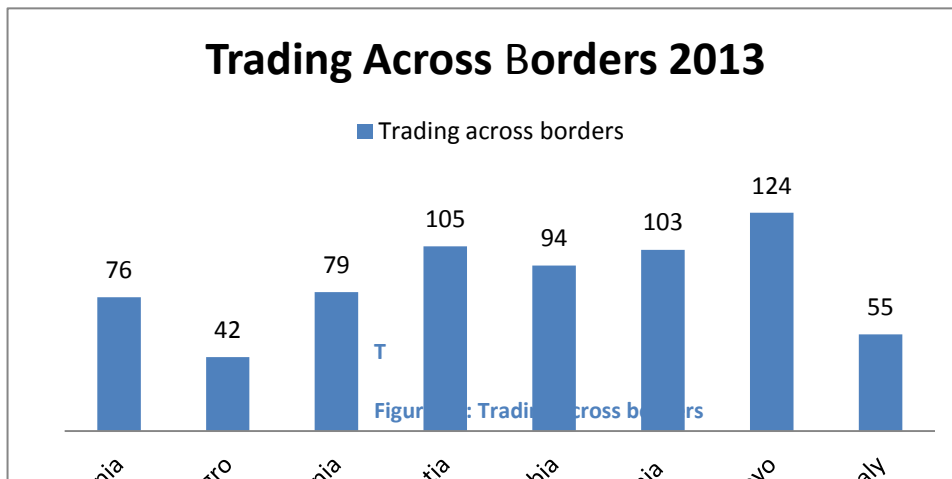
5.1.3. TRADING ACROSS BORDERS

Country	TRADING ACROSS BORDERS						
	Docs to export #	Time to export Days	Cost to export \$/Cont	Docs to Import #	Time to import	Cost to import \$/Cont	
Macedonia	6	12	1376	6	11	1380	
Montenegro	6	14	855	6	14	915	
Albania	7	19	745	8	18	730	
Croatia	7	20	1300	8	16	1180	
Bosnia	8	15	1240	9	13	1200	
Kosovo	8	15	1775	8	15	1810	
Serbia	7	12	1455	7	14	1660	
Italy	4	19	1145	4	18	1145	

Table 23 Trading Across Borders

Trading Across Borders: although Kosovo scores marginally the worst in the number of **documents required to export**, it is clearly the category of **exporting and importing costs**, which is having the most negative impact.

Doing Business measures the time, cost, and the number of documents required to export and import a standardized cargo by ocean transportation³⁸. It looks at the entire process for import or export, from the contractual agreement, to getting the letter of credit, to departure of the goods from the port of exit. Kosovo ranks 124th globally on the Trading across borders indicator. In Kosovo, goods take on average 15 days to export and 15 days to import at a cost of US\$ 1775 for exports and US\$ 1810for imports. Eight documents are required for exports and imports.



Indicator	Kosovo	ECA Region (average)	OECD (average)
Documents for export (number)	8	7	4
Time for export (days)	15	26	10
Cost to export (US\$ per container)	1775	2134	1028
Documents for import (number)	8	8	5
Time for import (days)	15	29	19
Cost to import (US\$ per container)	1810	2349	1080

Table 24 Indicators of Trading Across Borders, ECA Region and OECD 2013

From the table above there is possibility to compare Kosovo with Eastern Europe & Central Asia and OECD, we can say that Kosovo is one of the countries that must reduce the costs to export and import ,and also to reduce the time to export and import.

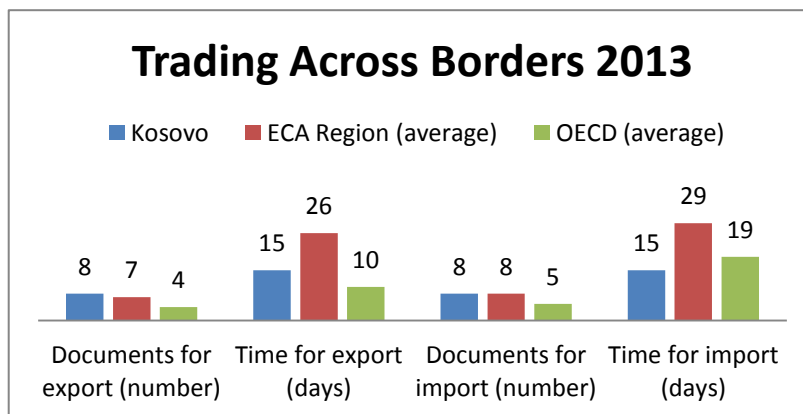


Figure 17: Trading across borders in 2013 for Kosovo, ECA Region and OECD

Despite Kosovo being a landlocked economy, Kosovo fares well in terms of the time required for both exports and imports, compared to its neighbours. However, the cost of trading is high, mainly due to the costs associated with inland transportation.

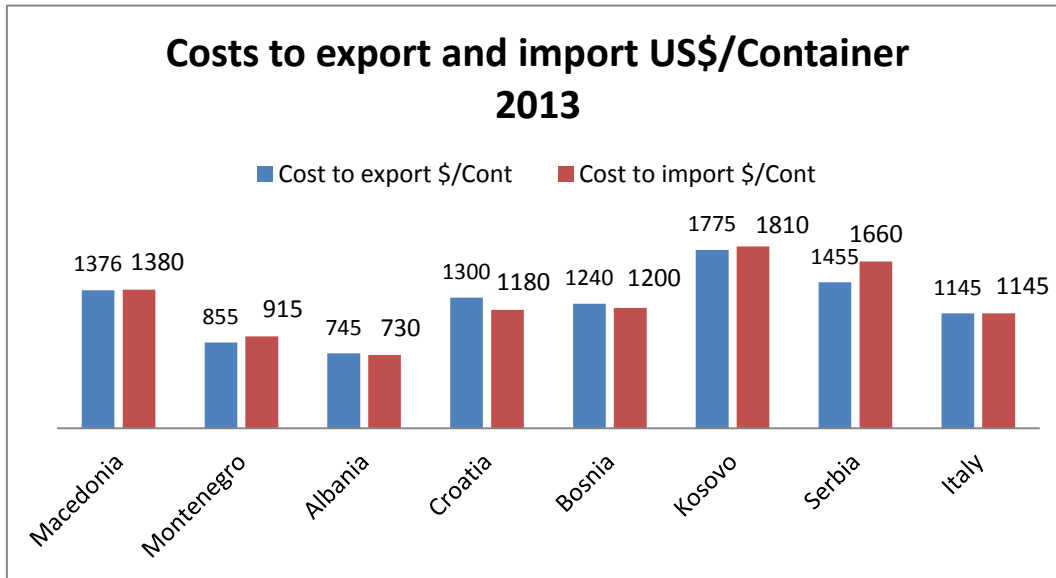


Figure 18: Cost to export and import us\$/Container 2013

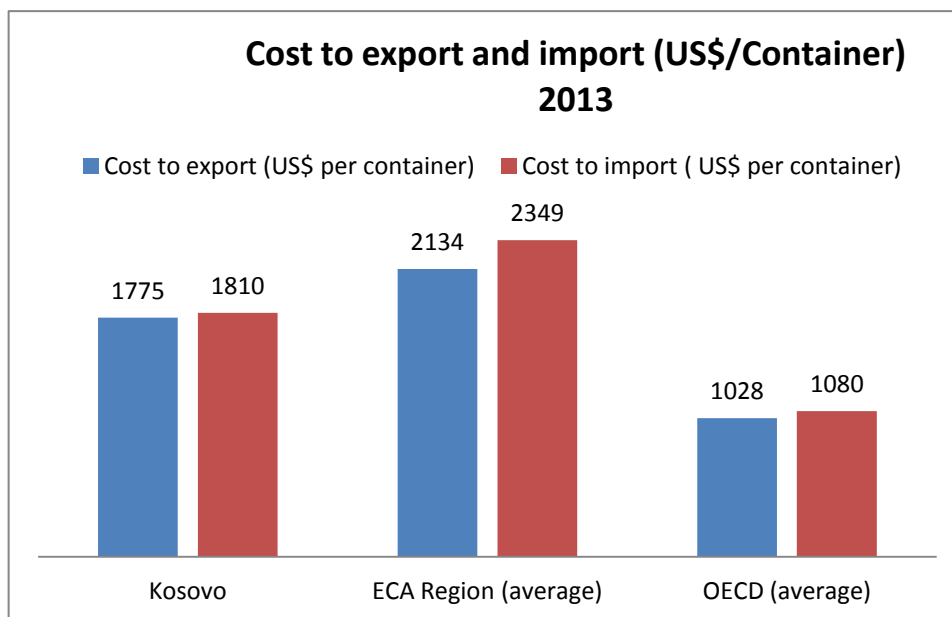


Figure 19: Cost to export and import us\$/Container 2013 for Kosovo , ECA Region and OECD

It is much higher than its immediate neighbors, and if compared to OECD countries, the cost to export and import are both about double those of an average OECD country.

5.1.4. ENFORCING CONTRACTS

Doing Business measures efficiency (time, number of procedures, and cost) It costs 61.2% of the claim value and takes 53 procedures and 420 days to resolve a commercial dispute in Kosovo. Kosovo ranks 155th globally and 25th (last) in the Eastern Europe and Central Asia region on the ease of enforcing contracts

Table 25: Enforcing Contracts

Country	ENFORCING CONTRACTS		
	Time Days	Cost % of Claim	Number of Procedures
Macedonia	370	31.1	37
Montenegro	545	25.7	49
Albania	390	35.7	39
Croatia	572	13.8	38
Bosnia	595	34.0	37
Kosovo	420	33.0	53
Serbia	835	31.3	36
Italy	1210	29.9	41

Kosovo is being weighed down by the number of procedures required in enforcing contracts, and as a consequence the costs are highest in the region. According to the law on construction, the licensing procedures have been made easier and the calculation of the construction tariffs is based on the principles of expense renewal. Development and adoption of a unified code that regulates the norms for safe construction

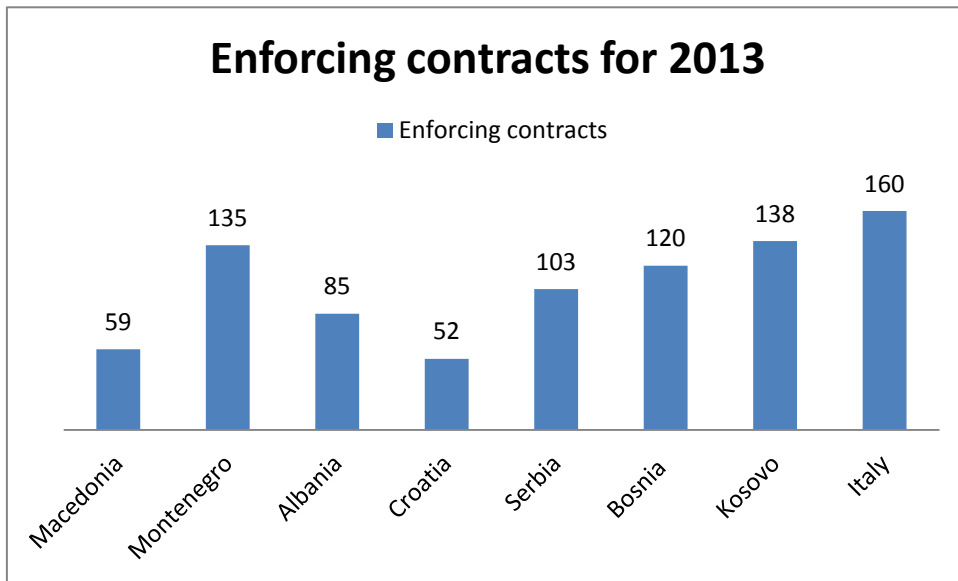


Figure 20: Enforcing Contracts ranking

5.1.5. DEALING WITH CONSTRUCTION PERMITS

Doing Business records all procedures, cost and time required to build a warehouse and connect it to utilities. *Doing Business 2013* reported that on average, it takes 16 procedures, 156 days, and equivalent to 2986.0 % of per capita income—to build a warehouse in Pristina following all the official requirements.

Country	DEALING WITH CONSTRUCTION PERMITS		
	Number of Procedures	Time Days	Cost
Macedonia	10	117	517.8
Montenegro	16	267	1169.6
Albania	-	-	-
Croatia	12	317	573.3
Bosnia	17	180	1102.1
Kosovo	16	156	2986.0
Serbia	18	269	1427.2
Italy	11	234	184.2

Table 27 Dealing with construction Permits

Kosovo ranked 144th globally on the ease of dealing with construction permits.

Indicator	Kosovo	ECA Region (average)	OECD (average)
Procedures (Number)	16	19	14
Time (days)	156	226	143
Cost (% of claim)	2986	486.7	78.7

Table 28 Dealing with construction Permits Indicators for Kosovo, ECA Region and OECS in 2013

From the table above there is possibility to compare Kosovo with Eastern Europe & Central Asia and OECD, we can say that Kosovo must reduce the cost.

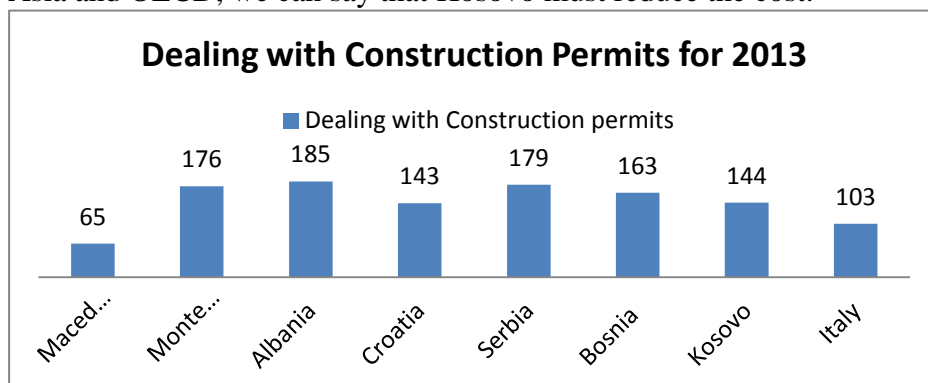


Figure 21 Procedures and Cost; Source: Investing Across Borders 2011

5.1.6 PAYING TAXES

Based on the table below Italy is ranked on the first place for paying taxes while in the 2nd place is ranking Croatia, in the third Macedonia and Montenegro is sharing the same ranking and the fourth Kosovo.

Country	PAYING TAXES					
	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax& contri- bution s (%)	Other Taxes (%)	Total tax rate (% profit)
Macedonia	29	119	6.2	0.0	3.2	9.4
Montenegro	29	320	7.1	12.8	2.5	22.3
Albania	44	357	8.6	25.3	4.8	38.7
Croatia	18	196	11.3	19.4	2.0	32.8
Bosnia	44	407	7.2	12.6	4.3	24.1
Kosovo	33	164	9.1	5.6	0.6	15.4
Serbia	66	279	11.6	20.2	2.2	34.0
Italy	15	269	22.9	43.4	2.0	68.3

Table 29 Paying Taxes

Indicator	Kosovo	ECA Region (average)	OECD (average)
Payments (number per year)	33	28	12
Time (hours per year)	164	260	176
Profit tax (%)	9.1	9.1	15.2
Labor tax& contributions (%)	5.6	22.1	23.8
Other Taxes(%)	0.6	9.3	3.7
Total tax rate (% profit)	15.4	40.5	42.7

Table 30 Indicators of Paying Taxes for Kosovo, ECA Region and OECD in 2013

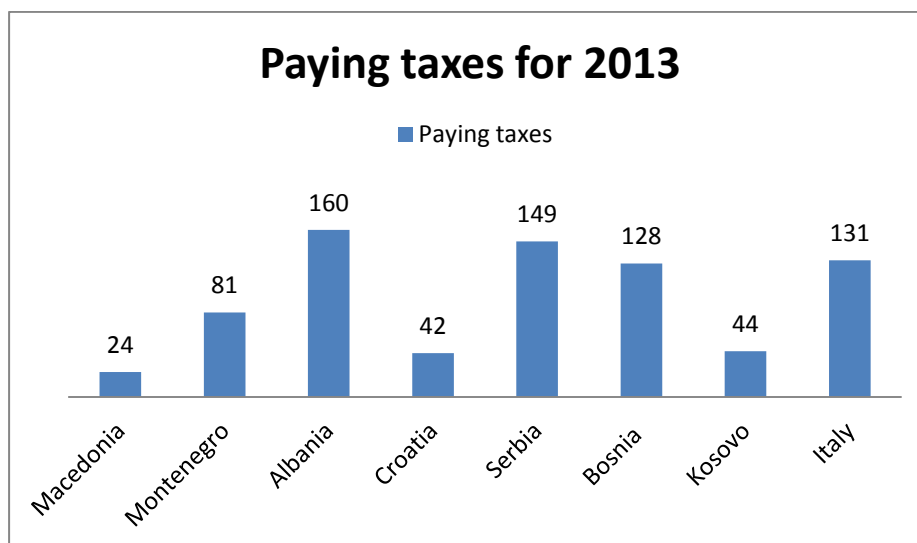


Figure 22 Paying taxes for 2013

5.1.7. REGISTERING PROPERTY

Taking into consideration of the table below, it is seen that Kosovo has 8 procedures, the highest in the countries mentioned below, the country that has the least procedures for registering property is Italy with only 3 Procedure.

