

FOREIGN DIRECT INVESTMENT IN KOSOVO

The Investment Climate, Potential and Barriers

RESEARCH REPORT BY INSTITUTE FOR FREE MARKET ECONOMY (IFME)



ABOUT IFME

Institute for Free Market Economy (IFME) is an independent, non-partisan and non-profit public policy organization established by Kosovo Chamber of Kosovo (KCC), based in Prishtina. In the pursuit of its mission, the Institute for Free Market Economy conducts credible research with a focus on key economic topics in private sector in Kosovo and utilize the outcomes of the research for policy dialogue and to influence policy making.

Disclaimer:

The research report was supported by Konrad-Adenauer-Stiftung (KAS). The views and opinions expressed in this report are those of the Institute for Free Market Economy (IFME) and do not necessarily reflect the views of KAS or the Kosovo Chamber of Commerce (KCO) as a founder of the IFME.. Responsibility for the information and views expressed in this report lies entirely with LFMI.

Research by:

Besa Zogaj Gashi, CEO of IFME, co-author of the study.

Serton Ajeti, business analyst, coauthor of this study.

Gent Beqiri, advanced researcher at Riinvest Institute, whose contribution was to gather all necessary information for database that was used for this study and also compiling the survey questionnaire.

Design and Layout

Norë Potera

Published by:

Institute for Free Market Economy (IFME), "Nëna Terezë", Nr. 20 10000 Prishtinë, Republika e Kosovës
Web-site: www.ietl-oek.com:Tel: +383 345 233 444

Copyright ©2019 by Institute for Free Market Economy (IFME). All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher. Contact the administrative office of the Institute for Free Market Economy for such requests.

Acknowledgments

Institute for Free Market Economy (IFME) wishes to express its utmost gratitude to Konrad-Adenauer-Stiftung in Kosovo (KAS) for the partnership to this study, without which it would not have been possible to be done.

Special thanks would go to all foreign businesses who accepted to participate in this survey and collaborated with the researchers in most professional manner by providing all information about their businesses as well as barriers they face.

The study report will be used by government officials, local authorities, and all relevant stakeholders, including students and interested persons dealing with Foreign Direct Investments (FDI).

Executive Summary

The aim of the research is to raise public awareness on the present state of FDI and its significance by analyzing the barriers that foreign investors face and by launching a broad based debate on the problems currently faced by FDI inflows in Kosovo as well as on policy measures to overcome them and subsequent precautionary measures (post-investment refers to post-investment services) for existing investors in order to maintain and expand their investment (re-investments).

Also, through this study the Institute for Free Economy (IETL) has provided valuable information on the potentials and reasons for investing in Kosovo with the view to continue a broad debate on policy measures and the design of a new national economic development strategy that will serve a guide for the reforms that are needed in the overall economic development and attraction of FDI.

Despite a positive trend (slight increase in FDI) in 2019 compared to 2018, according to the Central Bank of Kosovo (CBK), FDI experienced a significant decline during 2018, and our country is still far from attracting large corporations and big world brands to invest in Kosovo.

The Government of the Republic of Kosovo (GoK) since its declaration of independence until now, has made considerable progress on several factors that are known to contribute to FDI growth, including: a stable financial environment; liberalization; favorable tax policy; balanced macroeconomic policies; good road infrastructure; economic stability and secure banking system etc,. However research shows that low level of institutional credibility, fiscal barriers, administrative barriers, corruption, ransom, crime, theft and informal economy¹ continue to be major obstacles to doing business in Kosovo and threaten the business environment for attracting FDI in Kosovo.

On the other hand, regarding the perceptions of foreign businesses for Kosovar suppliers, buyers and customers, according to the results of the survey we learn that they have full confidence, thus giving a positive message in this regard and opportunities for continued investment and growth and expansion of activities.

Furthermore, the study shows that political instability plays an important role in the decision of foreign investors to invest their capital in the country. In this context, it was shown that there is little trust among foreign businesses towards central government as well as local authorities (28.6% of businesses interviewed stated that they do not trust local, 25% of businesses do not have trust on the central government) and that there is lack of coordination between these two levels of government.

In this regard, Kosovo has failed to provide a good example of institutional coordination, including adequate policies and actions to support foreign investments. Although the Kosovo Investment and Enterprise Support Agency (KIESA) has been established; National Council for Economic Development (NECD); Inter-Ministerial Committee on Strategic Investments; Council of European Investors (CEI) to promote and support the investment climate in Kosovo; important Stabilization and Association Agreements (SAAs), the Central European Free Trade Agreement (CEFTA) have also been concluded and signed; Double tax treaties have been signed with some countries in this regard, yet, experiences with foreign companies that have expressed interest in investing in Kosovo show us that they do not have positive perceptions due to inefficient inter-institutional coordination.

Another important finding is the improvement of the legal environment, namely the strengthening of the rule of law. Although Kosovo has made a lot of progress in doing business as well as in completing the Legal Framework for Foreign Direct Investment (legal infrastructure regulated and harmonized with EU standards); however, the improvement of the legal environment, namely the strengthening of the rule of law, according to the research findings is one of the issues for which the Government of Kosovo should take faster measures as a precondition for the operation and development of business and the attraction of foreign businesses. Courts must be effective and impartial.

It is also recommended that it is necessary to establish a commercial court to handle such litigation where fair, transparent and timely decisions are made. In this regard, the Kosovo Chamber of Commerce (KCC), in line with the business needs within its range of services, has estab-

lished an arbitration tribunal, which greatly facilitates the resolution of business problems in domestic and international business disputes. Despite the fact that in recent years there has been an increase in interest in resolving business disputes through arbitration, without having to turn to the courts, yet the results are not at satisfactory level.

Research shows that foreign businesses are also not satisfied with the power supply, which is often interrupted and lacks regular supply, creating additional costs and unfair competition. Although Kosovo has the youngest population in Europe, with a good command of English and German and a low-cost workforce, our country has the highest unemployment rate in Europe. A detailed analysis in this research report is done to identify and reflect on whether foreign companies find it difficult to find skilled workers according to their needs. According to the survey findings, foreign businesses find it difficult to recruit the right skilled workers.

However, on the other hand, the survey results show that the perceptions of foreign businesses operating in Kosovo have full confidence in their current employees, which is a positive message for new foreign businesses interested in investing in Kosovo. The Government of the Republic of Kosovo (GoK), support for vocational training and lifelong education, should have a long-term goal of creating curricula in line with current labor market needs and supporting sector-specific training.

Although real GDP growth (GDP) has averaged about 4 percent annually since 2015, and compared to the countries of the Western Balkans region, there has been steady growth, but this growth rate has not contributed to decrease unemployment and poverty, and has not increased the overall welfare for the citizens of Kosovo. The economic growth of recent years was mainly driven by increased government investment and capital spending as well as household consumption. Kosovo needs an economy that is more focused on manufacturing and increasing its export capacity and improving competitiveness and attracting of FDI. Remittances continue to be an important source for Kosovo's economy, but are mainly used to finance consumption rather than investments that would have an impact on long-term economic development. Unfortunately, to date, there have

been no initiatives by institutions to re-orient remittances into long term investments.

Also, the IETL Institute through this study provides valuable information about the potentials and reasons for investing in Kosovo, such as: use of the euro as the official currency, access to world markets, low taxes (although 35% of businesses interviewed state that rates are high), EU-compliant legislation, strategic location and large sectoral investment opportunities in particular sectors, such as: energy; renewable energy; mining; Information and Communication Technology (ICT) and the outsourcing business sector (the Business Process Outsourcing-BPO); wood and metal processing; agribusiness - food processing and packaging; tourism; textiles etc. A sector-based strategy enables central and local government to focus resources on sectors that offer the greatest investment opportunities and maximize FDI benefits in the local economy.

So far, Kosovo has made progress in the privatization of property or social assets. Potential investors, foreign or domestic, are all treated equally in the bidding process. By law, in special cases, the Government of the Republic of Kosovo (GoK) has the right to negotiate directly with potential investors without going through traditional tendering procedures. Challenging for the next government remains the review of the legal infrastructure for municipal property management.

In conclusion, it is suggested that the Government of the Republic of Kosovo (GoK) take some measures for foreign businesses investing in Kosovo: such as the introduction of tax holidays, the coverage of salaries of employees in the first years, the coverage of training expenses; full functionalization of balanced economic zones, creation of free customs zones; creating more space for business parks. These measures are one of the key elements of private sector development and will affect investment retention, expansion (reinvestment or expansion by existing investors) and attraction of foreign investment.