Country	REGISTERING PROPERTY		
	Number of Procedures	Time Days	Cost (% of property value)
Macedonia	4	40	3.2
Montenegro	7	71	3.1
Albania	6	33	11.4
Croatia	5	104	5.0
Bosnia	7	25	5.3
Kosovo	8	6	5
Serbia	6	11	2.8
Italy	3	24	4.5

Table 31 Registering Property

Indicator	Kosovo	ECA Region (average)	OECD (average)
Procedures (Number)	8	6	5
Time (days)	33	30	26
Cost (% of property value)	0.6	2.7	4.5

Table 32 Registering Property Indicators for Kosovo, ECA Region and OECD in 2013

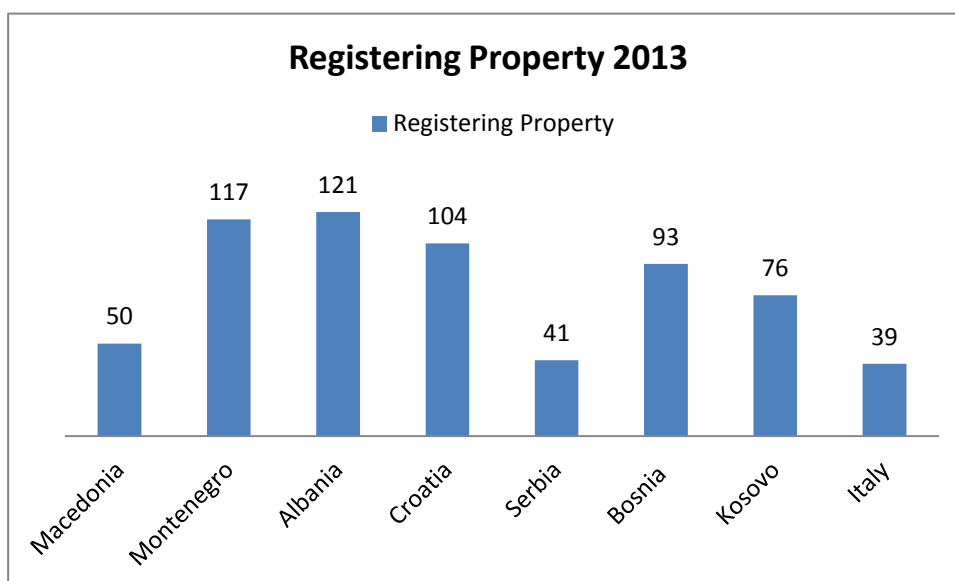


Figure 23 Registering Property for 2013

5.1.8 GETTING CREDIT

Based on strength of legal rights index (0-10) Italy has the best, than Bosnia in 5, Serbia and Macedonia in 7 than Kosovo in 8, Albania 9 and Montenegro 10.

Country	GETTING CREDIT			
	Strength of legal rights index (0-10)	Depth of credit information (0-6)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
Macedonia	7	6	34.8	72.2
Montenegro	10	5	25.2	0.0
Albania	9	4	19.7	0.0
Croatia	7	5	0.0	100.0
Bosnia	5	5	36.2	4.8
Kosovo	8	5	22.2	0.0
Serbia	7	5	0.0	100.0
Italy	3	5	24.1	100

Table 33 Getting Credit

Indicator	Kosovo	ECA Region (average)	OECD (average)
Strength of legal rights index (0-10)	8	7	7
Depth of credit information (0-6)	5	5	5
Public registry coverage (% of adults)	22.2	17.3	10.2
Private bureau coverage (% of adults)	0.0	29.8	67.4

Table 34 Getting Credit Indicators for Kosovo, ECA Region and OECD in 2013

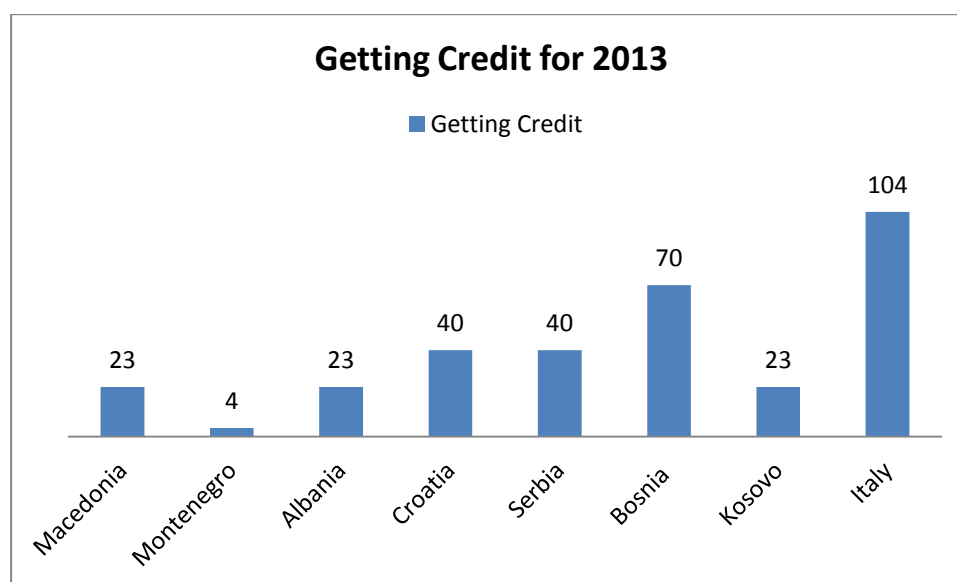


Figure 24 Getting Credit for 2013

5.1.9. COMMENT

There are many different perspectives and interpretations which can be taken from this survey. However, it is reasonable to assume that in many cases prospective foreign investors will be considering Kosovo within a context of regional investment possibilities. Therefore

this benchmarking with neighbouring competitors should constitute a valid point of reference, and therefore Kosovo's poor relative showing is a matter for concern.

Unfortunately in that highly visible early indicator –“ease of starting a business” – Kosovo scores very poorly, and there is clearly **potential to lessen the number of procedures** and hence time required and costs. It must also be possible to address the issue of the high minimum capital required.

A **reduction in shipping costs** is the other most concrete desirable development. Otherwise, it is clear that Kosovo suffers – in comparison with its neighbours – from weaker legal and regulatory frameworks, which **reduce the levels of protection of investors**.

Kosovo also registers very poorly in dealing with construction permits, and particularly the **time taken (320 days) in securing construction permits**. This indicator can be closely associated with “ease of doing business” and signals a tough introduction to Kosovo business and bureaucracy for foreign investors.

As mentioned, there are positives in Kosovo's ranking in “ease of registering a property” and “ease of closing a business”. Another area, which is not included in the overall ranking, is that of “employing workers”, and it is clear that Kosovo presents a **favourable and flexible employment environment** for prospective investors in the key related indicators (difficulty of hiring; rigidity of hours; difficulty of redundancy). This must be emphasised.

5.2. SUPPORT OF EUROPEAN UNION IN ASSISTING RULE OF LAW OF KOSOVO

All Member States have nevertheless agreed that the European Union should provide substantial funding to Kosovo with a view to ensuring the stability of Kosovo, the wider Western Balkans region and Europe as a whole.⁷

The Council has stated the EU's willingness 'to assist the economic and political development of Kosovo through a clear European perspective of the region'(2011 Council conclusions on enlargement and stabilization and association process, 18195/11, 5.12.2011).

.Kosovo benefits from financial assistance from the Instrument for Pre- Accession Assistance (IPA) and is treated by the Commission as a potential candidate for the purpose of receiving this assistance.

Since 2010 it has taken part in the same 'Stabilization and Association Process' (SAP) dialogue mechanism with the Commission as candidate countries and other potential candidates in the Western Balkans region.

Serbia rejected Kosovo's independence and many ethnic Serbs in the north of Kosovo wish to remain part of Serbia which According to a 2011 census, an estimated 5 % of Kosovo's population of 1,7 million are Serbs. They live mainly in the north of Kosovo.

The EU is facilitating direct dialogue between Kosovo and Serbia to improve relations between them (the granted Serbia the status of candidate country for joining the EU and the Commission has subsequently proposed an amendment of the IPA Regulation to transfer Serbia from the list of potential candidate countries to the list of candidate countries.

The desire for independence and subsequent international recognition has dominated the overall agenda of the Kosovo authorities. But Kosovo faces other major challenges, notably poverty and crime. Its GDP per capita of just 2 383 euro is the lowest in Europe.

The collapse of the rule of law in the 1990s created a vacuum which has been exploited by organized crime both from within and outside Kosovo.

At the same time, the clientelism prevalent throughout Kosovo society and the traditional recourse to a clan-based customary law hinder building up the rule of law.

Strengthening the rule of law in Kosovo is generally considered a prerequisite for economic development. Given the international nature of organized crime, the strengthening of the rule of law in Kosovo is also important for the internal security of the EU.

In January 2012 the Kosovo authorities announced their desire to end the supervised independence by the end of the year. On 10 September the Kosovo Assembly adopted constitutional amendments to that effect ending the supervisory role exercised by the ICO.

At the same time, the Kosovo authorities have renewed their invitation to EULEX to carry out its executive functions until the end of its current mandate in June 2014.

5.3 WESTERN BALKAN COUNTRIES INITIATIVES TO IMPROVE THE BUSINESS ENVIRONMENT

There is a shared concern in the western Balkans region about creating more enabling environments for the private sector and reducing administrative burdens.

The Former Yugoslav Republic of Macedonia and Serbia have eliminated the need to obtain a general business license for most business activities that carry no environmental, health or security risks. Thus, they have reduced the overall time start a business to 18 days and the number of steps to 10.

In Montenegro, an action plan and task force on business simplification have been agreed and work is about to begin on the evaluation of existing regulations. The Ministry of Finance has signed a Memorandum of Understanding with business associations covering business representatives' participation in legislative working groups.

An important development in Bosnia and Herzegovina through the USAID Project – Streamlining Permits and Inspection are steps improve SMEs' access to the marketplace by reducing administrative barriers to start-up and operation. The project targeted the pre and post-registration phases of limited liability and joint stock companies, and all phases of independent craft shop start-ups. The regulatory reform associated with business start-up, identified unnecessary or unjustifiable regulatory burdens, and (with the assistance of working groups) proposed policy revisions to reduce start-up time.

However, among the region, Albania and Croatia have the most advanced and formalised business simplification strategies:

Albania adopted a regulatory reform action plan in 2007 with the assistance of the World Bank's Business Environment Reform and Institutional Strengthening project. Administered by the Task Force for the Reduction of Administrative Barriers, it focuses on four main pillars:

- Development of the managerial system of regulatory reform;
- Improvement of the existing legal framework through removal of administrative barriers for businesses; Improvement of the quality of the new regulatory framework; and
- Systematic monitoring and evaluation of regulations.

Parts of this strategy have already been implemented. Examples include abolition of the requirement for a yearly license for general business activities.

The Government of Croatia launched the regulatory guillotine initiative, in 2007. It is

coordinated at the highest level, by the Prime Minister's Office and has made a significant contribution to the improvement of Croatia's business environment on the review, evaluation and analysis of current business regulations and procedures at the national level. In the second phase all other regulations and procedures have been assessed, and proposals have been made for their elimination or simplification to the extent necessary. The overall goal was to remove all barriers to business start-up and SMEs. There have been more than 351 formalities subject to the guillotine, and about 900 initiatives for changing regulations.³⁹

Today, all countries including developing and least developed countries are revising their approach to licenses, redefining their real function and setting targets to reduce them, reducing the scale and complexity of the documents required to establish new businesses; and reduced the level of mandatory costs.

Finally, the Kosovo Government should undertake steps to change commercial laws that have an impact on the improvement of the business environment.

³⁹ SME Policy Index 2007 - Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans)

5.4 RESEARCH RESULTS OF THE PERCEPTION OF FOREIGN DIRECT INVESTORS IN KOSOVO

5.4.1. KOSOVO FOREIGN INVESTMENT – THE ADVANTAGES AND DISADVANTAGES

Foreign investors in the Republic of Kosovo claim that our country has enough prospects to develop their business. Nearly half of investors surveyed on this issue (46.15 percent) share this opinion, stating convincingly that the situation will further develop positively, and improve. They state that it is up to the state also to contribute more in this direction, taking steps to make Kosovo an attractive place for foreign investors and create an appropriate climate to attract businesses to invest.

One of the positive factors identified by foreign investors is that Kosovo has a young and dynamic workforce, which distinguishes our country from the countries in the region. However, they warn that the workforce should be trained and prepared for a more serious approach to the labour market.

Also, market development in Kosovo is seen as satisfactory, about 50 percent of the respondents ranked this factor in the extreme, and said that this market will get even more developed in the future.

About 60 percent of investors surveyed believe that Kosovo's labour costs are not high compared to regional countries.

An additional positive factor considered by investors was the geographical position of Kosovo. They appreciate the important cross roads that exist in Kosovo, which have a great impact on business development, and the fact that Kosovo has links with neighbouring countries in more than one way. (Kosovo has road links with Serbia, two with Macedonia, two with Albania, and three roads that connect with Montenegro)

Foreign investors appreciate the many natural resources of Kosovo, especially minerals, in which Kosovo is very rich. But they warn that a part of minerals, if not used over time, may disappear, thus suggesting that there should be more activity from the government institutions in this field.

The private sector is one that judges where the most potential for growth is. However, to make it happen, the country should have economic and political stability, which are crucial factors for increasing development in the future.

As for education, they perceive it as a medium development; they state that there is a missing link in the interrelationship of education with practical work. For this reason, investors complain that in some cases they are obliged to bring workers from their country, which increases their expenditure costs.

Infrastructure by foreign investors in Kosovo is considered as relatively good, much better than in the past and it promises major prospects for improvement in the future.

A negative factor, considered by 55.88 percent of foreign investors, is unfair lack of legislation, lack of administrative efficiency 51.85 percent and energy supply which damages their business to a great extent. One third of investors believe that political stability is increasing, but nearly one third think that political stability is of concern. Most investors believe that currently politics is unstable, while there are those who think that public companies are managed and run by politicians.

Investors usually do not complain about the high level of taxes in Kosovo, but they claim it is unnecessary to pay taxes for work tools brought from abroad as they will not be sold further but will be used for work within the company.

The degree of optimism of foreign investors regarding their investment in our country is very high. This optimism is based on a young and dynamic workforce, in unused natural resources, the potential for business growth, market development and increasing political stability. A large number of investors, based on the fact that climatic conditions in our country are very good, expressed their willingness to continue working and expanding investment in our country.

Foreign investors believe that Kosovo has very good conditions for the development of agrobusiness. Yet, this sector has remained undeveloped, in the absence of positive economic policies. A similar applies situation in the field of tourism.

Foreign investors believe that Kosovo is not close to joining European Union membership, due to lack of political and economic stability.

A major concern for foreign investors is the fact that young people are those who are the majority of the unemployed, and this unemployed rate is very high.

Foreign investors are under the impression that in Kosovo there is a lack of adequate legislation on foreign investment. They think that the current legislation has delays in procedures at different stages, depending on the nature of the business. Some have problems in the pre investment phase, others during the investment, while the rest at the post-investment phase of the operation of their businesses. The most significant problems are

presented in the phase of receiving licenses, adequate permits, approvals and other administrative issues for their business.

Foreign investors in Kosovo feel that there is economic crime, which often creates problems in foreign investment. It creates competition and unequal illegal products and services offered by foreign investors in relation to products and services provided by organized crime.

In general, investors are not satisfied with the service that KEK provides regarding electricity supply and have serious problems ensuring the status of "favoured customers".

Regarding administrative procedures, most foreign investors are disappointed by the administrative staff, the administrative procedures and the approach that administration of Kosovo has to clients. They recommend raising the efficiency of administrative staff, simplification of procedures and service delivery in the shortest possible time.

Another problem that was identified from investors is the lack of information to investors about the economic opportunities offered in Kosovo. They believe that there is more to be done in this regard, by trying to present these opportunities further. Investors also complain about the country's financial system, namely the lack of good financial offers and very high interest loans.

Regarding economic development in our country, we have a discrepancy between positive and negative opinions of foreign businesses. The majority of foreign businesses think that Kosovo has a low development or relatively low development, while on the other hand there are also a considerable number of foreign small businesses that think the contrary.

Kosovo has a very good geographical position to be an attraction for foreign investment, however here comes into play the negative element of bad infrastructure.

Social acceptance is also an element that foreign investors shares as an opinion. While some are very well accepted, some have not had this luck and it has caused them much loss and troubles.

Investors think that rate of poverty in Kosovo is not as high as is presented, but this is an issue about the mentality of workers, created as a result of many circumstances, i.e. political and economic.

Most foreign investors say they do not feel at risk in investing in Kosovo, they feel confident about their presence in Kosovo and that they will expand their investment.