Contents

List of Abbreviations	8
List of Figures	8
List of tables	8
CHAPTER-ONE: INTRODUCTION	9
1.1 Research background	9
1.2 Research aim and objectives	9
CHAPTER-TWO: RESEARCH METHODOLOGY	11
2.1 Research methodology	11
2.1.1 Survey of 38 Kosovar registered joint ventures in a variety of sectors	11
2.1.2 Official reports and publicly available data	11
CHAPTER-THREE: DATA ANALYSIS AND PRESENTATION	12
3. Survey Findings	12
3.1 Institutional Credibility	12
3.2 Fiscal Barriers	13
3.3 Laws and Implementation	14
3.4 Administrative Barriers	15
3.5 Human Resources	18
3.6 Other Barriers	19
CHAPTER-FOUR: ECONOMIC OUTLOOK	23
4.1 Gross Domestic Product	23
4.2 Fiscal Indicators	23
4.3 Labor Force	23
CHAPTER-FIVE: KOSOVO'S FDI PROFILE	25
5.1 Trend of FDI inflows, their origin and structure (2015-2019)	25
5.2 The Legal Framework of FDI in Kosovo	26
5.2.1 Law on Foreign Investment	26
5.2.2 The Law on Strategic Investments	26
5.2.3 Platform for Dialogue between Government and Investors	27
5.2.4 Other important Laws related to FDI	27
5.3 The Stabilization and Association Agreement (SAA)	27

5.3.1 Western Balkan Regional Economic Area	28
5.3.2 Central Europe Free Trade Agreement (CEFTA)	28
5.4 Tax system in Kosovo	28
5.4.1 Value Added Tax (VAT)	28
5.4.2 Corporate Income Tax	29
5.4.3 Personal Income Tax	29
5.4.4 Pension Contribution	29
5.5 Customs	29
5.6 Economic Zones	29
5.7 Investment Guarantees	29
5.8 Privatization	30
CHAPTER-SIX: REASONS TO INVEST IN KOSOVO	31
6.1 Young population	31
6.2 Competitive operating costs	31
6.3 Business Environment in Kosovo	33
6.4 Central geographic location	33
6.5 Liberal Trade Regime	34
6.6 Economic Stability	34
6.7 Stable currency (Euro) and low inflation	34
6.8 Modern Telecommunications	34
6.9 Secure banking system	35
CHAPTER-SEVEN: INVESTMENT OPPORTUNITIES	36
7.1 Energy and Mines	36
7.3 Energy	36
7.4 Information Technology and Communication - ITC	36
7.5 Construction	37
7.6 Textile Industry	37
7.7 Wood processing	37
7.8 Tourism	37
7.9 Vineyards	38
RECOMMENDATIONS	39
REFERENCES	42

List of Abbreviations

CBK – Central Bank of Kosovo
EU – European Union
EUROSTAT – European Statistical Office
FDI – Foreign Direct Investment
GDP – Gross Domestic Product
GoK – Government of Kosovo
KAS – Kosovo Agency of Statistics
KIESA – Kosovo Investment and Enterprise Support Agency
LFS-Labor Force Survey
OECD - Organization for Economic Co-operation and Development
UNCTAD – United Nations Conference on Trade and Development
WB – World Bank
ICT- Information Technology and Communication

List of Figures

Figure 1. Institutional credibility – level of trust foreign businesses have towards institutions (central government, municipality, tax administration, courts, staff, suppliers and buyers) of Kosovo
Figure 2. Perceptions of foreign businesses on the tax rate in Kosovo
Figure 3. Perceptions of foreign businesses on the functioning of customs
Figure 4. Incentives that businesses would like to be implemented in their businesses by GoK
Figure 5. Perceptions of foreign businesses on law enforcement and the efficiency of the judicial system in Kosovo
Figure 6. Non-execution of contracts in the courts of Kosovo
Figure 7. Administrative barriers
Figure 8. Licensing procedures
Figure 9. Perceptions of foreign businesses about security of energy supply
Figure 10. Perceptions of foreign businesses regarding registering business
Figure 11. Perceptions of foreign businesses regarding business property registration
Figure 12. Perceptions of foreign businesses regarding getting building permits
Figure 13. Fulfillment of businesses' needs with local labor
Figure 14. Level of satisfaction of businesses with the performance of the employees
Figure 15. What foreign businesses think the level of difficulty of access to finance is.
Figure 16. What foreign businesses think of cost of financing in Kosovo?
Figure 17. Level of perception of corruption in Kosovo institutions .
Figure 18. Ransom phenomenon in Kosovo according to the perception of foreign businesses.
Figure 19. Crime and theft impact in business environment, according to the perception of foreign businesses
Figure 20. Perceptions of foreign businesses regarding of Kosovo Transport Lines and Proximity to Markets
Figure 21. Real GDP growth rate
Figure 22. Unemployment rate
Figure 23. Structure of Foreign Direct Investment by components
Figure 24. FDI statistics in 2019 per month until August 2019
Figure 25. Travel distance from Prishtina to Regional Centers in kilometers (km)

List of tables

Table1. The comparison of the taxation rates between the Republic of Kosovo and region countries
Table 2: The comparison of the obligatory Social Securities (Insurances) rates between the Republic of Kosovo and region countries

CHAPTER-ONE: INTRODUCTION

1.1 Research background

In this study, we will provide some definitions of FDIs that are relevant for Kosovo case (i.e. the economic structure of Kosovo, the regional context, political context etc.).

According to United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. FDI has three components: equity capital, reinvested earnings and intra-company loans.

According to Organization for Economic Co-operation and Development (OECD), FDI is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The "lasting interest" is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.

According to European Statistical Office (EUROSTAT), FDI is the category of international investment that reflects the objective of obtaining a lasting interest by an investor in one economy in an enterprise resident in another economy. The lasting interest implies that a long-term relationship exists between the investor and the enterprise, and that the investor has a significant influence on the way the enterprise is managed. Such an interest is formally deemed to exist when a direct investor owns 10% or more of the

voting power on the board of directors (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

According to World Bank (WB), Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long – term capital, and short-term capital as shown in the balance of payments.

From another end, the countries or companies want to make direct investment in an underdeveloped country aiming for cheap human and non-human resources to conduct their business in a cost-effective way which is not possible within home countries (Goedhuys, 2007). In this context, the underdeveloped countries have abundance of unused human and non-human resources which are suffering from inefficiency of utilization for the lack of sufficient investment. In this way the investing entities enjoy the facility to maximize their cost effectiveness, profitability and growth through making direct investment to an underdeveloped country (Adewumi, 2006).

Consistent with the study of Keane et al., (2010), Kosovo is one of the youngest countries in Europe, the labor force is its low operating cost; there is great potential for youth employment in the ICT sector; low taxes, EU-compatible legislation, a strategic location, and great sectorial investment opportunities; located in the heart of the Balkans, offers an easy access in European Union (EU); mainly rich with in coal; mineral resources such as: coal, zinc, lead, silver and chromium but also productive agricultural land. Kosovo is also rich in forests, rivers, mountains and soil.

Although the country has great potential for economic development and an attractive place for foreign investors, but since independence in 2008 and in this regard, it is still not the desired level of FDI.

1.2 Research aim and objectives

The aim of the research report is:

- a. To investigate the current business environment for FDI investment in Kosovo;

b. To investigate the credibility foreign direct investors, that have towards central and local government;

c. To identify barriers (i.e. fiscal, legislative, human resources; administrative and judicial) of FDI in Kosovo;

d. To launch a broad-based debate on the problems currently faced by FDI inflows to Kosovo and debate on precautionary measures the next to be undertaken by the government central and local to existing investors for the purpose of maintaining and expanding investment their (re-investment).

e. To provide valuable information on the potential and reasons for investing in Kosovo

f. To continue a broad debate on the drafting new national strategy for economic development that would guide the reforms that are needed for the overall economic development and attraction of FDI.

CHAPTER-TWO: RESEARCH METHODOLOGY

2.1 Research methodology

During this research study, tools that were used for study were as follows:

- (i) Survey of 38 Kosovar registered joint ventures in a variety of sectors of activity
- (ii) Official reports and publicly available data

2.1.1 Survey of 38 Kosovar registered joint ventures in a variety of sectors

In order to support the research presented in this report, analyze the current conditions and identify barriers to foreign investment in Kosovo, IFME surveyed companies that have some form of foreign participation in their capital structure. The sample included 38 Kosovar registered companies with the share of foreign capital in a variety of sectors of activity. The sample of foreign businesses interviewed has been selected based on probability sampling method.

The questionnaire focused on the following topics:

- Amount of foreign investment
- Profile of existing foreign investments
- Reasons for investment
- Foreign investment by sector
- Barriers to foreign investment
- Legislative environment
- Political situation

The survey included industries such as: service industries (ICT, business process outsourcing, call centers, travel agencies, internet providers and telecommunication), catering, construction industry, production, metallurgic industry. Most of companies that were subject of the survey had over 5 million Euro sales during 2018. The capital of these companies comes from countries of almost of all continents, such as Europe, America, and Asia and so on. The survey was carried through the questionnaire containing 47 questions which covered all subjects, such as fiscal barriers, legislative/regulative barriers, administrative barriers, human resources barriers, rule of law/execution of contracts, political situation, etc. The survey produced the desired results, scanned the real situation in which foreign businesses operate, and revealed many barriers and challenges, which will be found in the report.