Most investors think that in Kosovo there is no proper transparency, and if Kosovo is to attract more foreign investment, then transparency should be to the maximum. Otherwise there would not be attraction for investment; rather it will make them go away.

One of the major branches for every state is a developed industrial environment and a state that does not have one cannot be a powerful state. As shown by statistics, Kosovo has no developed industry. Investors in Kosovo feel that the government should urgently take measures to attract foreign investment in this area.

In regard to future investments, investors have expressed their interest as follows: 25 percent of companies will invest in other sectors, 6 percent do not plan to make any investment or reinvestment, 48 percent would make the investment, and 21% have a plan for reinvestment.

Most investors said they have succeeded with their business in Kosovo, which means that they have completed the investments in Kosovo.

Investors emphasize the importance of market development, as a developed market offers many advantages and makes Kosovo more attractive to foreign investment. Also, they point out that there is missing research on market requirements / preferences of customers in Kosovo.

They also warn about the under developed infrastructure in Kosovo, which is a very important factor for business development.

Foreign investors are not completely immune from politics, especially to the politics that involves their businesses. They expect the policy to change the current approach, making things work in the best manner possible, encouraging and stimulating foreign businesses and making trade agreements with foreign countries.

Investors say that integration plays a key role in business. International trade agreements have a positive impact on businesses. They lead to the progressive elimination of barriers in trade, in accordance with the provisions of the General Agreement on Tariffs and Trade.

They are not informed that there is a law that promotes foreign investment in Kosovo, but only through the Internet. They have no knowledge that this law is being implemented ever since they came in Kosovo. They hope that steps will be taken to implement further this law, which would help many foreign investors in their business.

Social factors and cultural factors, according to foreign investors, have average impact on their business and activity. About 60 percent of investors have this attitude; others think that these factors are not so favourable, while none of the representatives of foreign investors are very positive about the impact of these factors in their business.

According to foreign investors, some factors that could lead to changes in Kosovo in terms of foreign investment are: health insurance, financial security, personal security, political factors, trade, setting the base salary, international support, law enforcement, protection investment, eliminating of corruption, etc.

Factors that investors think can make a difference in Kosovo in terms of business climate are: more support to attract foreign investors, an example would be advertisements on CNN and other major media. Moreover, Kosovo should have Business Ambassadors for various countries, to attract business people, which would then make competition more serious and legal. Another factor is that the work force and also the government should be accountable for decisions; other factors are related to food and agribusiness, politics, power, law enforcement and education.

Surveyed investors have listed Kosovo in the first place for investment in comparison to other countries in the region. They claim that in the post war Kosovo there were more opportunities and convenience for business openings, while another reason is that respondents have not invested in any other country in the region.

5.4.2. NGO AND OTHER INSTITUTIONS FEEDBACK

A number of institutions were referenced – such as Chambers of Commerce, Kosovo Alliance of Business Foreign Chambers, and Foreign Representations – as to the status of the FDI offering which Kosovo currently presents. A commentary summary is presented below:

- Definite need to promote the values of Kosovo first – there is an image problem with Kosovo internationally, thus there is a dire need to redress that.
- Need for economic decentralization: regional offices in every municipality
- Drenas as the first and flagship Business Park in Kosovo should be used as a pioneering platform for proactive attraction of FDI (eg offering packages to foreign investors such as “available 100 employees, free lease for 99 years”. Has it been sufficiently promoted to the foreign community?)
- A best opportunity for foreign partnership is sub-contracting production.
- Kosovo is rather accommodating for internationals, however it could be better for investors: lack of real appreciation of what investors need
- Kosovo needs to move more quickly from closed/central economy to open market economy
- Need for centralized base for all data: difficult to access information, statistics: needs to be more cooperation, communication and liaison between Government agencies
- Persisting problems with functioning of the rule of law, property rights law etc

- Perception that some privatized companies have been bought for the land, not for operational purposes
- Some complaints that customs procedures at Prishtina Airport are negatively disposed towards foreign companies
- The available workforce for manual applications is great, yet there are technical deficiencies
- Need for greater initiative on the part of municipalities to accommodate FDI: providing land free of charge to build factories?
- Persisting problems with infrastructure, power, water supply
- In summary, according to this institutional feedback, the situation on terms of the Kosovo FDI offering is not at its best state. However, it should be stated that this feedback was elicited in a context of encouraging an honest appraisal of the status quo.

On the other hand there was also positive commentary:

- Young, well-educated, versatile workforce
 - Well located in the centre of the Balkans
 - Access to the CEFTA market
 - Represents the “new spirit of Europe”
 - Kosovo is interesting: “discover the opportunity”
 - Natural resources abundant
 - The people represent the greatest natural resource
 - Access to cheap local raw materials

5.5 PERSPECTIVE OF FOREIGN INVESTORS IN KOSOVO

Based on analyses from the questionnaire the results show that foreign investments in Kosovo actually have a satisfactory perspective and foreign investors believe that in the future will be the same. But foreign investors consider of very high importance the support from government. According to them this support will have a positive impact to the environment for foreign investment in Kosovo.

Excellent	Very good	Good	Satisfactory	Not Satisfactory
1	2	3	4	5
46.15%	23.47%	15%	7.69%	7.69%



Figure 25 Perspective of foreign investors in Kosovo

5.6 MAJOR STRENGTHS OF KOSOVO

5.6.1. YOUNG AND DYNAMIC WORKFORCE

Most of the companies expressed that Kosovo has a young and dynamic workforce .But, having this opportunity compare to other regional countries, the number of untrained workers for respective fields is very high. A considerable number of foreign companies think that Kosovo has a relatively young and dynamic workforce.

(Comment: Some foreign investors think that the workforce in general is not ready to be responsible for the appointments they hold.

Exellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
69%	3.20%	23.30%	2.00%	3.00%

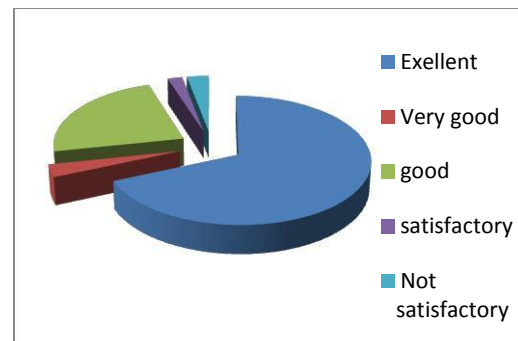


Figure 26 Young and dynamic workforce in Kosovo

5.6.2. MARKET DEVELOPEMENT

Based on analyses from the research, the market in Kosovo is developed and continuously has the potential for further development. Foreign investors see a good future in Kosovo with a developed market.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
50%	29.5%	15.9%	0%	4,5%



Figure 27 Market development

5.6.3. LABOR COSTS

Analyses based on research shows that the majority of the foreign companies think that labour costs are not high, taking into consideration economic conditions in Kosovo and compare with other countries in the region. One of the elements identified during the research of cost levels is that in Kosovo the level of fix cost is low.

Excellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
60%	19.22%	29.12%	4.44%	2.22%

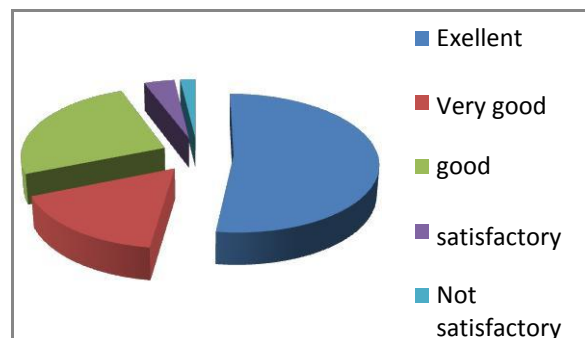


Figure 28 Labour Costs

5.6.4. GEOGRAPHIC POSITION

A positive factor considered by investors is the geographical position of Kosovo. They appreciate the very important fact that Kosovo has important cross roads, which have great impact on business development, and the fact that Kosovo has links with neighbouring countries with more than one way. Kosovo has some roads to link with Serbia, two with Macedonia, two with Albania, and three roads that connect with Montenegro.

Exellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
52%	14.28%	14.76%	12.20%	6.76%



Figure 29 Geographic position of Kosovo

5.6.5. NATURAL RESOURCES

The FD Investors think that Kosovo has a lot of natural resources, especially rich with minerals. But they think that it is necessary to have government support to use them because some minerals as time passes will disappear without leaving possibility to use them anymore. The FDI Investors expressed their optimism that the government will take the initiative to use those minerals because a part from income benefit that the country will have this factor will have impact on increasing employment.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
68.20%	11.36%	9.09%	11.35%	0%

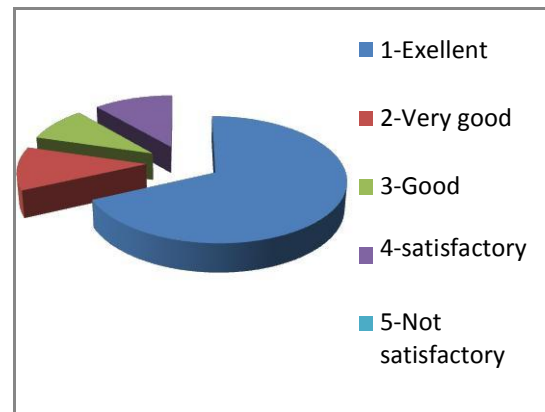


Figure 30 Natural resources in Kosovo

5.6.6. POTENTIAL FOR GROWTH

According to analysis based on the questionnaire, Kosovo has the potential to move towards faster growth, with particular emphasis on the private sector. But investors point out that Kosovo needs economic and political stability, which are factors that will influence future growth potential.

Excellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
45%	10.69%	18.86%	14.65%	10.80%

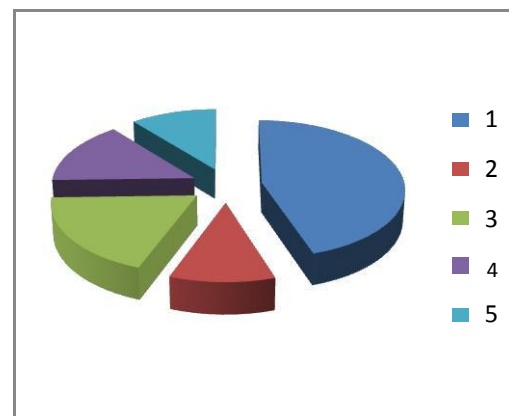


Figure 31 Potential for growth

5.6.7. GOOD EDUCATION

Regarding education, investors believe that education is moderately good. As shortages in this area, they see the lack of practical education and practical work to implement in practice the theoretical lessons. Investors, however, expressed optimism that the people and government and educational institutions in Kosovo are aware about the importance of practical work, which is a necessary element. They, likewise, emphasize that there are institutions that should take as soon as possible steps in that direction.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
16.66%	2.38%	76.19%	4.76%	0%



Figure 32 Good Education

5.6.8. INFRASTRUCTURE

Infrastructure by foreign investors in Kosovo is rated as moderately good. But, if we make comparisons with the past, the situation in this area is changing and the infrastructure is now much better than before. Companies that deal with infrastructure in Kosovo are satisfied with the work in our country.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
12.12%	15.15%	51.51%	3.03%	18.18%

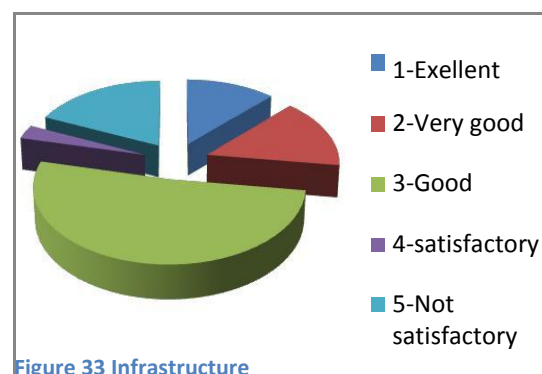


Figure 33 Infrastructure

5.6.9. LACK OF COMPETITION

According to analysis based on the questionnaire, there is high competition, but there are those who think that competition from some businesses are not legal but they hope these problems will be eliminated over time and require state institutions to deal more seriously with this issue.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
9.37%	0%	21.87%	28.12%	40.62%



Figure 34 Lack of competition

5.6.10. INCREASED POLITICAL STABILITY

A third of investors believe that there is increasing political stability, but many rate political stability as average. Most investors now believe that politics is unstable, while there are those who think that public companies are managed and run by politicians.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
33.33%	12.12%	30.30%	15.15%	9.09%

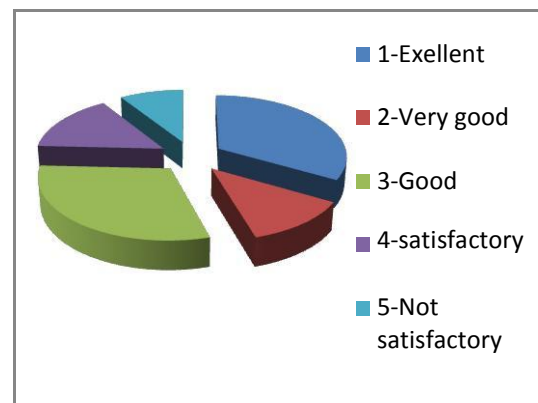


Figure 35 Increased political stability

5.6.11. LOW TAX RATE

A large number of companies think that business taxes are moderate. However, large companies have proposed that in the case of import of equipment, if they will be used for work within the company, they should not be required to pay taxes.

Exellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
25%	17.50%	42.50%	10.50%	4.50%

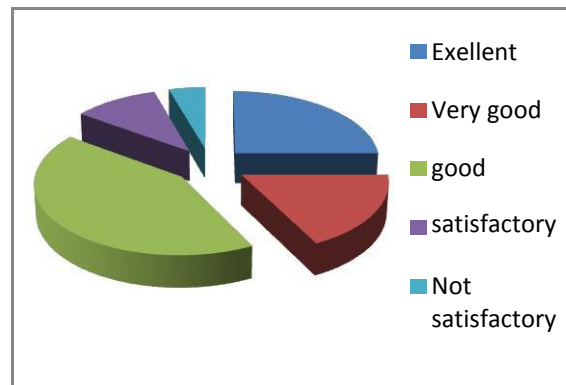


Figure 36 Low rate of tax

5.6.12. THE LEVEL OF OPTIMISM

Investors in Kosovo are very optimistic, given the fact that Kosovo has a new and dynamic force of workers, a workforce that many countries lack. Kosovo has a lot of untapped natural resources, has the potential of business growth, market development is improving and there is also increasing political stability.

Exellent	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
40%	22.10%	12.60%	14.80%	10.50%



Figure 37: The level of optimism

5.6.13. CLIMATE CONDITION

In general the climate is suitable for investors, because it does not change very quickly. The climate in Kosovo is mainly continental, resulting in warm summers and cold winters with Mediterranean influences. Most respondents have no problems with climate adaptation, but there are cases where they have problems too, mainly those coming from countries where climatic conditions vary greatly from those in Kosovo.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
43.75%	12.50%	21.87%	9.37%	12.50%

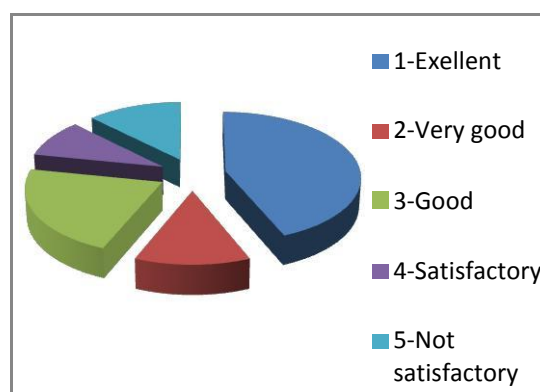


Figure 38 Climate condition

5.6.14. CLOSE TO EU MEMBERSHIP

According to analysis based on questionnaire Kosovo is not close to EU membership, because it has no political stability and no stable economies, which are among the conditions that Kosovo, must meet for EU membership.

Some investors are optimistic in this regard and hope that Kosovo will meet these conditions quickly and will join the EU.

Excellent	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
2.38%	9.52%	19.04%	11.90%	57.14%

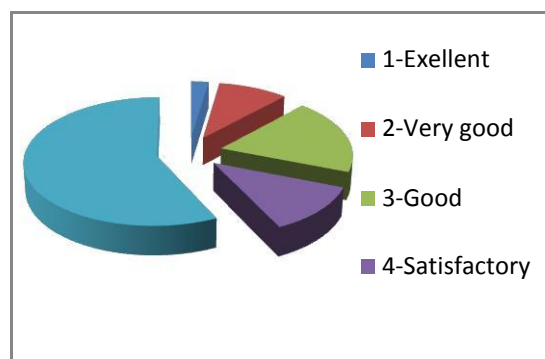


Figure 39 EU membership

5.6.15. COMPETITIVE PRICES

According to investors, average prices are competitive. We must do a split: in Kosovo we have competitive prices and external. As for domestic competition, investors declare that in Kosovo there is no competition, but the competition that exists in Kosovo is external

Excellent	Very	good	Satisfactory	Not
	good			Satisfactory
1	2	3	4	5
31.70%	17.07%	43.90%	0%	7.31%

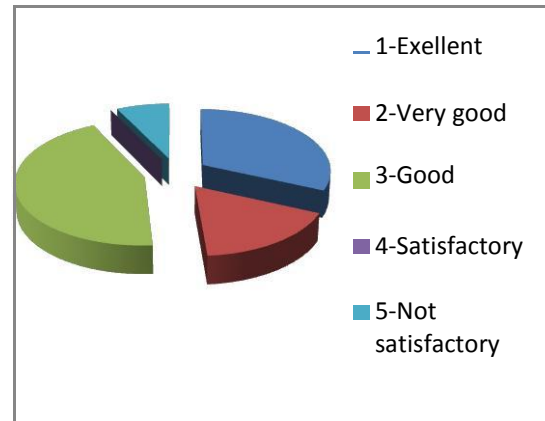


Figure 40 Competitive price

5.6.16. HIGH RATE OF UNEMPLOYMENT

According to analysis based on survey unemployment in Kosovo is very high, and also Kosovo has the highest unemployment in the region. The biggest concern is that in Kosovo the highest numbers of unemployed are young people. Some of the companies think that in Kosovo there is no unemployment. This statement they support with the fact that they wanted workers, but often they could not find them.

Excellent	Very	good	Satisfactory	Not
	good			Satisfactory
1	2	3	4	5
59.37%	6.25%	9.37%	0%	25%



Figure 41 High rate of unemployment

5.6.17. INTEGRATION WITH NEIGHBOURING COUNTRIES

A considerable number of investors think that Kosovo has an average level of integration, but others think that Kosovo cannot be integrated, while others think that Kosovo is partly integrated.

	Very good	good	Satisfactory	Not Satisfactory
1	2	3	4	5
2.43%	7.31%	36.58%	14.60%	39.02%

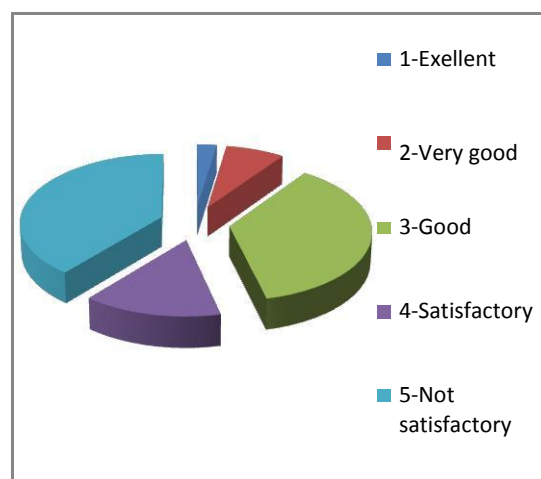


Figure 42 Integration with neighbouring countries

5.6.18. NO STRENGTHS

A considerable number of investors stated that no strengths.

	Very good	good	satisfactory	Not satisfactory
1	2	3	4	5
27%	33.33%	17.00%	12.17%	10.50%

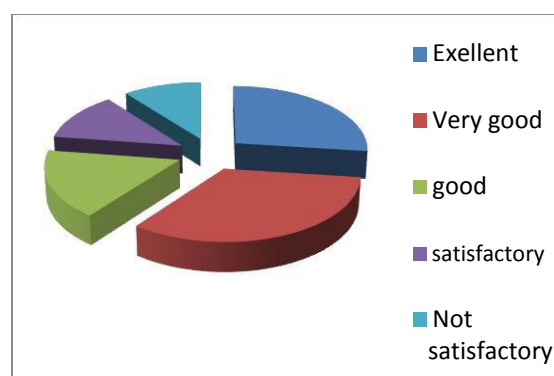


Figure 43 No Strengths

5.7 MAJOR WEAKNESSES OF KOSOVO

5.7.1. LACK OF LEGISLATION

Foreign investors have the impression that in Kosovo there is a lack of adequate legislation on foreign investment. They think that current legislation has delayed their procedures at different stages, depending on the nature of the business. Some have problems at the pre investment phase, others during the investment, while the rest at the post-investment phase during the operation of their businesses.

The most significant problems are presented in the phase of receiving licenses, adequate permits, and administrative issues regarding permit-approvals for their business. The recommendation by foreign investors is that services should be through “One Stop Shops” where they will be able to perform all the services necessary to support foreign investments in Kosovo.

1	2	3	4	5
55.88%	5.88%	20.58%	14.70%	2.94%

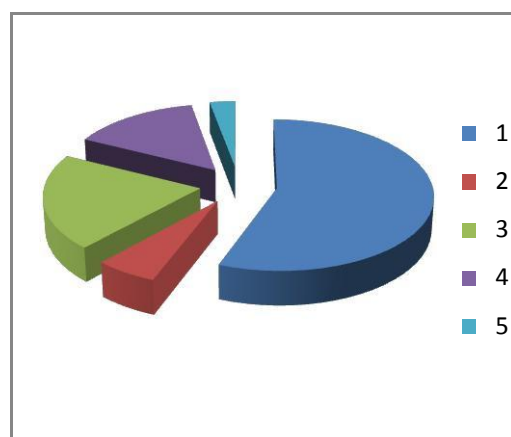


Figure 44 Lack of Legislation

5.7.2. CRIME AND CORRUPTION

Regarding crime and corruption, foreign investors are strong in their opinions. A few enterprises think that there is crime and corruption, but a substantial number of enterprises share the opinion that in Kosovo there is no crime. However, foreign investors in Kosovo feel that Kosovo has economic crime which creates problems in foreign investment, because it creates competition and unequal illegal products and services offered by foreign investors in relation to products and services provided by organized crime.

In some sectors, foreign investors have identified corruption as a phenomenon with which they faced during pre investment procedures during the investment and after investment.

1	2	3	4	5
33.33%	17.39%	18.68%	12%	18.60%

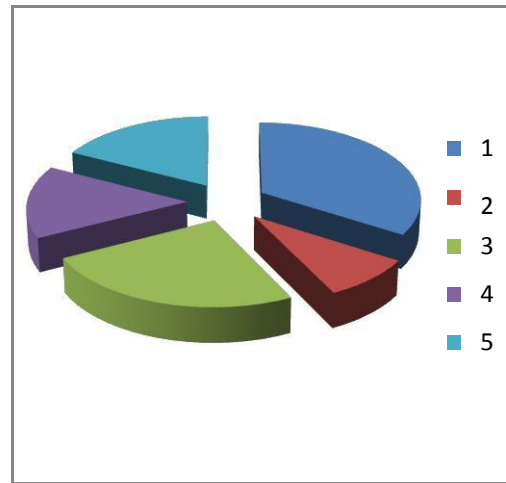


Figure 45: Crime and Corruption

5.7.3. ENERGY SUPPLY

Despite most foreign investors having alternative sources of energy – generators for their businesses; they are not satisfied with the services of KEK. They are not always able to have contracts as “favoured customers” of KEK; therefore, they also face problems due to lack of a good supply of electricity. Interruption of power supply causes a negative impact on the perception of foreign investors to invest in Kosovo, but also causes loss of actual business, damage to equipment, interruption of services, etc

1	2	3	4	5
34%	8.69%	24.78%	15.14%	17.39%

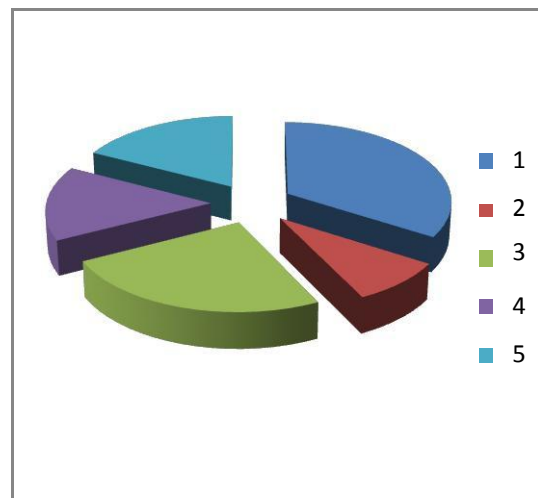


Figure 46 Energy supply

5.7.4. LACK OF ADMINISTRATIVE EFFICIENCY

Regarding administrative procedures, most foreign investors are disappointed by the administrative staff, administrative procedures and the approach the administration of Kosovo has to its clients. Foreign investors recommend raising the efficiency of administrative staff, simplification of procedures and service delivery in the shortest time possible, in order to create facilities for foreign and local investors, which will impact on the motivation for investment and improve the process of completing necessary administrative documentation. Foreign investors recommend that business registration centres also offer connectivity with other institutions and these centres perform some administrative procedures for businesses so that businesses have only one reference point on which they receive all necessary permits for the operation of their business. Investors in Kosovo have a feeling that Kosovo lacks the efficiency of administration.

1	2	3	4	5
51.85%	0%	18.51%	14.81%	14.81%

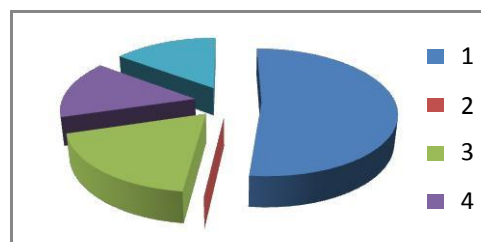


Figure 47 lack of administrative efficiency

5.7.5. LACK OF INFORMATION ABOUT KOSOVO

Kosovo's ability to promote its offerings to foreign businesses is evaluated by foreign investors relatively well. But sometimes information is generalized and no information on specific sectors relates to Kosovo; so in terms of promotion, Kosovo needs to make improvements by being more active in trade fairs, conferences and utilizing other advertising possibilities that are used around the world to promote the opportunities that Kosovo has for foreign investors.

1	2	3	4	5
12.50%	25%	41.66%	8.33%	12.50%

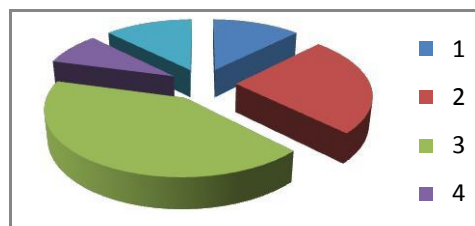


Figure 48 Lack of information about Kosovo

5.7.6. WEAK FINANCIAL SYSTEM

The financial system in Kosovo is not so developed and there is no good availability of credit system and high interest loans. With the rest of banking services the foreign investors are satisfied, despite the financial instability of some banks. Some foreign businesses think that there is no governmental financial support or packages from local and international donor organizations.

1	2	3	4	5
8.33%	25%	25%	8.33%	33.33%

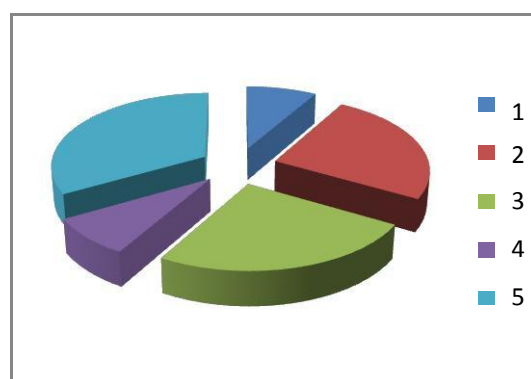


Figure 49: Weak financial system

5.7.7. VERY LOW LEVEL OF DEVELOPMENT

In this field we have a discrepancy between the positive and negative opinions of foreign businesses, because most foreign businesses think that Kosovo has low or relatively low development, while a large number of small businesses representatives think that Kosovo has good development; the perception of this comes from problems that are facing foreign businesses at an early stage of their investment, and if after investment they find no market for delivery of products and services.

1	2	3	4	5
33.33%	0%	11.11%	11.11%	44.44%

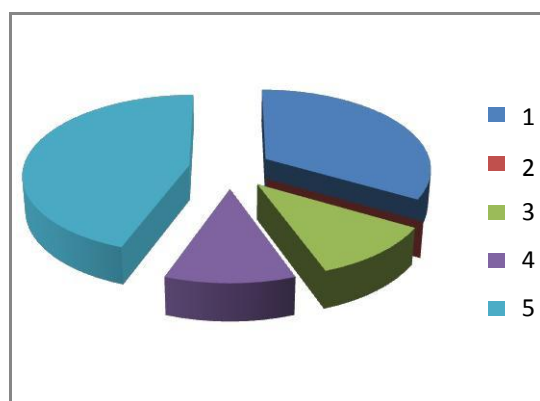


Figure 50 Very low level of development

5.7.8. COUNTRY GEOGRAPHIC POSITION

As far as geographical position is concerned, according to statistics, Kosovo has a very suitable geographical position, but there are also disadvantages associated with the condition in which is currently the infrastructure of Kosovo, because there many segments of road, rail and other infrastructure should be improved to create conditions for Kosovo to be a convenient and attractive place for foreign investment.

1	2	3	4	5
20%	13.90%	25.88%	12.00%	28.22%

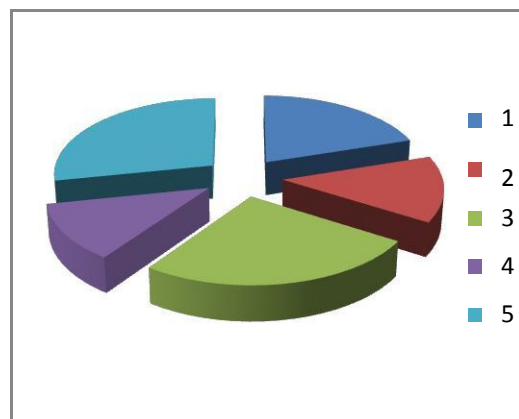


Figure 51 Geographic position

5.7.9. VERY POOR POPULATION

Regarding poverty in Kosovo, investors think that in Kosovo there is some poverty, which can be seen from high unemployment, but most of them think that poverty in Kosovo is not on the highest level, as often presented. This they said, based on the experience they have in Kosovo that if people are physically able to work, there is possibility to work in Kosovo, only the workers should be more responsible.

1	2	3	4	5
7.69%	15.38%	38.46%	23.07%	15.38%

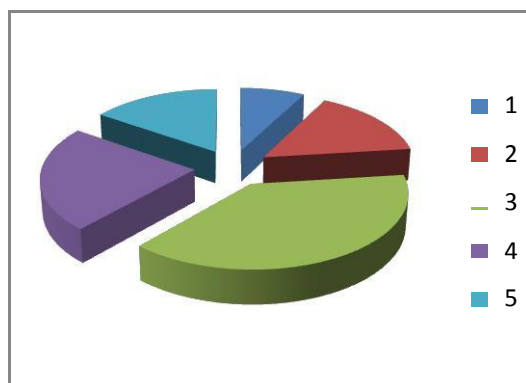


Figure 52: Very poor population

5.7.10. MENTALITY (INEFFICIENT WORKERS)

Mentality in Kosovo, as seen from the statistics, is not so strong. For this, one of the reasons is the poor economic situation and the mass displacement of immigrant towns and villages, However, a substantial percentage think that Kosovo people are open, cooperative, in many cases are ready to provide help if required.

1	2	3	4	5
21.44%	0%	28.57%	14.28%	35.71%

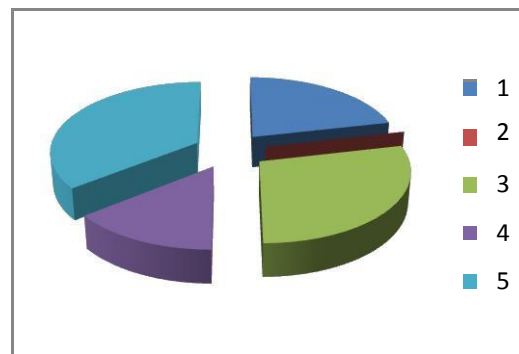


Figure 53 Inefficient workers

5.7.11. DO INVESTORS FEEL AT RISK

Based on the statistics that we have in this part and paragraph where investors are asked whether or not to make any investment or reinvestment, the majority stated that they would invest and we can say that investors in Kosovo feel good. There are times when they have stated that they feel good and safe as if they were in their home place. A negative part is that is not everything is good; there are times when investors are forced to close business when their lives have been threatened. These perceptions are taken on the phone, not personally, through their local partners, because we could not communicate directly with investors because they have been out of our country.

1	2	3	4	5
7.14%	18.75%	42.85%	7.14%	24.08%

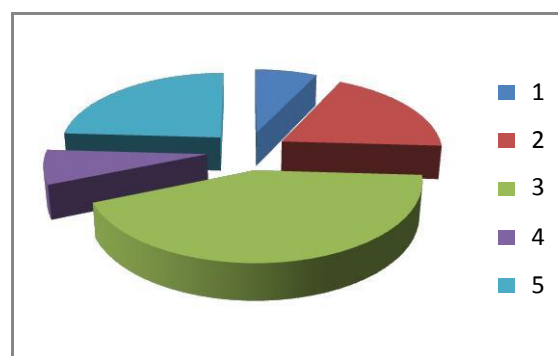


Figure 54 Does Investors feel at risk

5.7.12. LACK OF EDUCATION

Education is regarded as moderately good, but investors declare that, in the absence of good education, they have been forced to take on workers from their place of origin, which was causing great costs.