2.1.2 Official reports and publicly available data

In this study we relied on official reports and publicly available data. This includes data from following institutions:

- Assembly of the Republic of Kosovo
- Investment Promotion Agency for Kosovo
- Kosovo Business Registration Agency
- Kosovo Chamber of Commerce
- Kosovo Registry of Business Organizations and Trade.
- Ministry of Economic Development:
- Ministry of Finance:
- Ministry of Foreign Affairs:
- Ministry of Trade and Industry,
- Office of the Prime Minister
- Tax Administration of Kosovo

Other sources that were consulted included laws, reports, articles and publications of various associations, public statistics (i.e. Central Bank of Kosovo, Kosovo Agency of Statistics) as well. Secondary data collected from internet, related brochures and various other publications were used. The official Tax Administrations/Public Revenue Offices web sites of the countries of the region have been consulted for analyzing the tax system in the countries of the region. The study also refers to data from: EUROSTAT – European Statistical Office; OECD – Organization for Economic Co-operation and Development; UNCTAD – United Nations Conference on Trade and Development; WB – World Bank.

CHAPTER-THREE: DATA ANALYSIS AND PRESENTATION

3. Survey Findings

This part of the study will provide insights and findings based on the questionnaires carried out with various – industry – businesses throughout Kosovo, and independently the size of the company. The study aimed at targeting as many businesses as possible, and as many industries as possible, while at the same time, keeping the range of business size heterogeneous. Below, all categories representing the barriers relevant to this study are given.

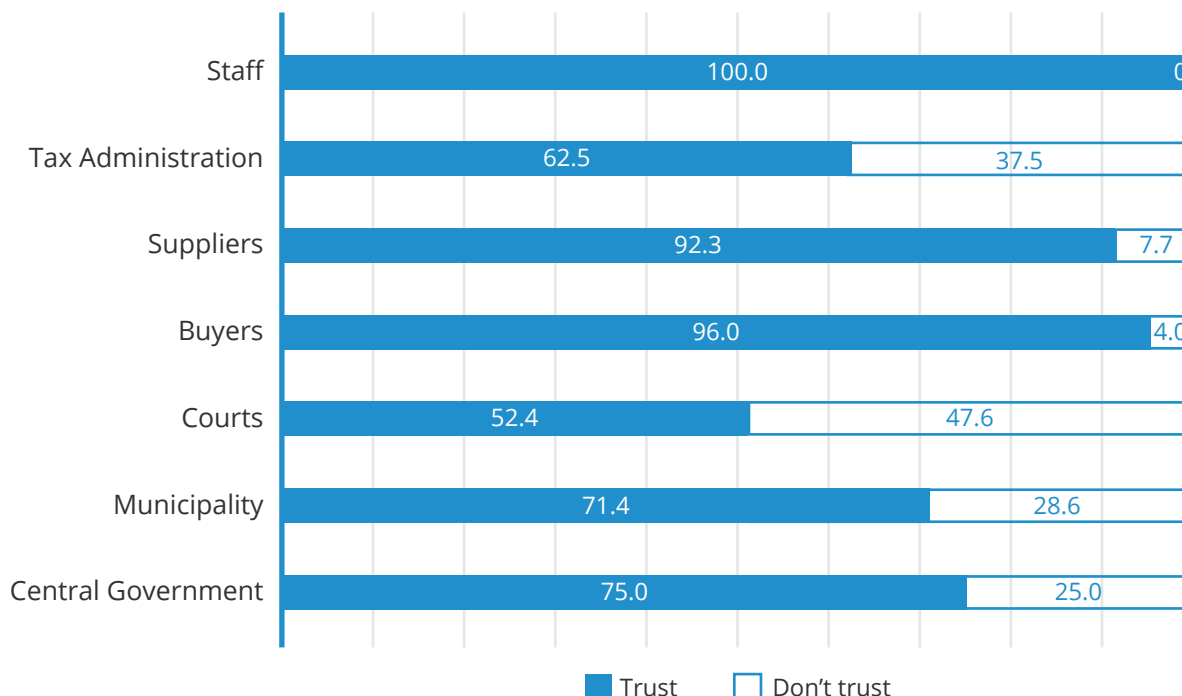
3.1 Institutional Credibility

The level of trust by foreign businesses in whole chain of institutions (i.e. central government, municipality, tax administration, courts, suppliers, etc.) play a significant role in the decision making by foreign businesses to reinvest their capital in Kosovo on one hand, and attract new foreign investment, on the other hand. As a result of the survey, it was revealed that foreign businesses operating in Kosovo have a full trust

in their employees, and this is very positive indicator for not only maintaining the current workforce and increasing further employment rate, but also send a positive message to new interested foreign businesses.

Pertaining to suppliers, foreign businesses engage in their business with, 93% of the respondents declare that they are satisfied and have trust on their suppliers (i.e. quality of goods/services, delivering on time wise, correctness, etc.), and only 7.7% have responded negatively, that they don't have full confidence in Kosovo suppliers. When it comes to buyers and Kosovo clients, there is satisfactory statistics, according to which, 96% of the interviewed businesses declare that as far as clients/buyers within Kosovo market are concerned, they have trust and have confidence on their after sale behavior and their satisfaction relating to the products/services purchased. Only 4% of the respondents do not have full trust (for more detailed information, see Figure 1).

Figure 1. Institutional credibility – level of trust foreign businesses have towards institutions (central government, municipality, tax administration, courts, staff, suppliers and buyers) of Kosovo



Source: Authors' calculations from the survey data

With respect to tax administration of Kosovo, 62.5% of existing foreign businesses have trust on this institution, whereas 37.5% do not have this trust. This is a statistic that GoK institutions should work upon and transform tax administra-

tion of Kosovo, through necessary reforms, into an institution in which foreign businesses must have full confidence, as well as be an efficient institution. One of the most important institution, in the whole chain of institutions, is without

any doubt, the courts, from which execution and non-execution of contracts are dependent on and have substantial impact on their operations and decisions to reinvest their capital in the country, including attracting new FDI. The level of trust in Kosovo courts is low. Only 52.4% of the respondents have declared that trust the Kosovo courts, whereas 47.6% have responded negatively with regards to trust these foreign businesses have towards courts. This is one area that GoK institutions should pay attention and intervene with concrete measures.

Local government and other relevant municipal institutions and agencies in which a foreign business is located and does business plays an important role to accommodate and make a friendly environment for foreign businesses. In this respect, the survey has found out that 71.4% of the businesses which were interviewed have declared that they trust local government, whereas 28.6% have stated that they don't have trust in local government and other relevant municipal institutions/agencies.

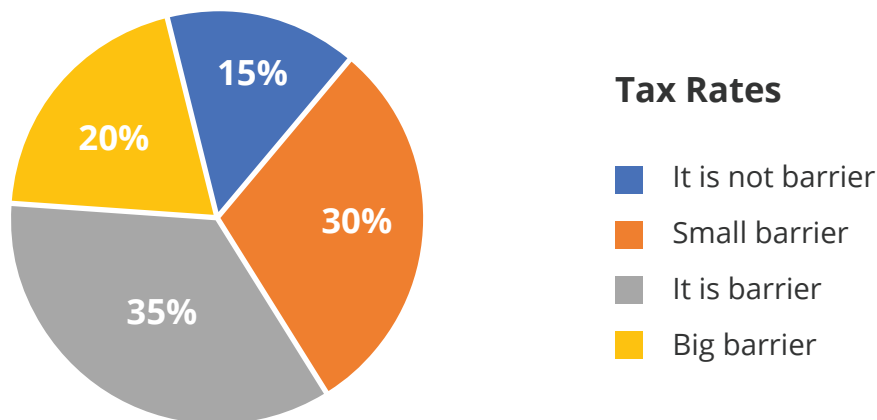
Almost identical, foreign businesses have responded towards central government. 75% of the respondents have asserted that have a trust in the central government, whereas 25% have declared they don't trust the government.

3.2 Fiscal Barriers

According to the businesses interviewed, tax rates in Kosovo are not so favorable, because 35% of the respondents, declare that tax rates are barrier for the businesses, and 20% state that tax rates are a big barrier for their businesses. This in total makes 55% of the businesses, who have declared tax rates in Kosovo negatively impacts their profitability.

Only 15% of the businesses have declared that tax rates are within normal limits and do not pose a barrier for their business, where 30% of them consider taxes to be a small barrier (for more detailed information, see Figure 2).