1	2	3	4	5
4%	4%	68%	20%	4%

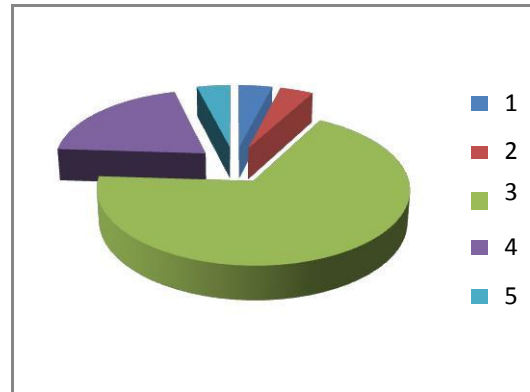


Figure 55 Lack of education

5.7.13. BAD INFRASTRUCTURE

Twenty per cent of surveyed investors stated that the infrastructure continued to be the biggest concern.

1	2	3	4	5
20%	26.49%	26.21%	14.00%	13.30%

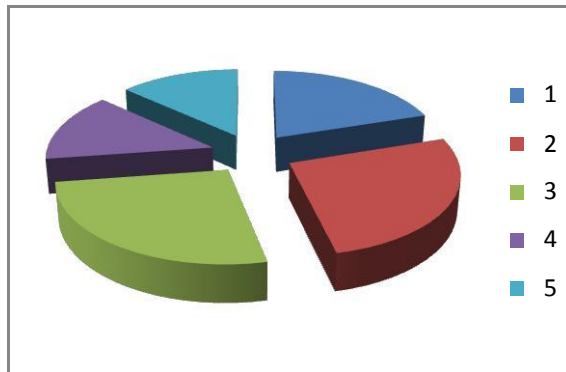


Figure 56 Bad Infrastructure

5.7.14. LACK OF TRANSPARENCY

Regarding transparency in Kosovo, most investors have stated that transparency is lacking. They say that if Kosovo wants to attract foreign investment, then transparency should be the maximum, otherwise they would not attract investment, but remove them from Kosovo. This applies especially to government bodies; they should always be transparent, at least before foreign investors.

1	2	3	4	5
10%	8.33%	49.66%	16.68%	15.33%

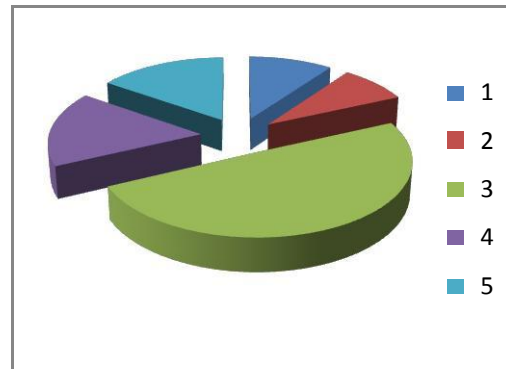


Figure 57 Lack of transparency

5.7.15. NO INDUSTRIAL COMPANY

One of the branches of states development is industrial development and countries that did not develop industry cannot be a powerful country. As shown by statistics, Kosovo has not developed industry. Investors in Kosovo feel that as soon as possible the government of Kosovo should do something to attract foreign investment in this area.

1	2	3	4	5
19%	28.12%	16.40%	24.38%	12.00%

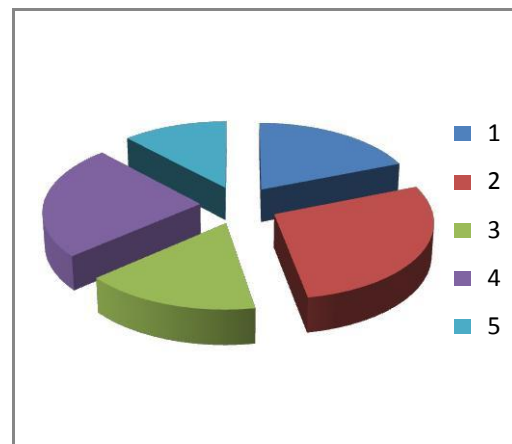


Figure 58 No industrial company

5.7.16. NO WEAKNESSES

A few number of surveyed investors stated that no weaknesses.

1	2	3	4	5
15%	33.33%	24.50%	12.57%	14.50%

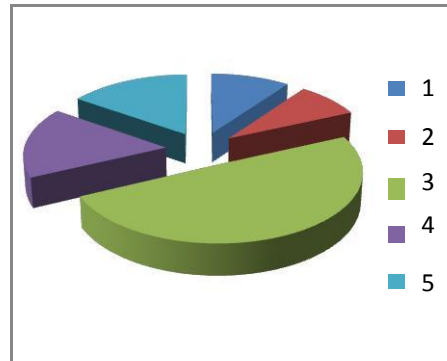


Figure 59 No weaknesses

5.8 MOST POSITIVE ASPECT OF KOSOVO

From the analysis of questionnaires we found out that the abundant supply of young labour force, the natural resources, emerging domestic market, and the low-cost labour offers possibilities for inward-oriented foreign investment. .

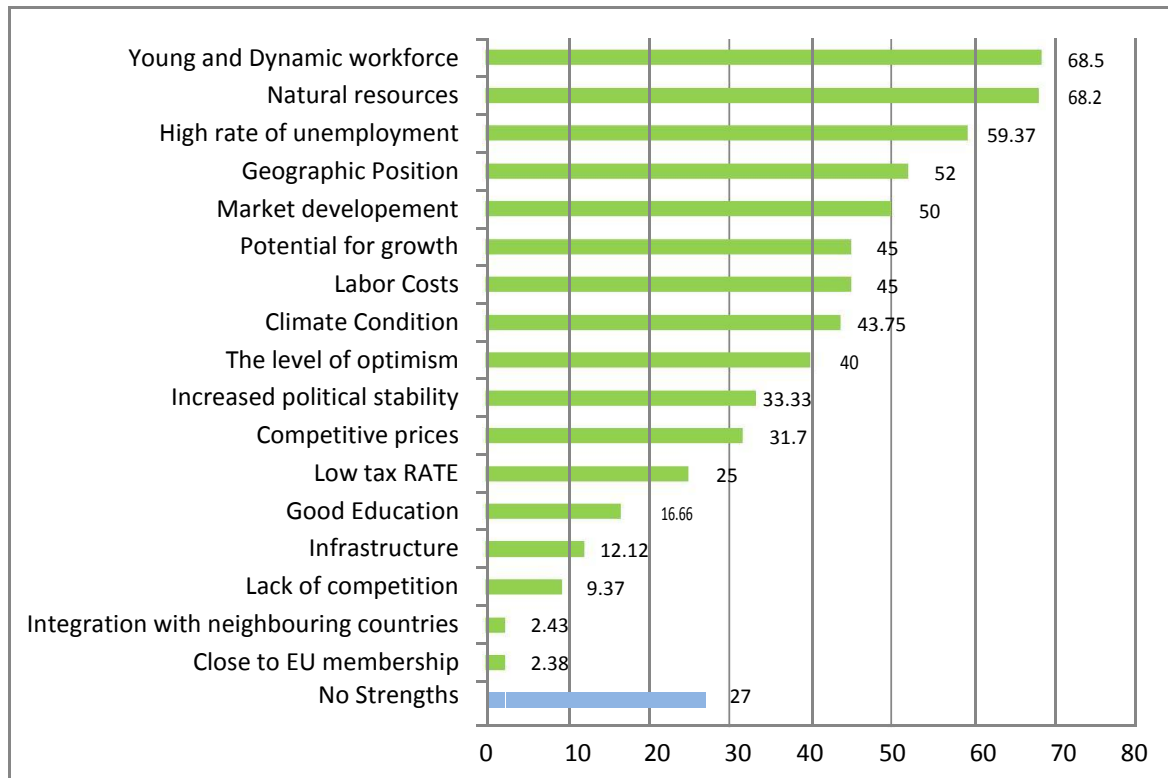


Figure 60 Most positive aspect of Kosovo

5.9 MOST NEGATIVE EXPERIENCE IN KOSOVO

The analysis of questionnaires have brought major negative features in Kosovo: Lack of legislation, lack of energy supply, very low level of development and crime and corruption.

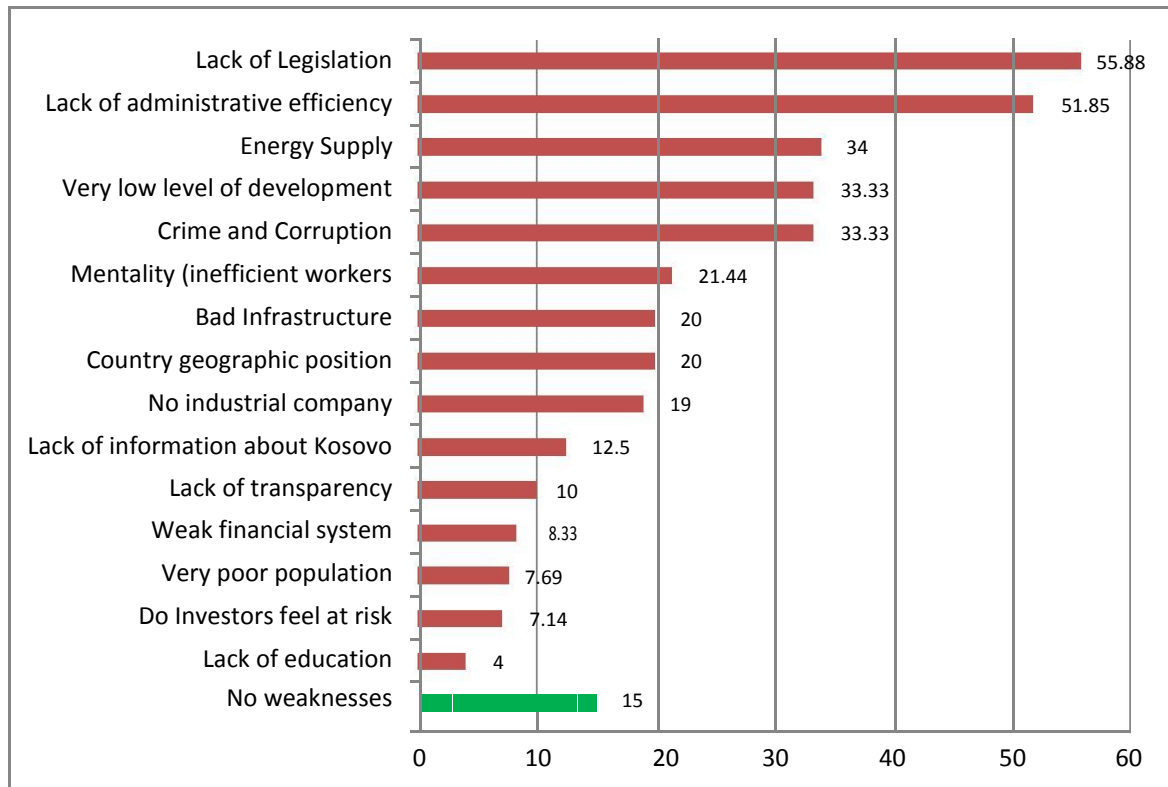


Figure 61 Most negative aspect of Kosovo

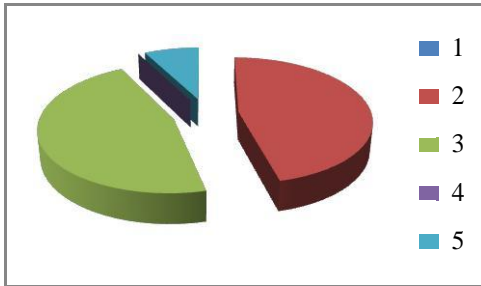
5.10 HOW DO YOU RATE THE FOLLOWING FACTORS BASED ON YOUR EXPERIENCE

5.10.1. COST FACTORS

Labour taxes, labour costs, the quality of labour force, the flexibility of labour regulations, each of these factors are very important. Based on statistics we can conclude that taxes and the costs of labour are relatively important, but the quality of the workforce and the flexibility of work regulations some companies think plays an important role and some of them think opposite.

F1: Labour costs

1	2	3	4	5
0%	46.15%	46.15%	0%	7.69%



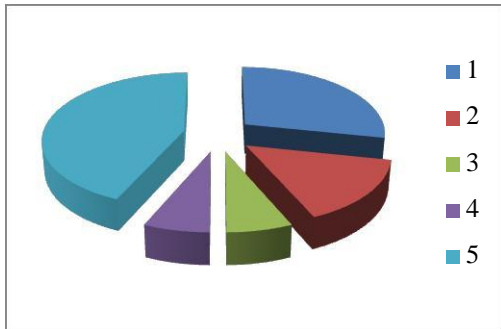
F2: logistic cost

1	2	3	4	5
3.33%	20%	26.66%	3.33%	46.66%



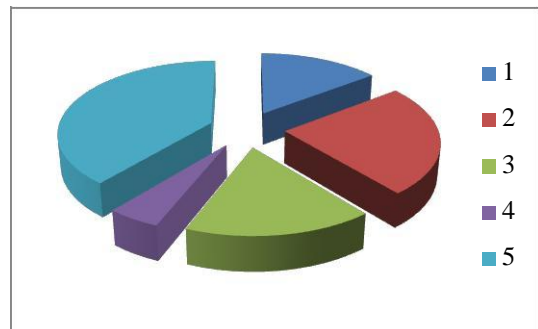
F3: The quality of labour force

1	2	3	4	5
28.26%	15.21%	6.52%	6.52%	43.47%



F4: the flexibility of labour regulations

1	2	3	4	5
14.63%	24.39%	17.03%	4.87%	39%



F5: cost of doing business Rate

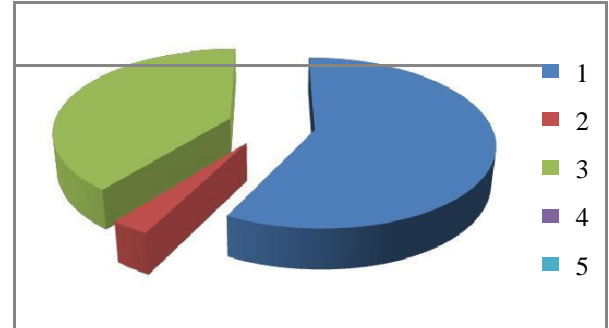
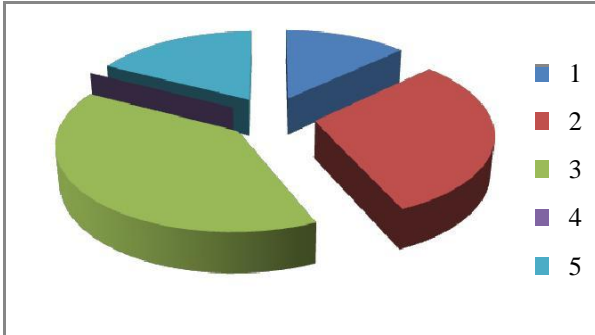
*According to the general costs of doing business they are not the same for all businesses.
As shown by statistics, some are high and for some are medium levels. There are also businesses that have low cost.*

F6: Tax

As we see from the statistics, taxes are among the factors that have a lot of impact to businesses in Kosovo; previous analyses showed that in Kosovo taxes are not so high compared with regional countries, so this is very positive for foreign investment in Kosovo.

1	2	3	4	5
13.04%	30.43%	39.13%	0%	17.39%

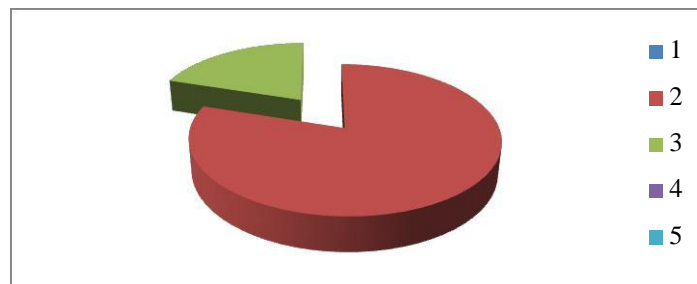
1	2	3	4	5
57.57%	3.03%	39.39%	0%	0%



5.10.2. MARKET FACTORS

The concept of a market is any structure that allows buyers and sellers to exchange any type of goods, services and information. Based on the need that businesses have to market, but also the experience of foreign investors in Kosovo, the market is one of the factors on which business is based. The more developed it is, the better it will be for foreign investors in Kosovo.

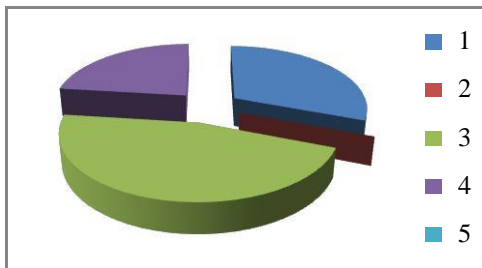
1	2	3	4	5
0%	80%	20%	0%	0%



F7: Large size of host markets

Market size can be given in terms of the number of buyers and sellers in a respective market, or about general exchange of money in the market, generally on an annual basis. In Kosovo, based on analyses, we come to the conclusion that compared to regional countries; Kosovo has a relatively developed market with an expectation to be more developed, this affects business and this is a business objective.