Figure 2. Perceptions of foreign businesses on the tax rate in Kosovo

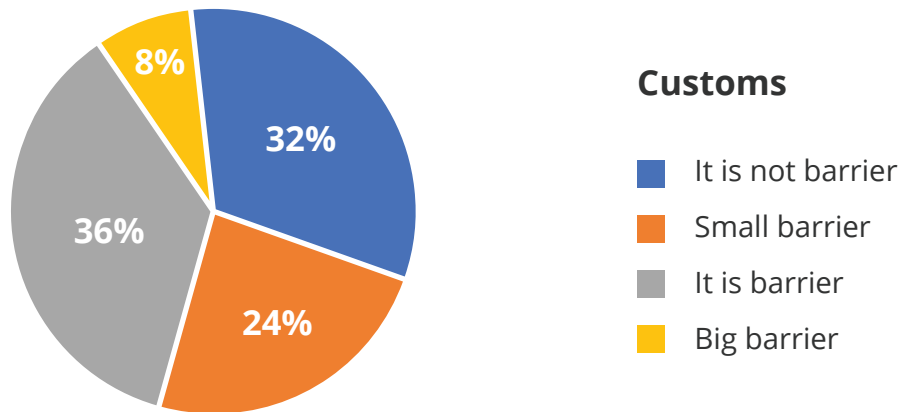


Source: Authors' calculations from the survey data

Part of the research was also the perceptions of foreign businesses on the functioning of customs. Customs procedures refer to all stages related to the cross-border movement of goods in the export and import trade. Issues that are closely related to the procedure include the code of behavior, categories of customs, required documentation and other special measures. As the survey results show, 36% of businesses interviewed claim that the customs is an obstacle, and 8% say it is a major obstacle, which

together constitutes 44% of businesses that believe that customs is an obstacle that seriously affects their business. Significant difficulties have been caused by heavy documentation requirements, heavy bureaucracy and slow clearance. Meanwhile, 24% of respondents claim that customs represent a minor obstacle, and 32% respond that customs do not constitute a barrier at all (for more detailed information, see Figure 3)

Figure 3. Perceptions of foreign businesses on the functioning of customs

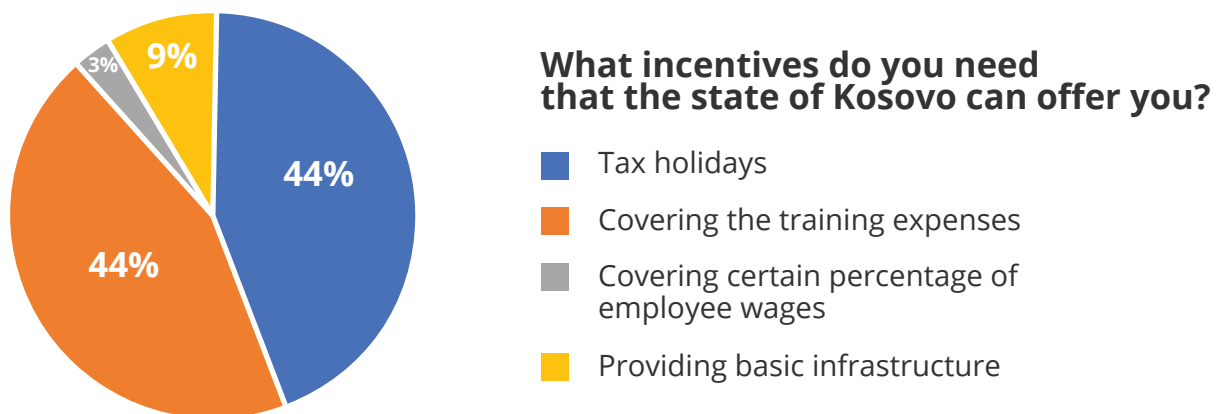


Source: Authors' calculations from the survey data

Pertaining to incentives foreign businesses would like to see be implementing in Kosovo and offer these businesses, 44% of the respondents consider that they would like to see tax holidays for their businesses, especially in the first years of operations, 3% say that the best incentive for their businesses would be to cover certain percentage of employee wages 9% of the businesses would need basic infrastructure in their sites where they choose as their business location. However, interesting enough is the fact that

44% of the businesses would need training expenses is provided by the government. This tells two things: 1) that employees in Kosovo are untrained, meaning that the educational system does not offer practical works to their students, and 2) training expenses are considered significant to be incurred by the businesses. Hence, Government of Kosovo should provide training packages for existing foreign businesses (for more detailed information, see Figure 4).

Figure 4. Incentives that businesses would like to be implemented in their businesses by GoK



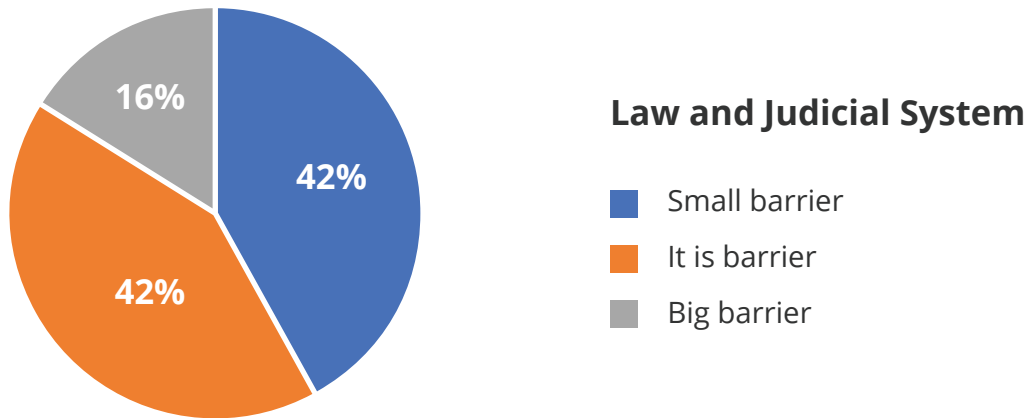
Source: Authors' calculations from the survey data

3.3 Laws and Implementation

On the question as to whether laws and judicial system is a problem in doing business in Kosovo, 16% have declared that they consider it is a big barrier the way laws have been written as well as the functionality of the overall judicial system in

Kosovo. 42% of the businesses have responded that laws and judicial system in Kosovo remains a barrier, whereas 42% of the businesses consider that laws and judicial system is small barrier in doing business in Kosovo (for more detailed information, see Figure 5).

Figure 5. Perceptions of foreign businesses on law enforcement and the efficiency of the judicial system in Kosovo



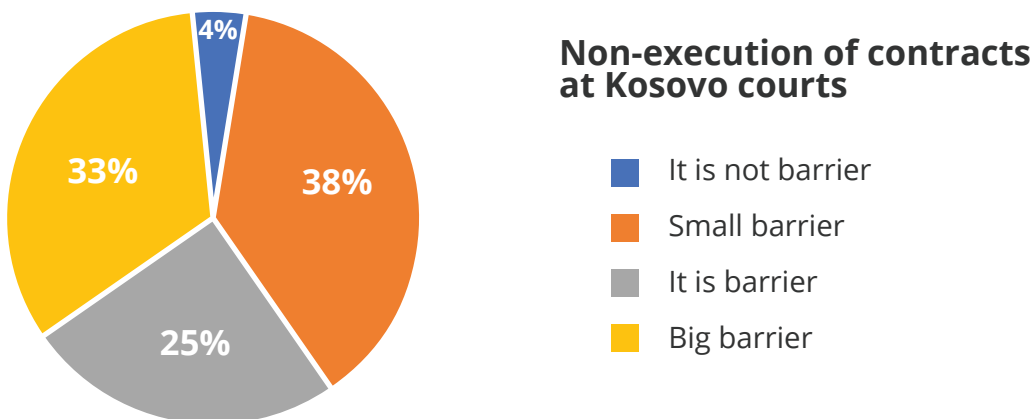
Source: Authors' calculations from the survey data

One of the most critical challenges in Kosovo is the execution of contracts in the Kosovo courts. This indicator is a huge burden for businesses, particularly, for foreign businesses that come and invest in Kosovo with the perception in mind that they will find a friendly environment where their rights will be protected and be respected. However, this has not been the case in the last decade where the execution of contracts has been a big barrier. The findings in the field has not contradicted the previous statements. Indeed, as it can be seen from the figure above,

33% of the respondents have declared that non-execution of contracts by Kosovo courts is a big barrier, 25% have responded that it is a barrier, 38% of them have stated that it is a small barrier, while only 4% have claimed it is not a barrier at all (for more detailed information, see Figure 6).

Obviously, Kosovo should tackle this issue and improve this indicator by urgently addressing this barrier if it wants to protect the existing businesses and attract new ones.

Figure 6. Non-execution of contracts in the courts of Kosovo



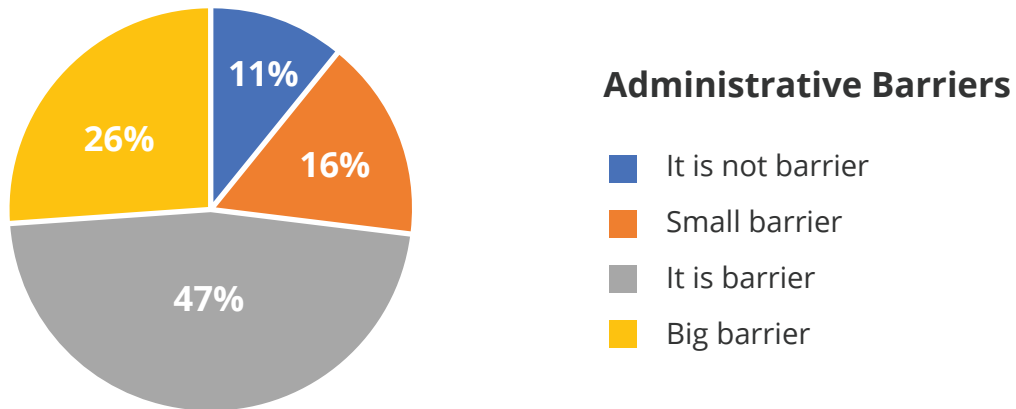
Source: Authors' calculations from the survey data

3.4 Administrative Barriers

Administrative barriers have always been a big burden for businesses, especially for foreign investors who have not known the working system of the relevant institutions, both local and central authorities. The study has revealed that administrative barriers continue to create problems to foreign businesses. 47% of the

interviewed businesses declare that administrative barriers (both at local and central level of government) is a barrier, 26% of the respondents have asserted that it is big barrier, 16% of them have responded it is a small barrier, and only 11% have claimed that administrative barriers do not pose a challenge to their businesses (for more detailed information, see Figure 7).

Figure 7. Administrative barriers

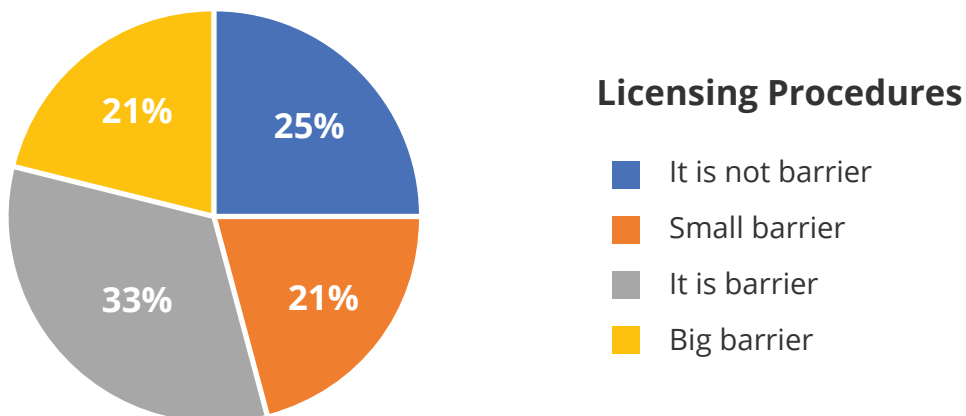


Source: Authors' calculations from the survey data

Licensing (i.e. time, cost, requirements, administrative, etc.) in Kosovo according to the businesses seem to be a challenge. According to the businesses interviewed, 21% of them have declared that equipping with licenses in Kosovar agencies, it is a big barrier, 33% of the businesses have stated that it is a barrier and 21% of them have

declared that it is a small barrier. It is evidenced that licensing appears to be a challenge. Only 25% of the interviewed businesses have declared that licensing procedures are not a barrier (for more detailed information, see Figure 8).

Figure 8. Licensing procedures

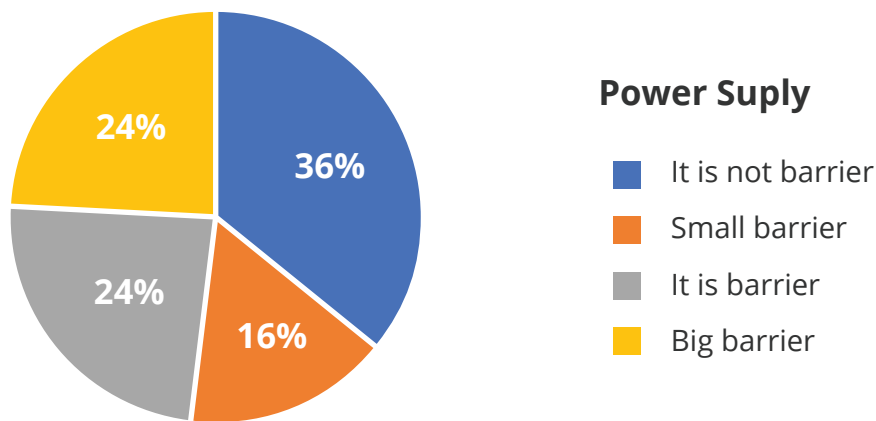


Source: Authors' calculations from the survey data

In the past 20 years, power supply in Kosovo has been a great challenge on a country level, and it still does continue to be, however, at a much lesser scale. In recent years, power supply has been improved significantly. Yet, businesses know this best. As it can be evidenced, 36% of them have declared that it is not a challenge any longer, 16% of them have declared that it still

continues to be a small barrier, 24% of the businesses have stated that it is a barrier, and 24% of them have declared as being a big barrier. Based on the findings, GoK institutions must address this barrier as it belongs at the basic items that a foreign business should not even face with (for more detailed information, see Figure 9).

Figure 9. Perceptions of foreign businesses about security of energy supply

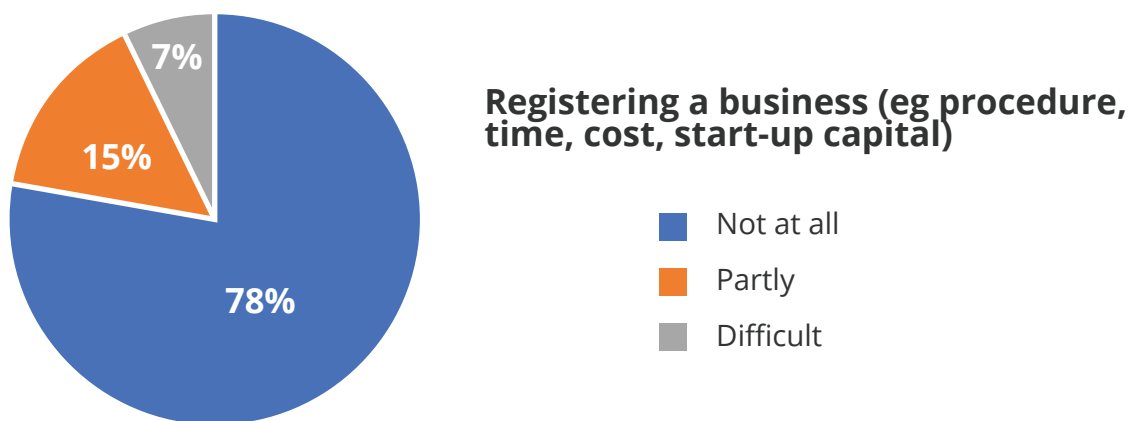


Source: Authors' calculations from the survey data

Kosovo has done a good job in doing businesses indicators in recent years. According to the World Bank Doing Business Report in 2018, Kosovo belongs among the top 10 economies worldwide with the most notable improvement in doing business reforms, and overall Kosovo ranks 40th out 190 countries in the ease of doing business, compared to 60th place the previous year. This fact can be evidenced with the survey, where most of businesses, 78% of them, feel

that registering a business in Kosovo is not issues at all, 15% of them feel that level of difficulty was partial and not an issue, whereas only 7% of the foreign businesses have stated it is difficult to register a business in Kosovo. Kosovo, as a conclusion, has done proper reforms to cut administrative and bureaucratic barriers to minimum with respect to registering a business (for more detailed information, see Figure 10).

Figure 10. Perceptions of foreign businesses regarding registering business

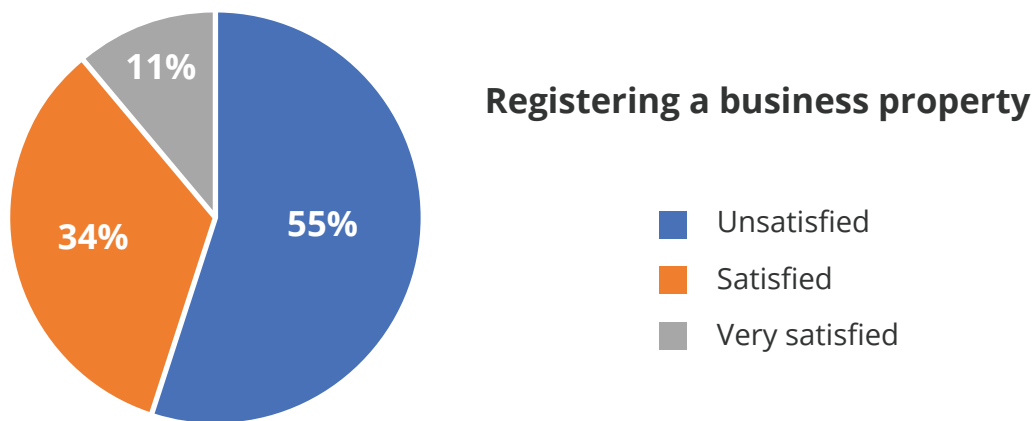


Source: Authors' calculations from the survey data

Registering a business property appears to be a big barrier in Kosovo. Kosovo, according to the World Bank Doing Business Report in 2018 ranks 34th among 190 countries in the whole world. However, existing foreign businesses have revealed that 55% of them have declared that they are unsatisfied with this indicator, whereas 34% have responded they are satisfied, while

11% have declared as very satisfied (for more detailed information, see Figure 11). As a conclusion, a major percentile of the businesses responds that registering a business property in Kosovo is not easy, it is costly, takes a lot of time, it is bureaucratic. This topic needs to be addressed by GoK institutions.