1	2	3	4	5
30.76%	0%	46.15%	23.07%	0%



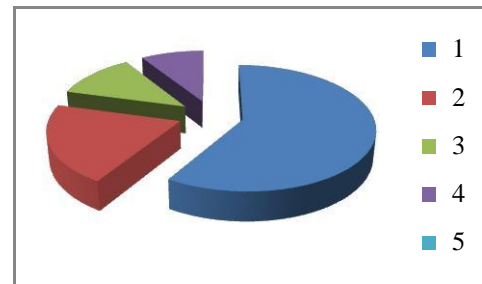
F9: Level of competition in host market

As we noted earlier, in Kosovo there are two levels of competition:
 1) Legal and Unfair Competition
 2) Foreign and Domestic Competition The issue that most worries foreign investors is unfair competition, which was causing problems in business development.
 In Kosovo, domestic competition is not as developed compared to foreign competition.

F8: Demand in host country

Kosovo demands are big, but there is a very serious problem, because companies must have access to reliable data, which provide information on the requirements of buyers, the characteristics of markets and how distribution channels. Currently there is little data on marketing, particularly in terms of customer trends and preferences of Kosovo

1	2	3	4	5
58.82%	20.42%	11.76%	9%	0%

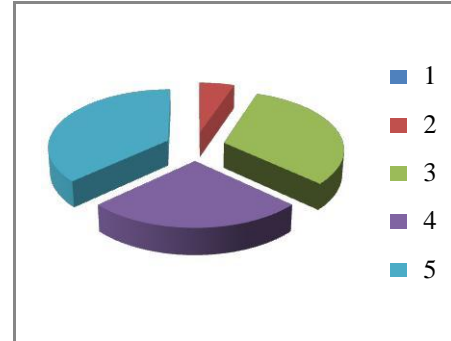
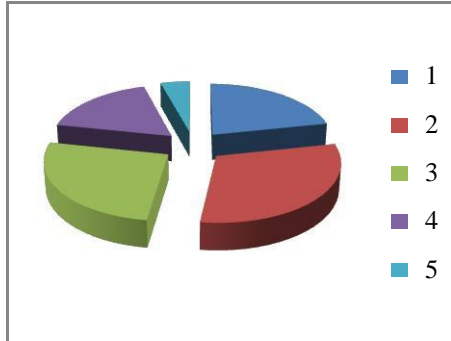


F10: Economic stability

Economic stability refers to a lack of excessive macroeconomic fluctuations. A constant growing production economy and low stable inflation can be considered economically viable. An economy with frequent major recessions, a sharp business cycle, high inflation rate or variable or frequent financial crises would be considered economically unsustainable. From the analysis we have done, Kosovo has relatively stable economy. Stable economy is one of the key factors for attracting foreign investors in Kosovo.

1	2	3	4	5
21.73%	30.43%	26.08%	17.39%	4.34%

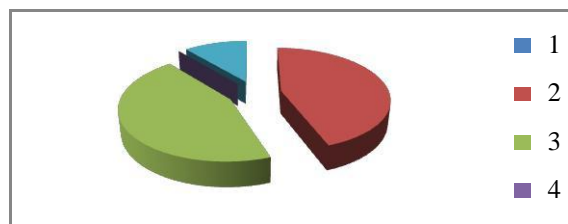
1	2	3	4	5
0%	5.26%	31.57%	26.31%	36.84%



5.10.3. INFRASTRUCTURE AND TECHNOLOGICAL FACTORS

Technology is knowing and using tools, techniques, crafts, systems or methods of organization, in order to solve a problem or to serve several purposes. This shows that technology is an important factor in business and this is confirmed by the analysis of questionnaires

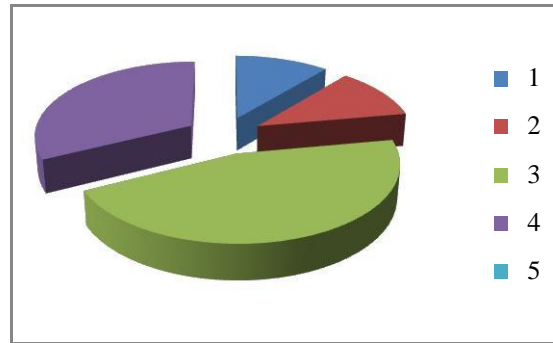
1	2	3	4	5
0%	44.44%	44.44%	0%	11.11%



Level of infrastructure:

Even though a lot of investments have been made in infrastructure, the infrastructure in Kosovo is not at a satisfactory level. It is clear that infrastructure affects business, because through road infrastructure is done transport of goods. Telecommunications infrastructure in Kosovo is very good comparing to road infrastructure

1	2	3	4	5
11.09%	11.09%	45.45%	32.36%	0%



F11: Natural resources

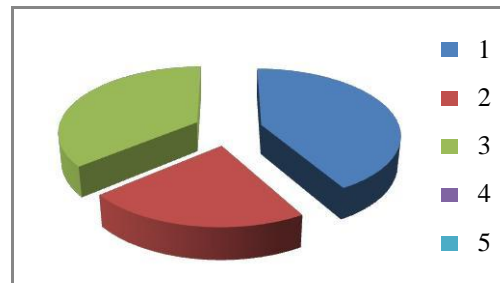
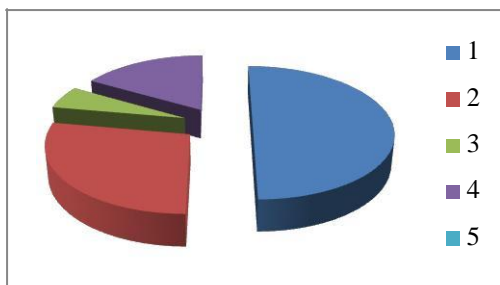
Natural resources in Kosovo have the largest impact, but not all businesses, only to some of them.

F12: Telecommunication infrastructure

Analysis of questionnaires showed that telecommunications, which includes the area of transfer of information through modern forms of communication, plays an important role in business development.

1	2	3	4	5
50%	27.77%	5.55%	16.66%	0%

1	2	3	4	5
41.66%	22.22%	36.00%	0%	0%



F13: Transport and logistics Infrastructure

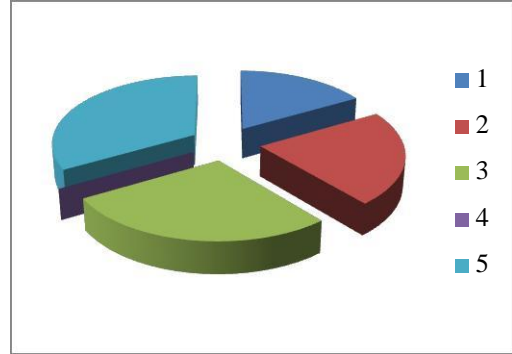
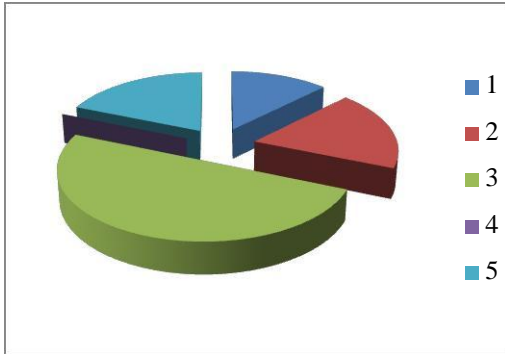
Transport, transfer of goods from one place to another requires understanding the logistics of management of goods and services flow between the point of origin and the point of consumption, in order to meet customer requirements. Based on research the infrastructure in Kosovo is not so developed, and transport is not at a satisfactory level. As shown by statistics, transport and logistics infrastructure play a basic role in business, so, with improved road infrastructure will improve transport of goods.

F14: Energy supply Infrastructure

Despite most foreign investors having alternative sources of energy -generators; for their businesses they are not satisfied with the services of KEK, and they face problems due to lack of a good supply of electricity. Interruption of power supply causes a negative impact on the perception of foreign investors to invest in Kosovo, but also causes loss of actual business, damage to equipment, interruption of services, etc

1	2	3	4	5
12.50%	18.75%	50%	0%	18.75%

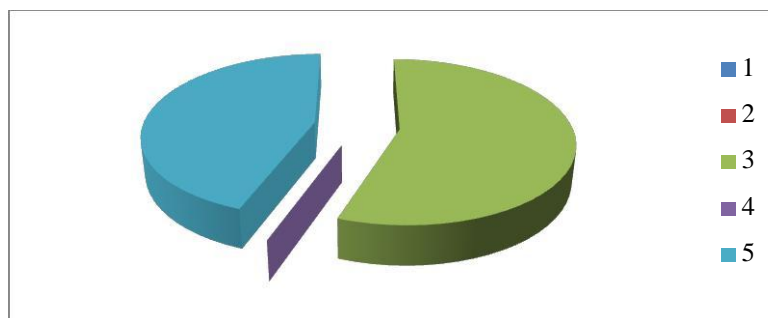
1	2	3	4	5
16.66%	22.22%	27.77%	0%	33.33%



5.10.4. POLITICAL, LEGAL AND ECONOMIC FACTORS

The legal framework has much impact on business. It is of importance that the scope of foreign investment is determined by the laws, terms and conditions to be set out clearly and be understood by foreign investors and for decision-making. It is important to organize different trainings, with the aim of better understanding of the law, in order to avoid misinterpretation or misapplication. As for politics, it does not affect so much in business, except in special cases

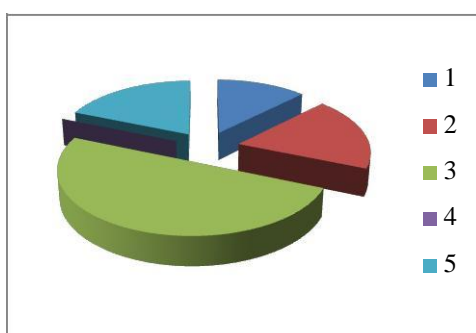
1	2	3	4	5
0%	0%	55.55%	0%	44.44%



F15: Political stability

Foreign investors are not completely immune from politics, especially to the policy that has to do with business. They expect change in the current approach, to make things work in the best manner possible, to encourage and stimulate foreign businesses, and to make trade agreements with foreign countries

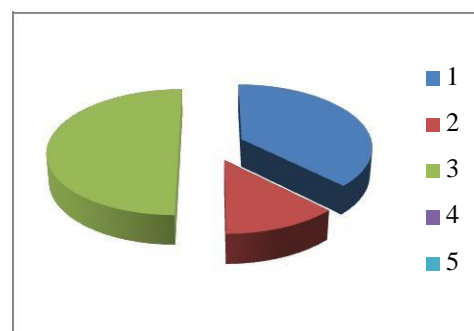
1	2	3	4	5
12.50%	18.75%	50%	0%	18.75%



F16: International trade agreements

Investors say that integration plays a key role in business. International trade agreements have a positive impact on businesses. They lead to the progressive elimination of barriers in trade, in accordance with the provisions of the General Agreement on Tariffs and Trade

1	2	3	4	5
37.50%	12.50%	50%	0%	0%



F17: Administrative Efficiency Protection)

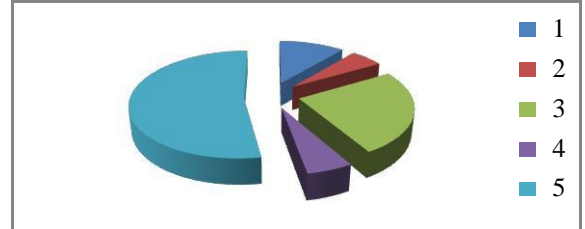
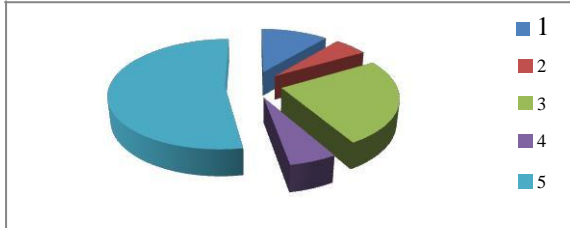
Regarding administration in Kosovo, investors have expressed that Kosovo has inefficient administration, although they said that Kosovo does not lack the technology so it is not the reason for lack of effectiveness. They have stated that the only reason why this happens is ignorance of the use of technology. There is also seen to be a lack of training (practical side). And this takes more time and provides more expense for investors.

F18: Court systems (Investors legal

They are not informed that there is a law that promotes foreign investment in Kosovo, but only through the Internet. They have no knowledge that this law is implemented since they are in Kosovo. They hope that steps will be taken to implement most of this law, which would help many foreign investors in busines

1	2	3	4	5
11.11%	5.55%	25%	5.55%	52.77%

1	2	3	4	5
13.51%	2.70%	27.02%	8.10%	48.64%



F19: Corruption and organized Crime

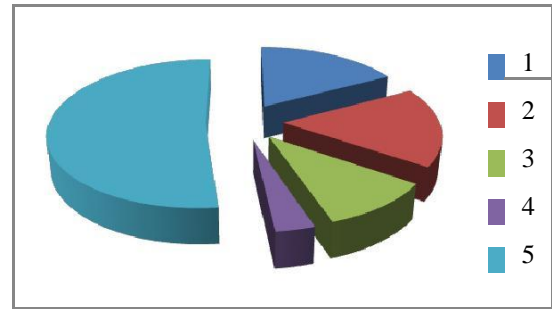
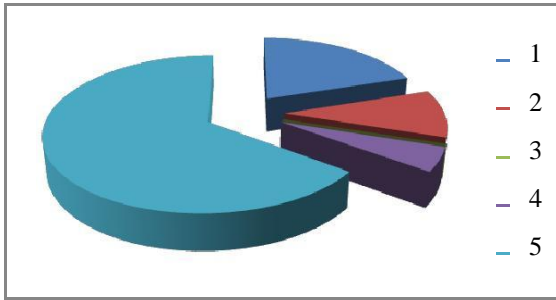
F20: Municipality And Company specific licensing

Most investors agree that in Kosovo there is no crime and corruption. However, there are about 20% of investors who think that there is crime and corruption. The government needs to do more in this field, to fight crime and corruption, despite the low level of existence of these phenomena, declared by foreign investors.

A large number of companies feel that the licensing procedure is long and difficult. To obtain a license should go to three or four administration offices, which have no coordination among them. The fact that the same documents must be submitted in some offices was not evaluated as positive, rather than the institutions themselves should take in a document and communicate among themselves and not the investor that requires a certain license to be a bridge between them.

1	2	3	4	5
20%	10%	0%	5%	65%

1	2	3	4	5
17.24%	17.24%	10.34%	3.44%	51.72%



F21: Ease of trading across borders Systems

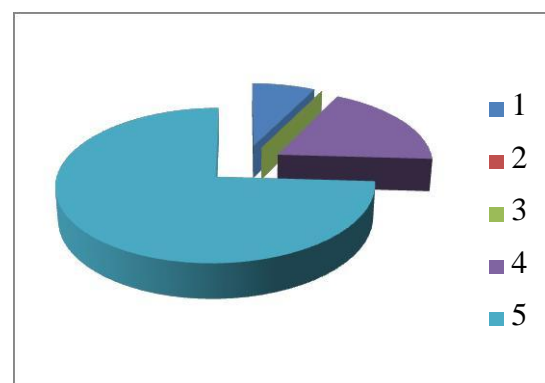
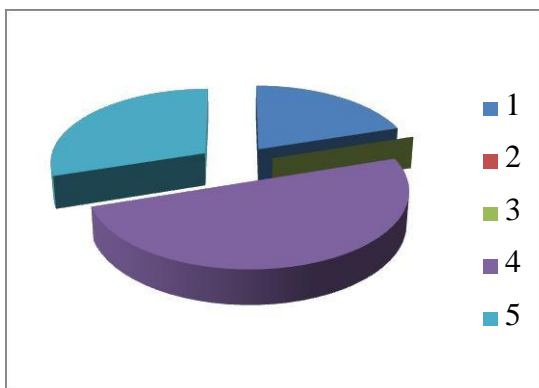
F22: Customs and Trade

Kosovo has three main benefits of market liberalization, namely the best opportunity for export, better conditions for investment and stable relations with its neighbours. Free Trade Agreement with Albania, Bosnia-Herzegovina, Croatia, Macedonia, Kosovo provides convenience for trade with these four countries, but with others the situation is difficult. We hope that Kosovo will reach many free trade agreements.

Although Kosovo's exporters were offered access to regional markets tax free, by creating common institutions to further promote economic development and to discuss trade barriers and cooperation, foreign investors do not believe in its functionality. If Kosovo has a modern trading system, would provide social and economic benefits for all.