Figure 11. Perceptions of foreign businesses regarding business property registration

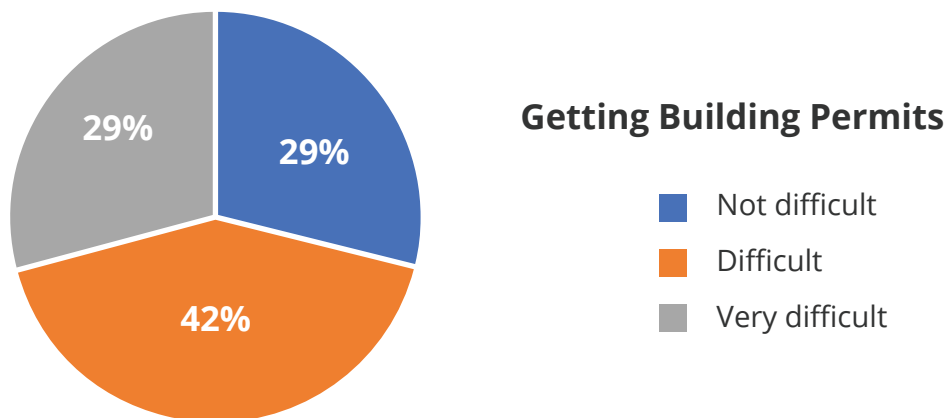


Source: Authors' calculations from the survey data

Often bureaucracies such as getting building permits at local and central level may create huge problems and barriers to foreign businesses more than anything else. In this respect, businesses have ranked this barrier in the following order: 42% of them have declared that it is difficult, 29% of them have responded that it is very difficult, whereas 29% of the businesses have asserted that it is not difficult to get a building permit (for more detailed information, see

Figure 12). Findings of the study correspond with the getting-building-permit-indicator of the World Bank Doing Business Report 2018, according to which, Kosovo ranks 122nd among 190 countries. As a conclusion, Kosovo should improve this indicator, as it is a big challenge and hindrance for foreign businesses when they deploy and start business in Kosovo.

Figure 12. Perceptions of foreign businesses regarding getting building permits



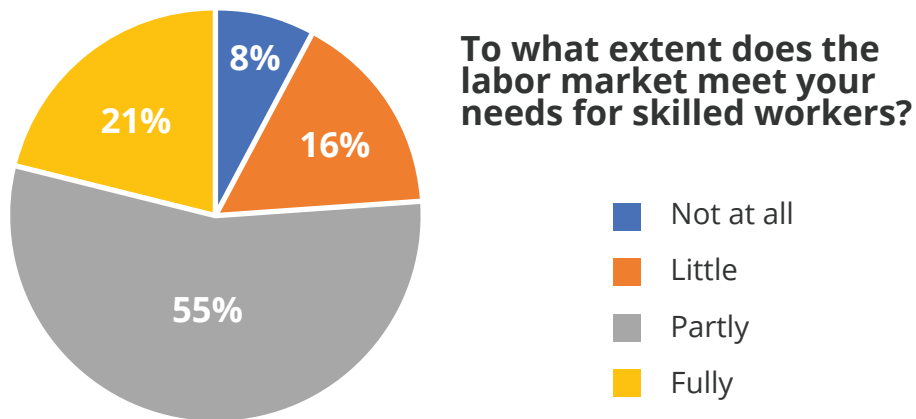
Source: Authors' calculations from the survey data

3.5 Human Resources

Labor market in Kosovo seem to offer solid base for local workers for foreign businesses. As it can be seen from the survey regarding this question, 8% of businesses have declared that Kosovo does not meet the needs of the workforce businesses have. 16% of businesses regard that this need is little fulfilled by local workers, 55%

believe that Kosovo offers partly workforce to meet the needs of the businesses (for more detailed information, see Figure 13). Whereas, only 21% are of the opinion that Kosovo fully meets the needs for skilled labor force. Based on the findings, it is worrying fact most businesses think Kosovo is not fully able to provide for the workforce.

Figure 13. Fulfillment of businesses' needs with local labor

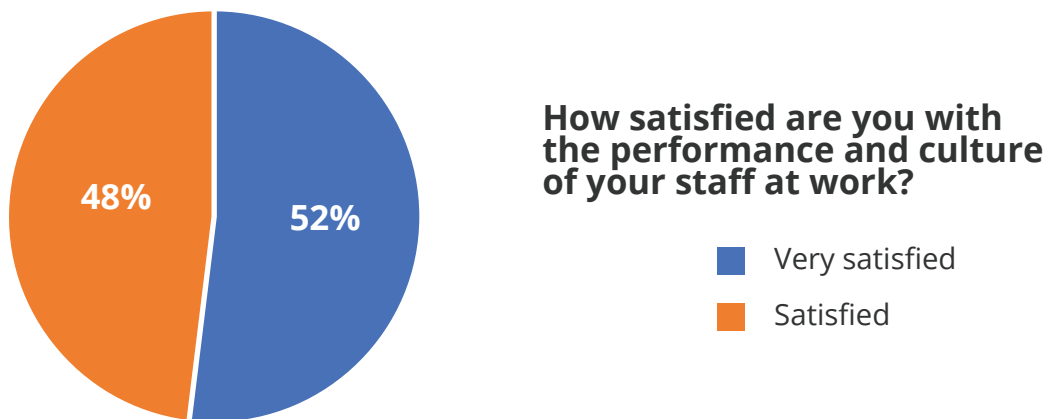


Source: Authors' calculations from the survey data

With regards to businesses being satisfied with the performance of Kosovo workers employed in these businesses, 52% of the businesses say they are very satisfied with the performance of

the workers they have employed, where 48% declare they are satisfied (for more detailed information, see Figure 14). This is a good signal, as the performance indicator is satisfactory.

Figure 14. Level of satisfaction of businesses with the performance of the employees



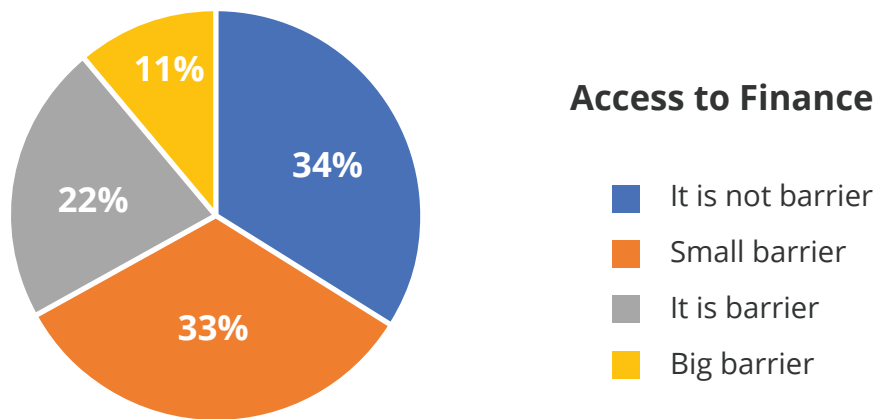
Source: Authors' calculations from the survey data

3.6 Other Barriers

According to the study, access to finance has not resulted a big barrier. As it can be seen from the figure, most businesses have declared that access to finance in banks operating in Kosovo is not so difficult by 33% declaring as small barrier, and 34% of them as not barrier at all, respectively. 22% of the businesses have declared that getting a loan at banks operating in Kosovo is a

barrier, while for the rest of 11% of them, it is very difficult, and hence, it poses a big barrier (for more detailed information, see Figure 15). Note: getting a loan in banks operating in Kosovo varies on many factors, period of time doing business in Kosovo being one of the most factors, as companies should have a proven record that they are financially healthy.

Figure 15. What foreign businesses think the level of difficulty of access to finance is.

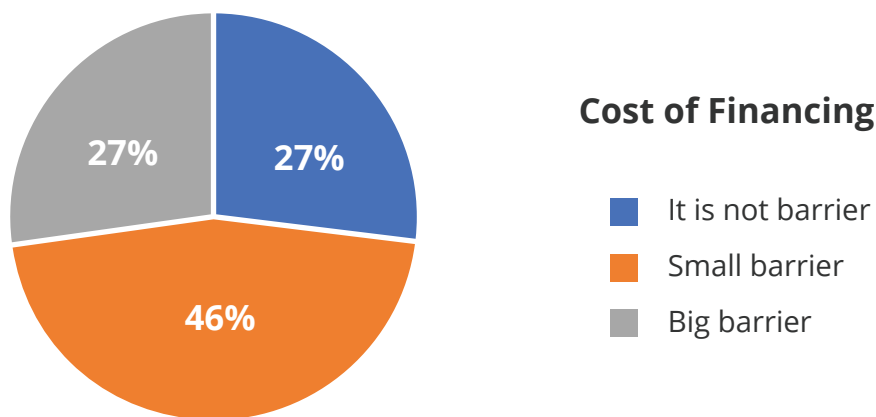


Source: Authors' calculations from the survey data

Cost of financing in commercial banks in Kosovo does not result to be a big burden. The survey shows that 27% of businesses have said that cost of financing is expensive and hence a barrier, 46% of them have ranked cost of financing a

small barrier, whereas 27% of them have responded that cost of finance is not expensive, and hence, not a barrier at all (for more detailed information, see Figure 16).