1	2	3	4	5
20%	0%	0%	50%	30%

1	2	3	4	5
7.40%	0%	0%	18.51%	74.07%



F23: Variety of financial Services -

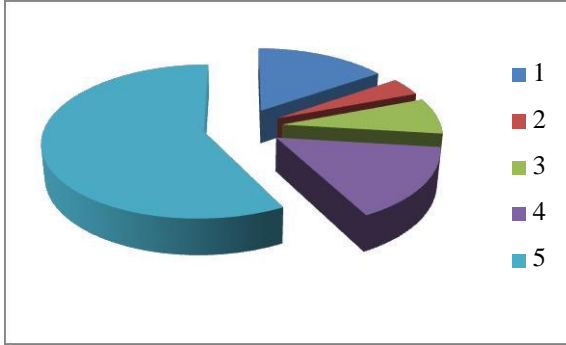
F24: Financial Incentives



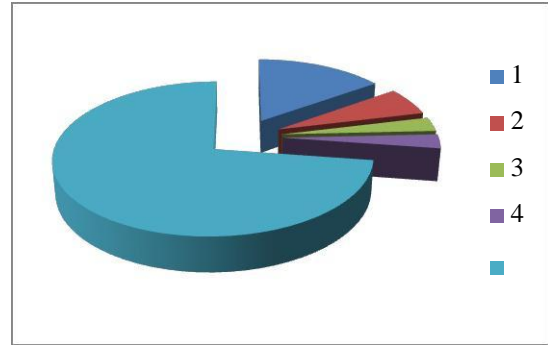
The issue of diversification of financial services in Kosovo, which are of particular importance for a businessman, about 60 percent of respondents think that this diversification is missing

The analysis obtained from the questionnaire shows that there has been no financial incentive. Investors have come up with their financial means. They suggest that if they had a financial incentive, the number of foreign investors would increase significantly. This was said by investors based on the difficulties they are facing. They say financial encouragement would be very significant for them, especially in the initial stage of investment.

1	2	3	4	5
15.38%	3.84%	7.69%	15.38%	57.69%



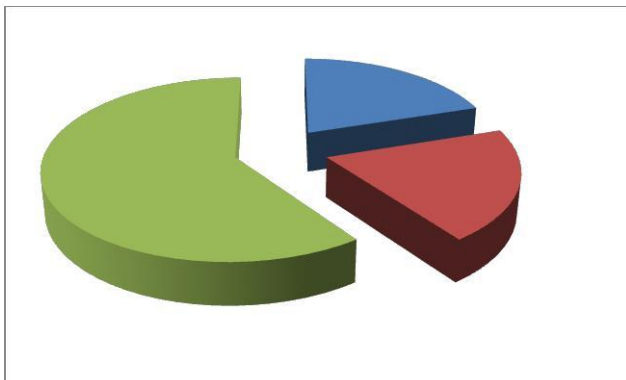
1	2	3	4	5
15.15%	6.06%	3.03%	3.03%	72.72%



5.10.5. SOCIAL & CULTURAL FACTORS

Social factors and cultural factors, according to foreign investors, have an average impact on business and activity. About 60 percent of investors have this attitude; others think that these factors are not so favourable, while none of the representatives of foreign investors expressed a very positive note on the impact of these factors on their business.

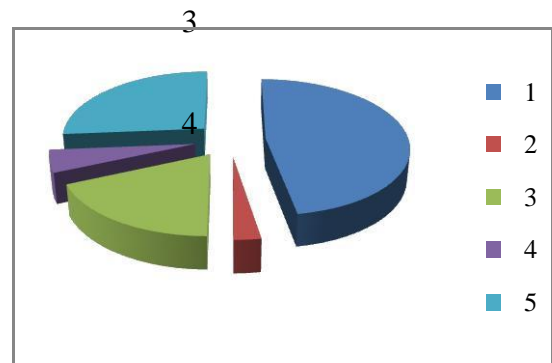
	1	2	3	4	5
	20%	20%	60%	0%	0%



F25: Cultural distance

A large number of investors think that there is cultural distance. Lack of a strategy for culture, according to them, has led to the delay in development. Based on statistics culture plays an important role for foreign investment in Kosovo, so it is good to make some changes in this direction, even though Kosovo is doing this just has to do it with great steps

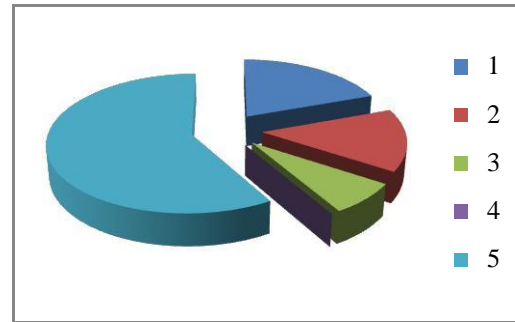
1	2	3	4	5
47.36%	2.68%	18.42%	5.26%	26.31%



F26: Linguistic skills

Communication in Kosovo is very easy and it affects in business. The emigration of many Albanians to foreign countries, although not always described as positive, has increased the level of knowledge of foreign languages by t Kosovars. The level of knowledge of Slavic languages is high and is connected to past times, as well as knowledge of Turkish language. After the Kosovo war to a very large extent is also taught English, which is a very high priority

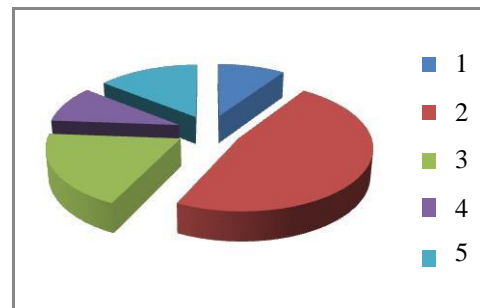
1	2	3	4	5
19.51%	14.63%	7.31%	0%	58.53%



F27: Quality of Life

Overall quality of life in Kosovo is good. Foreign investors have stated that Kosovo has the opportunity for a high level of life

1	2	3	4	5
9.52%	47.61%	19.04%	9.52%	14.28%



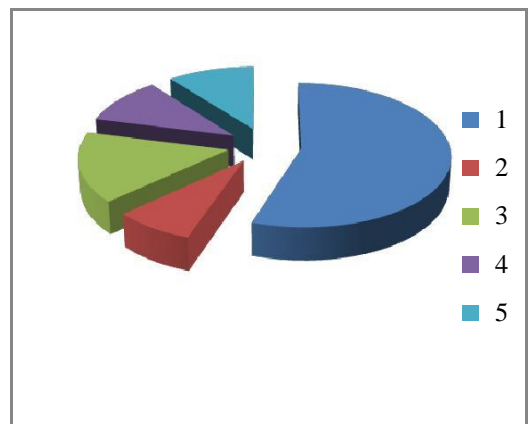
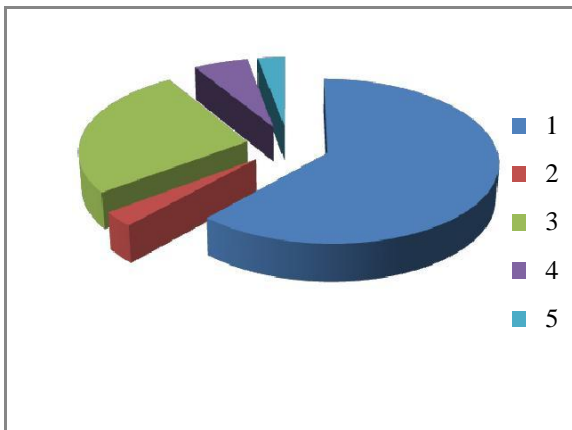
F28: Image of the Country

F29: Lack of Information

Foreigners see Kosovo as a country with many opportunities for business development, but considering the fact that Kosovo is a country in transition it is more normal than the business climate has many weaknesses. They are optimistic that Kosovo has a very positive future and hope that Kosovo will grow economically and understand that this is the key to attracting foreign investors, and to achieve this they should facilitate many administrative procedures, to stimulate them by giving land in exchange for labour, etc..

Investors think that the lack of information is a serious problem in Kosovo. They cannot find primary information, in most cases they are secondary and if they are taken into account are likely to be misinformation and this may directly influence the investment, they have proved that information plays a role in their business , especially for those who do not have enough information about Kosovo.

1	2		3	1	2	4	3	4	5	5
61.76%	2.94%		26.47%	26%	7.59%	15.78%		10.52%	2.94%	52%



5.11. WHAT FACTORS, IN YOUR OPINION, ACCOUNT FOR THE CHANGE?

Factors that could lead to changes in Kosovo in terms of foreign investment are: health insurance, financial security, personal security, political, trade, setting the base salary, international support, law enforcement, protection of investment, fighting corruption.

5.11.1 WHAT (IN YOUR OPINION) WOULD BE THE MOST IMPORTANT THING TO DO TO IMPROVE?

Factors that investors think can make a difference in Kosovo in terms of business climate are: more support to attract foreign investors and come up with ads on CNN and other major media. Moreover, Kosovo should have Business Ambassadors for various countries, to attract business people, and be serious competition. Another factor is that the worker, and also the state should be accountable for decisions.

5.12. RATING THE ASPECTS OF ATTRACTIVENESS

Based on statistics from the questionnaire, purchasing is listed as more attractive to foreign investors. After that comes the labour force, which is a new and dynamic force, which plays a major role in attracting foreign investors. Financial aspects is listed as the third most important factor for attractiveness, and then the level of infrastructure for some companies is very attractive

Table 28 rating the aspects of attractiveness

<i>Attractiveness</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>
a. Purchasing Power	10.71%	32.14%	28.57%	7.14%	7.14%	3.57%	7.14%	0%	3.57%
b. Labour force	26.47%	2.94%	8.82%	23.52%	8.82%	23.52%	0%	0%	5.88%
c. Financial aspects	27.02%	8.10%	10.81%	40.54%	5.40%	0%	0%	0%	8.10%
d. Infrastructure	0%	15%	5%	5%	0%	25%	40%	5%	5%
e. Local market	13.88%	16.66%	13.88%	8.33%	36.11%	0%	11.11%	0%	0%
f. Legal Situation	0%	8%	8%	16%	0%	4%	4%	44%	16%
g. Regional supplier	36%	0%	40%	12%	0%	12%	0%	0%	0%
h. Political Situation	0%	4.16%	29.16%	4.16%	12.50%	0%	0%	8.33%	41.66%
i. Social attractiveness	5.88%	42.05%	5.88%	35.29%	2.08%	2.94%	0%	5.88%	0%

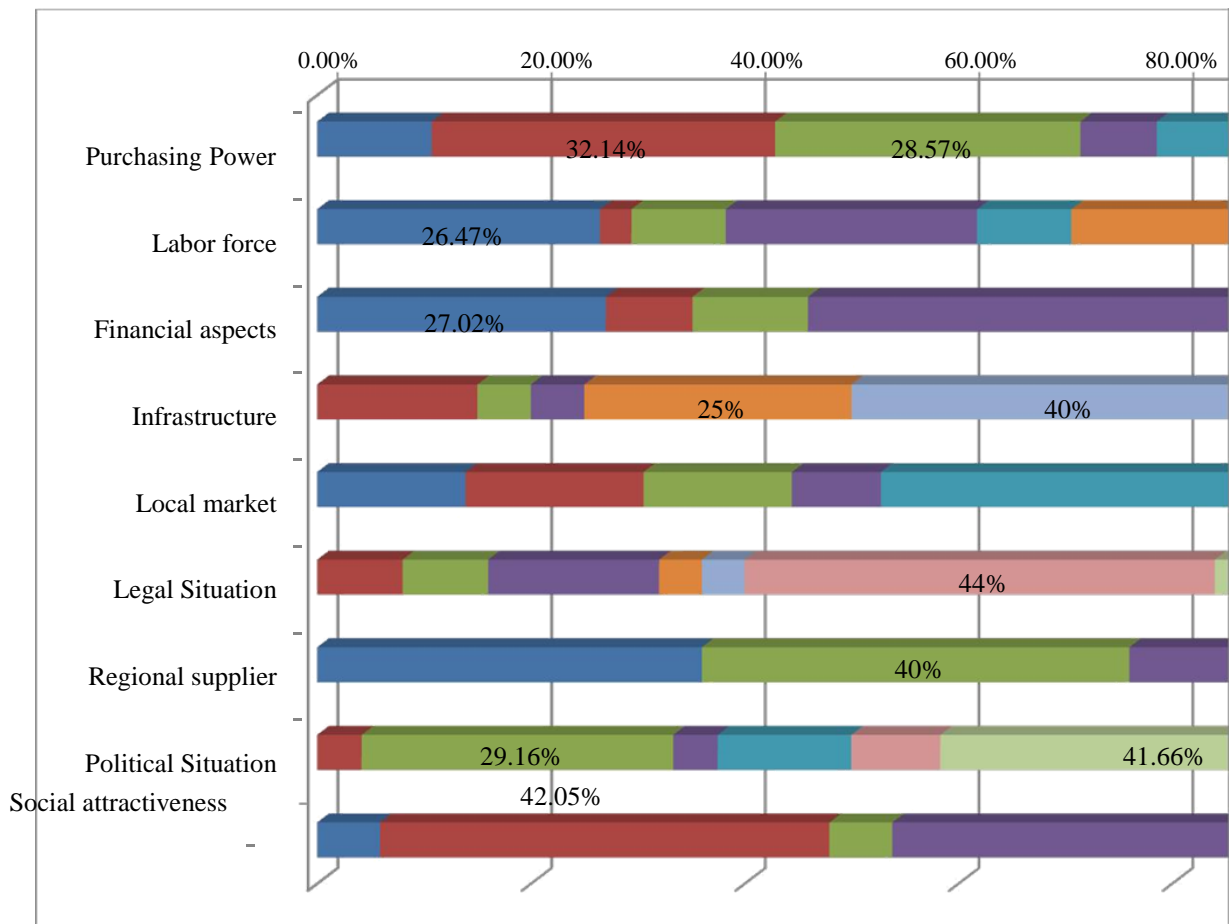


Figure 62 rating the aspects of attractiveness

5.13. IF YOU HAVE EXPERIENCE, RATING DOING BUSINESS IN THE REGION

Based on statistics from the experiences of investors, listed as follows, Kosovo is ranked as the favourite place because they have had more opportunities to open businesses right after the end of the war when investments were necessary. Another reason is that they have not invested in any other country in the region except Kosovo.

Table 29 Rating doing business in the region

	1	2	3	4	5	6	7
1. Kosovo	66.66%	20.51%	7.69%	0.00%	5.12%	0.00%	0.00%
2. Albania	0.00%	30%	10%	40%	0.00%	0.00%	0.00%
3. Macedonia	13.33%	33.33%	33.33%	20%	0.00%	0.00%	0.00%
4. Montenegro	11.09%	52.54%	18.18%	18.18%	0.00%	0.00%	0.00%
5. Croatia	47.60%	23.80%	0.00%	4.76%	19.08%	4.76%	0.00%
6. Greece	0.00%	0.00%	12.50%	12.50%	37.50%	0.00%	12.50%
7. Serbia	42.85%	0.00%	14.28%	0.00%	0.00%	0.00%	0.00%
8. Bulgaria	42.85%	0.00%	14.28%	0.00%	42.85%	0.00%	0.00%
9. Rumania	0.00%	0.00%	0.00%	0.00%	50%	33.33%	0.00%
10. B & Herzegovina	0.00%	50.00%	0.00%	0.00%	33.33%	0.00%	0.00%

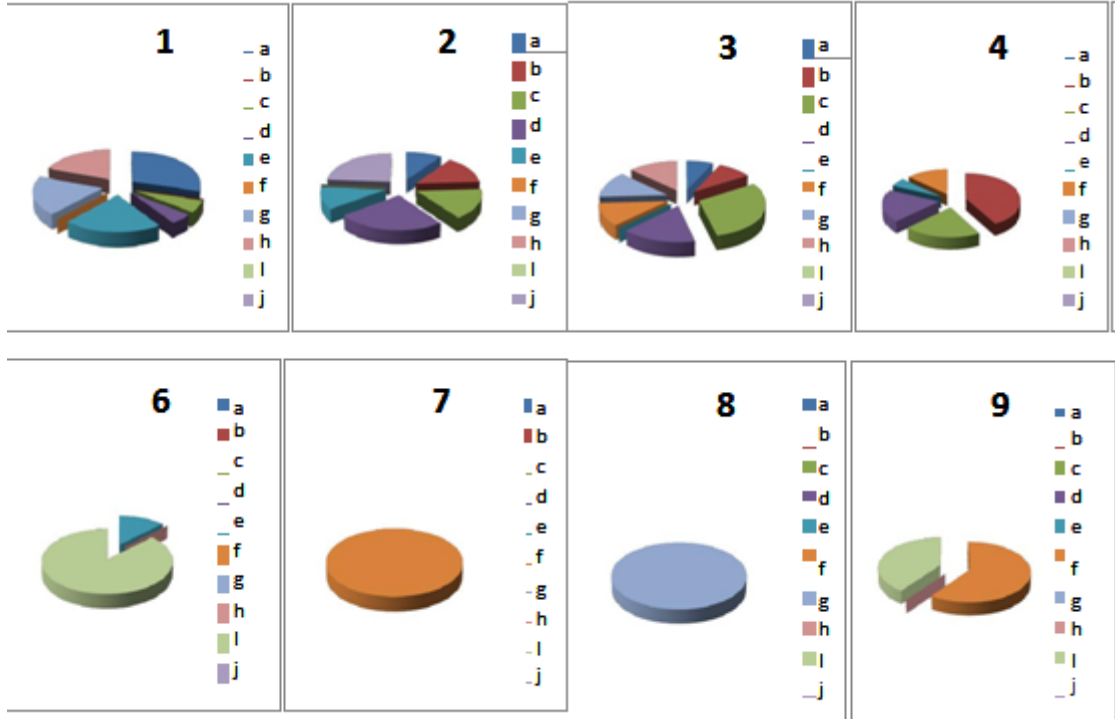


Figure 63. Rating doing business in the regions

6. FINDINGS AND RECOMMENDATIONS

The results of the questionnaires give a clear picture of motivations, concerns and suggestions from existing foreign investors. The recommendations that come from the various analyses and studies in this project indicate that institutions should pay close attention to foreign investors – thus improving further the business climate.