Figure 16. What foreign businesses think of cost of financing in Kosovo?

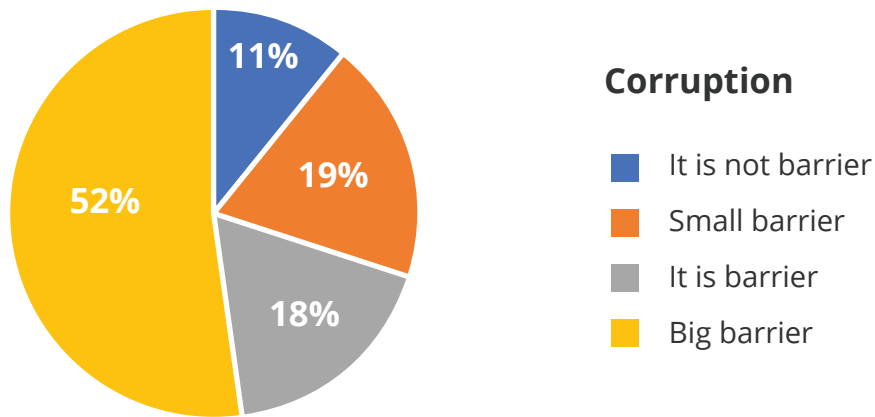


Source: Authors' calculations from the survey data

Corruption is one of the biggest barriers that foreign investors face in Kosovo. It destroys the competition, and makes foreign investors run away from Kosovo. It has been and continues to be a big barrier, as this study shows where 52% of the businesses have declared that it is a big barrier, and only 11% of them have claimed that is not a barrier (for more detailed information,

see Figure 17). Corruption at all levels of governments (local and central), including various relevant institutions where businesses must deal with when obtaining specific licenses, must be addressed by the GoK institutions in order to create a fair and competitive business environment.

Figure 17. Level of perception of corruption in Kosovo institutions

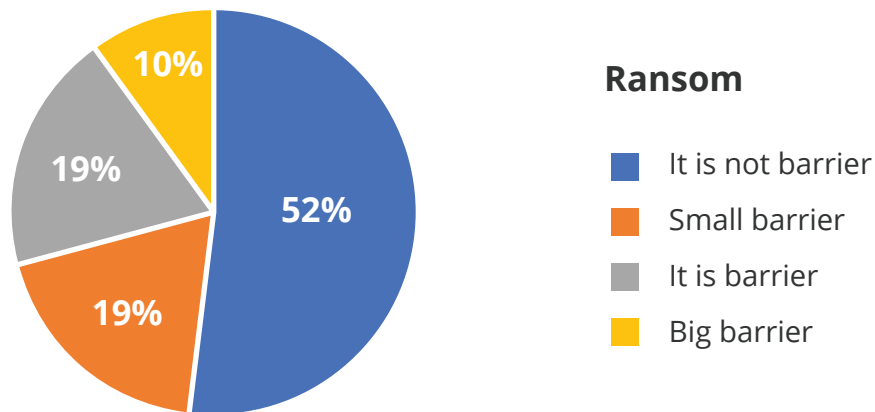


Source: Authors' calculations from the survey data

Ransom, according to the study does not seem to a big barrier as compared to some years ago. 52% of the businesses believe that ransom does not exist and is not a barrier, and only 10% state that is a big barrier (for more detailed informa-

tion, see Figure 18). Yet, this issue should not be ignored and must be fought continuously by the Kosovan authorities, as this study reveals that for 19% of the businesses it is a barrier, and this percentage is not small.

Figure 18. Ransom phenomenon in Kosovo according to the perception of foreign businesses.

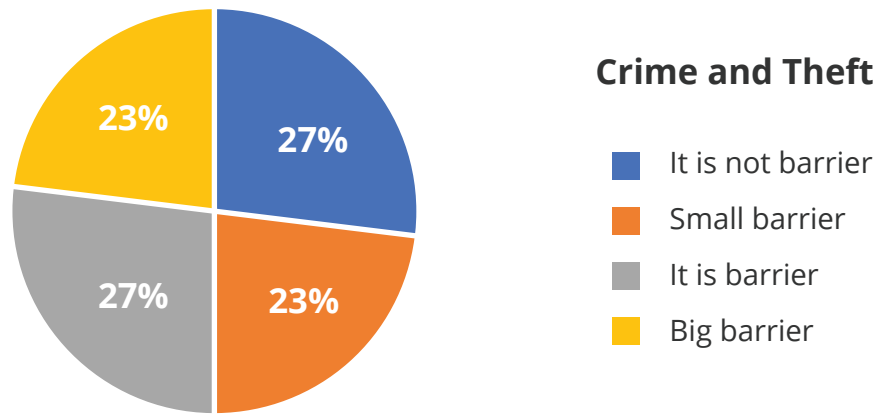


Source: Authors' calculations from the survey data

Crime and theft as very negative phenomena of the life in general, and the business activity, in particular, has negative affects upon the business environment in many forms. According to the survey, it has resulted that crime and theft is a worrying phenomenon among foreign businesses. 50% of the businesses have declared

that these two phenomena do continue to pose big barrier and barrier, respectively, whereas 50% of the rest of the businesses have declared that it is small or not a barrier, as they have not been affected by these phenomena (for more detailed information, see Figure 19).

Figure 19. Crime and theft impact in business environment, according to the perception of foreign businesses

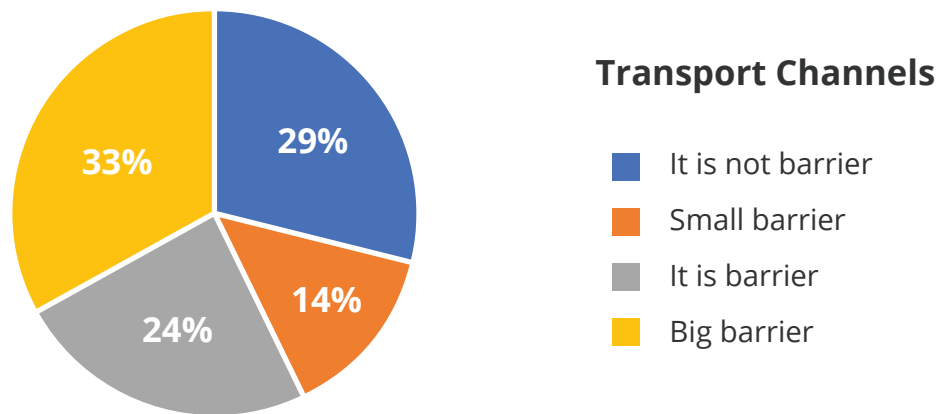


Source: Authors' calculations from the survey data

Transportation channels from Kosovo to the world and vice versa, according to the businesses, seem to be quite a challenge, as 33% of the respondents have declared that transportation routes/channels are a big problem, 24% of

them have said it is a barrier, and 14% of the businesses have responded it is small barrier, while 29% have declared transporting goods and services to and from Kosovo is not a barrier at all (for more detailed information, see Figure 20).

Figure 20. Perceptions of foreign businesses regarding of Kosovo Transport Lines and Proximity to Markets



Source: Authors' calculations from the survey data

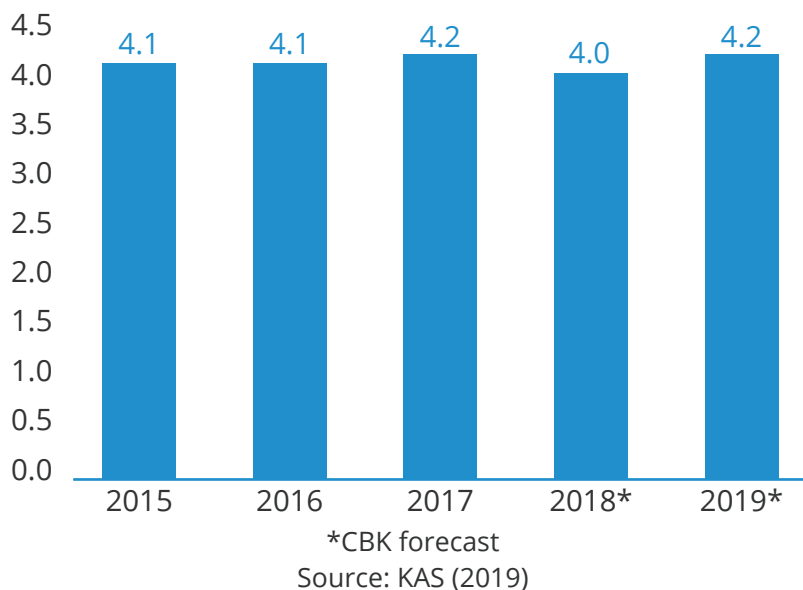
CHAPTER-FOUR: ECONOMIC OUTLOOK

4.1 Gross Domestic Product

According to quarterly estimates of Kosovo Agency of Statistics (KAS) for 2018, the nominal value of GDP reached the amount of 6.5 billion euros, which in real terms represents a growth of around 3.9 per cent. Similarly, CBK projections

for 2018 suggest that the economy of Kosovo was characterized by a real growth of 4.0 per cent (figure below), a slower increase compared to the previous year, as a result of the increase in the negative contribution of net export component.