6.1 INVESTORS PERSPECTIVE OF KOSOVO EXPERIENCE:

- Food Industry and especially Agrobusiness is an opportunity for Investments in Kosovo's economy. (Huge import of different food products e.g. wheat flour, etc gives an opportunity for import substitution).
- Textile industry gives a lot of opportunity for employment.
- Some Investors want to expand their activities in Tourism (ski resorts for example), dairy livestock (especially cheese manufacturing).
- Most positive aspect of Kosovo is the available workforce – young, well-educated
- Raw material available, especially quarries for construction material, mining etc.
- Existing demand for a variety of sectoral products in Kosovo was a positive foundation and a starting point for expanding to regional countries such as Macedonia, Albania, Montenegro and later to EU and other international markets
- Competitive labour and operational costs
- Strong linguistic skills.
- Corporate tax system is advantageous.

6.2 ADVANTAGES

- Cost Factors – for labour and operational costs, general view is that costs are very competitive compared with other areas in the Balkans and South-East Europe (although not always the lowest).

Education System – well pleased with the system and particularly the standard and quality of graduate output.

- Infrastructure – excellent telecoms service; provision of utilities are getting better, although there is still room for improvement.
- Low taxes, including corporate taxes, and low levels of social contributions
- Convenient and central geographic location with improving transport and telecoms infrastructure.
- Skills availability – general view amongst the existing investors is that skills level and availability is very good (particularly with linguistics).
- Frequent reference to the relative youth of the country, and the fact that these young people – apart from being multilingual – are open, friendly, enthusiastic, willing to learn and very much EU-oriented
- Return on Investment is relatively high due to performance, low taxes low costs, and access to raw materials.

6.3. DISADVANTAGES

- Environmental – general perception is that regulations need to be tightened and upgraded considerably, harmonise them to EU standards.
- Transportation – airport and air transport is need of improvement, and promised cross border road networks are much anticipated.
- Business Climate / Conditions – enormous need for improvement, particularly within the legal system and dialogue with government ministries.
- Frequent reference to the troublesome informal economy.
- Recurring issue was that of restricted access to finance and high interest rates
- Utilities – particularly power shortages – is a real detriment to business expansion
- Judicial / legal system (court system) is slow and a real hindrance to business activities

Attracting and retaining viable inward investment is a vital basis for the further development of the economy of Kosovo. The private sector needs a predictable and transparent business environment. It is the role of the Government to ensure that the legal and regulatory framework, an effective and efficient administrative system, and open and fair judiciaries are in place to permit ease of entry, operation and exit for private sector enterprises. Given the findings of this survey, the Government should focus on the following issues:

- a) Increase effectiveness and efficiency of administrative authorities dealing with the private sector;
- b) Harmonize licenses and permits and other regulations that businesses face at national and municipal level;
- c) Involve the private sector, both domestic and foreign investors, in reviewing the policy, legal and regulatory environment and setup an appropriate dialogue

7. KEY RECOMMENDATIONS

Below are presented the key recommendations according to the fields that are considered imperative in improving the investment climate and business environments in Kosovo, something that will result not just in the improvement of the Kosovo position for the future coming years to be ranked in “Doing Business “ but also and attracting more foreign investors:

- DEVELOPMENT OF BUSINESS ENABLING FRAMEWORK

- Draft Law on amending and supplementing Law no. 02/L-123 on business organizations
 - Reduce number of procedures, time and cost to register a company by:*
 - a) *Eliminating minimum capital requirement;*
 - b) *Abolishing the practice of obtaining a company seal and speed up implementation of the e-signature law;*
 - c) *Eliminating the requirement to obtain an operating (working) permit and receive an inspection from the Municipality Technical Committee for companies not operating in the sectors related to public health or safety;*
 - d) *Introducing a single tax identification number to be used across all government agencies, including as a business registration number.*

- Draft Law on amending and supplementing Law no. 2002/5 on establishment of immovable property rights register
 - Reduce number of procedures, time to register property by:*
 - a) *Introducing a “fast-track” procedure for property registration;*
 - b) *Making standardized property transfer documents available to the public;*
 - c) *Eliminating the requirement to verify sale-purchase agreements before the court;*
 - d) *Facilitating obtaining tax clearances from the Finance and Property Directorate of the Municipality.*

- Draft Law on amending and supplementing Law no. 2004/18 on internal trade
 - Reduce number of documents and time to trade by:*
 - a. *Streamlining and consolidate the documents submitted for exporting and*

- importing;*
- b. Reducing delays at the border post by implementing pre-arrival*
- Draft law on amending and supplementing Law no. 2003/25 on Cadastre
 - Reduce number of procedures, time and cost to deal with construction permits by:*
 - a) Consolidating issuance of pre-construction clearances;*
 - b) Identifying measures to reduce costs;*
 - c) Introducing fast-track procedures for new property registration at the Geodesy and Cadastral Directorate of the Municipality;*
 - d) Eliminating the inspection by the Geodesy and Cadastral Directorate of the Municipality;*
 - e) Making the permitting process transparent.*
- Draft Law on amending and supplementing Law no. 03/L-10 on notary services.

- INCREASE THE EFFICIENCY OF JUDICIARY SYSTEM FOR TRADE DISPUTE RESOLUTION.

- a) Establishment of an Arbitrary Court.*
- b) Draft Law Amending and supplementing Law no. 03/L-008 on Execution Procedures*

- SIMPLIFICATION OF BUSINESS REGISTRATION PROCEDURES.

Further reduce procedures, time and cost to register a company by:

- a) Consolidating government approvals and payment of fees at one access point;*
- b) Create online database of company information;*
- c) Making online registration possible.*
- d) Reform recommendations specifically targeting foreign investor:*
- e) Ratify the 1961 Hague Apostille Convention to recognize official documents from other countries.*

- IMPLIFICATION OF TRADE IN LINE WITH BEST INTERNATIONAL PRACTICES AND PRINCIPLES, AND EU REQUIREMENTS TO REDUCE TRADE BARRIERS AND COSTS

- Reorganization and adjustment of border procedures*
- Establishment of one Border Management Agency*
- Reducing custom clearance time, currently at 17 days for export, 16 days for import*
- Installation of ASYCUDA⁴⁰ system in Kosovo Customs*
- Reducing custom clearance time, currently at 17 days for export, 16 days for import*

- INTEGRATION OF KOSOVO IN INTERNATIONAL COMMUNITY AND UPGRADING RELATIONS WITH INTERNATIONAL INSTITUTIONS

- Full review of treaties and international agreements that Kosovo can unilaterally ratify in order to further integrate*

- ESTABLISH ONE-STOP “INVESTMENT SUPPORT & BUSINESS DEVELOPMENT CENTRE,” OFFERING A FULL RANGE OF SERVICES DESIGNED TO “FAST TRACK”

ESTABLISH AN INTER-MINISTERIAL “COMMITTEE ON PRIORITY SECTOR

DEVELOPMENT” – WITH THE PRIVATE SECTOR REPRESENTED BY RELEVANT BUSINESS ASSOCIATIONS. THE RECOMMENDATIONS OF THIS COMMITTEE WILL MOVE SWIFTLY “UP THE LADDER” TO PARLIAMENTARY COMMITTEE AND/OR THE ASSEMBLY FOR ACTION [ON BETTER BUSINESS ENVIRONMENT)

- BUILDING KOSOVO'S ECONOMY IS EVERYBODY'S BUSINESS.
INVESTMENT

PROMOTION AND SUPPORT ARE ACTIVITIES THAT REQUIRE A HIGHER DEGREE OF COMMUNICATION AND COOPERATION AMONG AND BETWEEN ALL STAKEHOLDERS, BOTH PUBLIC AND PRIVATE.

⁴⁰ ASYCUDA is a computerised customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations.

TAX AND OTHER INCENTIVES (E.G., GOVERNMENT-FUNDED GRANTS FOR SPECIALIZED TRAINING)

SELECTION OF 10 TOP PRIORITY SECTORS

- a) *Selection of no more than 10 “priority” sectors (or subsectors) to follow rigorous and systematic review and analysis of an initial set of up to 20 sectors; in close consultation with relevant stakeholders (i.e., existing players and supporting agencies).*
- b) *Priority sectors to be selected based on stakeholders’ assessment of a range of criteria, especially those related to competitiveness (i.e., candidate sectors’ ability to compete in regional as well as more distant EMEA markets); potential to add value to Kosovo’s economy (e.g., through jobs and exports); and the general economy’s ability to absorb and make the most of positive linkages and spillovers.*
- c) *Following selection of priority sectors, targeting of specific potential foreign investors, with particular attention to specialized manufacturers and service providers that are based in countries with which Kosovo enjoys existing commercial or other unique relations (e.g., NL, JP, US). Also, as needed and/or upon request, identification of potential local partners for these foreign investors.*

QUARTERLY REVISION AND PUBLICATION OF AN OFFICIAL “BLUE BOOK ON

INVESTMENT PROMOTION & SUPPORT,” TO INCLUDE ALL MATTERS RELATED TO INVESTMENT PROMOTION AND SUPPORT IN KOSOVO, WITH PARTICULAR ATTENTION TO THE AIM OF SUPPORTING GROWTH AND DEVELOPMENT OF PRIORITY SECTORS AND RELATED CLUSTERS.

CONDUCTING MARKET RESEARCH AND SECTOR RESEARCH RELATED TO

SELECTED COUNTRIES IN ORDER TO IDENTIFY POTENTIAL INWARD INVESTORS;

CREATING, MAINTAINING AND MAKING AVAILABLE A DATABASE OF COUNTRIES AND OF INDIVIDUAL ENTERPRISES WITHIN THESE COUNTRIES

WHICH COULD BE POTENTIAL INVESTORS IN KOSOVO OR PREPARED TO PARTICIPATE IN JOINT VENTURES WITH KOSOVO ENTERPRISES;

PURSUE THE PROCESS OF ESTABLISHING THE FOREIGN INVESTORS COUNCIL
OF KOSOVO

HANDS-ON CONTACT WITH POTENTIAL INVESTORS THROUGHOUT THE

PROCESS OF SOLICITING INVESTMENT, INCLUDING AFTERCARE ONCE ENTERPRISES HAVE BEEN ESTABLISHED. IT IS RECOMMENDED THAT GOVERNMENT OF KOSOVO CREATE A PRO-ACTIVE AFTER-CARE PROGRAMME, AS PART OF ITS OVERALL INVESTMENT PROMOTION STRATEGY. THE STRATEGY WILL ENSURE INVESTMENTS REMAIN INTACT AND ENCOURAGE AND ASSIST EXPANSIONS, AND ALSO ENABLE THE GOVERNMENT TO DEVELOP AND MAINTAIN CLOSE WORKING RELATIONSHIPS WITH EACH OF THE PARENT COMPANIES THAT HAVE INVESTMENTS IN KOSOVO, THEREBY INCREASING THE SUCCESS RATE FOR RE-INVESTMENT.

These reforms should continue and remain a development priority. Indeed, these features will give Kosovo a competitive advantage to attract investment and to foster growth. The World Bank “Doing Business” annual report includes administrative burdens as a key variable in competitiveness. In an environment where both supply and demand are flexible, the investment is directed to those countries or areas where business burdens and increased transparency of regulatory regimes are more favourable.

More precisely, these reforms supporting entrepreneurship and market entry are crucial to the development of SMEs. SMEs are the engines of Kosovo economy, as multinationals are extra-territorial, and do not re-inject their profit in national economies. SMEs will generate employment and additional taxes to the government. Major efforts and policies and support should be directed to improve the business climate and support their development, nurturing their entrepreneurship spirit. Lower administrative burdens promote sustainable economic development, enhance competition, boost efficiency, bring down prices and stimulate

innovation as evidenced in countries that have reformed their business environment.

The government of Kosovo can foster growth by building a favourable business environment; gains are important in terms of Investment, employment, encouraging SMEs to produce higher added value activities and diminishing the large informal sector.

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9. APPENDIX

I am doing research about Business Environment of Kosovo and its Impact on Foreign Investment, Perception of Foreign Investors in Kosovo in order to identify, analyze and recommend respective steps to be taken to improve the current position of the foreign investors and to attract new foreign investors by offering very attractive business environment.

The Study will allows me to prepare my Msc thesis at the Politecnico di Milano.To achieve the above mentioned goal I need your perception , as very important contribution and directly involved in this process, to come up with recommendation for Better investment climate and business environment in order to improve foreign investment infrastructure (legal, environmental, administrative etc)

<i>Company</i>	<input type="text"/>
<i>Country of origin</i>	<input type="text"/>
<i>Location in Kosovo</i>	<input type="text"/>

1. Start up year	<input type="text"/>
2. Annual Turnover / Performance	<input type="text"/>
3. Which was the key factor to invest in Kosovo 4.	<input type="text"/>
Nr. of employees	<input type="text"/>
5. Investments until now	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
6. Main Export Markets / Export Sales	
7. Operational Costs	
8. Investor's Perspective of Kosovo Experience	

9. Major strengths of Kosovo (Please mark with 5(low) to 1(high))

	1	2	3	4	5
- Young and dynamic labour force					
- Emerging market					
- Labour Costs					
- Geographical positions					
- Natural Resources					
- Potential for growth/development					
- Good education					
- Lot of construction / infrastructure					
- Less Competition					
- Growing political stability					
- Low tax rate					
- Spirit of optimism					
- Climate					
- Close to EU Membership					
- Competitive prices					
- High unemployment rate					
- Integration with neighbouring countries					
- No Strengths					

10. Major weaknesses of Kosovo (Please mark with 5(low) to 1(high))

	1	2	3	4	5
- Legal situation / missing legislation					
- Bad infrastructure					
- Crime and corruption					
- Energy supply					
- Lack of administrative efficiency					
- Lack of education					
- Lack of information about Kosovo					
- Weak financial systems					
- Very low level of development					
- Location of the country					
- Very poor population					
- Mentality (not hardworking, not open)					
- Investments feels very risky					
- High Unemployment rate					
- Lack of independences					
- Lack of transparency					
- No industrial companies					
- No Weaknesses					

11. Most positive aspect of Kosovo

12. Most negative experience in Kosovo

**13 How do you rate the following factors based on your experience:
(Please mark with 5(low) to 1(high))**

1. Cost factors

- F1: Labour cost
- F2; Logistic cost labour force
- F3: The flexibility of labour regulations
- F4: The quality of labour force
- F5:General cost of doing bu iness
- F6: Tax rate

	1	2	3	4	5

2. Market factors

- F7: Large size of host markets
- F8: Demand in host country
- F9: Level of competition in host market
- F10:Economic stability

3.Infrastructure and technological factors

- F11: Natural recourses
- F12: Transport and logistics Infrastructure
- F13:Telecommunication infrastructure
- F14: Energy supply Infrastructure

4.Political Legal and economic factors

- F15: Political Stability
- F16: International trade agreements
- F17: Administrative Efficiency
- F18: Court systems (Investors legal Protection)
- F19: Corruption and organized Crime
- F20: Municipality Licensing and Company specific licensing
- F21: Ease of trading across borders
- F22: Customs and Trade Systems
- F23: Variety of financial Services
- F24: Financial Incentives

5. Social & Cultural factors

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F25: Cultural distance

F26: Linguistic skills

F27: Quality of Life

F28: Image of the country

F29: Lack of Information

14. What factors, in your opinion, account for the change?

15. What (in your opinion) would be the most important thing to do to improve?

16. Rating the aspects of attractiveness

(Please mark with 1(low) to 5(high))

- Local market
- Financial aspects
- Labour force
- Regional suppliers
- Legal Situation
- Political Situation
- Purchasing Power
- Social attractiveness
- Infrastructure

17. If you have experience, rating doing Business in the region

(Please mark with 1(low) to 5(high))

- Kosovo
- Serbia
- Montenegro
- Macedonia
- Albania
- Bulgaria
- Greece
- Croatia
- Rumania
- Bosnia and Herzegovina

18. Any other Proposal-Recommendation

The following fields are not mandatory to be filed

Name: _____

Position _____

Contact _____

mail: _____

Date:

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Please kindly return the completed questionnaire by e-mail to

leonitabraha87@hotmail.com

I would like to thank you for your time and your valuable contribution.