Figure 22. Real GDP growth rate



According to KAS projections, the growth of economic activity during 2018 was mainly generated by investment growth of 14.7 percent. Capital expenditures of the Government increased by 13.4 percent (5.4 percent in 2017). A significant contribution to the growth of investments is estimated to have been the growth of banking lending, which has been characterized by double-digit growth throughout the year. Only new investment loans marked an annual growth of 20.9 percent in 2018. Also, changes in tax policy over the past years are estimated to have impacted on stimulating investments (source: CBK Annual Report 2018).

4.2 Fiscal Indicators

According to the Central Bank of Kosovo, Budget revenues in 2018 reached a net amount of 1.76 billion euros, representing an annual increase of 4.5 per cent. Budgetary expenditures amounted to 1.92 billion euros, representing an annual increase of 10.3 per cent. Consequently, Kosovo budget marked a primary budgetary deficit of 59.0 million euros in 2017, while as a share of GDP, the primary deficit was 2.4 per cent. Within

revenues, there is a higher increase of direct tax revenues which amounted to 267.5 million euros (12.4 per cent increase), while indirect tax revenues marked an increase of 2.2 per cent and amounted to 1.3 billion euros. Non-tax revenues marked an increase of 3.8 per cent and amounted to 192.9 million euros. By the end of 2018 public debt amounted to 1.1 billion euros, which is 9.7 per cent higher compared to 2017. As a share of GDP, public debt has reached 17.1 per cent from 16.6 per cent in 2017. This increase in public debt is attributed to the growth of domestic debt of 17.8 per cent (which reached 676.6 million euros), while the public external debt marked a decline of 1.4 per cent amounting to 416.4 million euros. The share of public external debt in total public debt decreased to 38.1 per cent from 42.4 per cent in 2017.

4.3 Labor Force

According to the Kosovo Agency of Statistics, the unemployment rate in Kosovo is estimated to be 29.6%¹. According to the same source, the unemployment rate is higher among youth and

¹<http://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/labour-force-survey-in-kosovo-2018>

women. This high unemployment rate is not expected to be improved in the near future, due to the economy not being able to create new jobs, and given that Kosovo has the youngest population in Europe, tens of thousands of youth enter the labor market each year finding

having very limited employment possibilities. On the other hand, however, the work force is characterized with varied skills and levels of education and training.

Figure 21. Unemployment rate



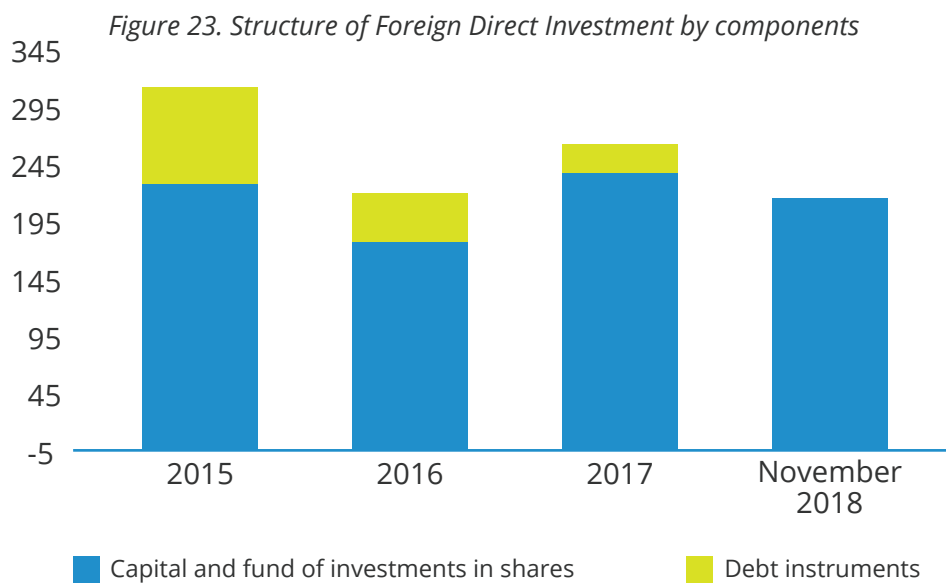
Unemployment rate by years 2011 – 2018 – Statistical Yearbook of the Republic of Kosovo, 2019

CHAPTER-FIVE: KOSOVO'S FDI PROFILE

5.1 Trend of FDI inflows, their origin and structure (2015-2019)

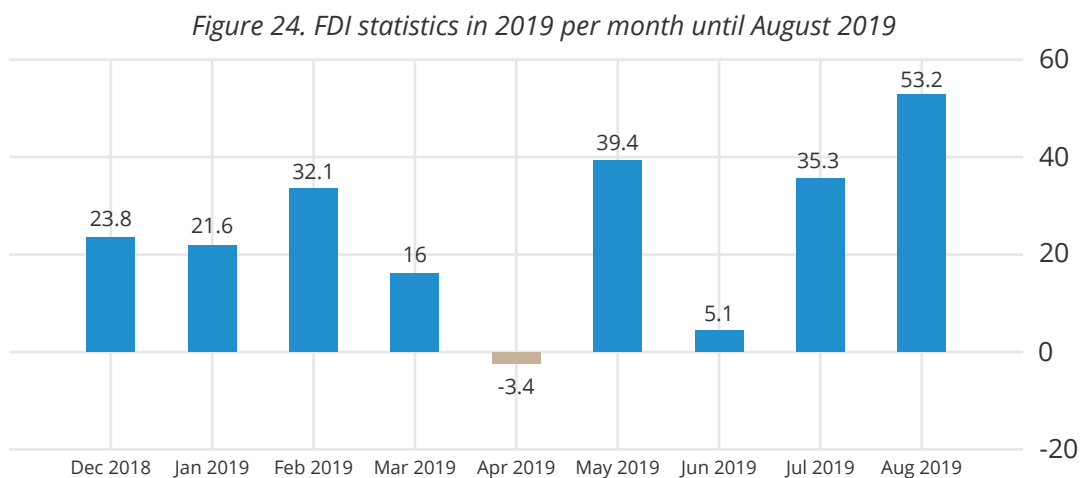
According to the Central Bank of Kosovo, Foreign Direct Investment (FDI) in 2018 in Kosovo amounted to 213.7 million euros, which represents a decline of 16.3 per cent compared to 2017. Within the FDI structure, the capital and fund of investments in shares, but also investments in debt instruments marked a decrease

(figure 23). Capital and the fund of investment in shares amounted to 217.4 million euros, which is 6.6 per cent less compared to the previous year. FDIs in the form of debt instruments amounted to -3.6 million euros (22.7 million euros in 2017). FDI growth was mainly evidenced in the real estate sector, mining sector, electricity and trade, while financial services and constructions sector marked a decrease.



Source: CBK (2019)

In terms of the origin of FDI, most of FDIs came from Switzerland, Germany, Turkey, United Kingdom, Albania.



Source: Tradingeconomics.com | Central Bank of the Republic of Kosovo

This data shows a flow of foreign direct investment covering nine-month period in 2019, showing an increase in FDI compared to 2018, especially in the second part of the year 2019.

5.2 The Legal Framework of FDI in Kosovo

5.2.1 Law on Foreign Investment

Foreign direct investment in Kosovo is primarily regulated by the Law No. 04/L-220² on Foreign Investment, whose purpose is to promote, protect, and attract foreign investment in Kosovo, primarily by providing fundamental rights, protection measures and guarantees for foreign investors. The main aim of this law, which repealed the Law No. 02/L-33³, is to improve the business climate and conditions in order to attract foreign investments and ensure fair treatment of investors in accordance with international standards. The law regulates all aspects of foreign investments, addressing non-discrimination, expropriation, compliance with obligations/standards and laws, and, among others, mechanisms for the resolution of investment disputes. The inclusion of all these guarantees in this Law is in accordance with the best international practices and in full compliance with EU legislation. The current Law on Foreign Direct Investment contains 26 articles and the Ministry of Trade and Industry (MTI) is the responsible authority, through its mechanisms, to develop-create and monitor development policy for foreign investment.

The Law No. 02/L-33 on Investment stipulates that foreign investments include but are not limited to:

- Movable and immovable property, including rights in and to such property such as a mortgage, lien, pledge, lease or servitude;
- Intangible and intellectual property, including rights in such property, as well as goodwill, technical processes and knowledge;
- Cash, securities, commercial paper, guarantees, shares of stock or other types of ownership interests in the Republic of Kosovo or foreign business organization; bonds, debentures, other debt instruments;
- Claims or rights to money, goods, services, and performance under contract;
- Concessions or licenses conferred by law, administrative act, or contract; and
- Returns yielded by an investment in the Republic of Kosovo or an investment elsewhere⁴.

Foreign investors, in theory, enjoy treatment guaranteed by the law which gives them the same rights and responsibilities as domestic investors⁴. The law on foreign investment also provides assurance regarding the repatriation of capital and profit, and, contrary to the previous law, the definition of foreign investor includes also Kosovar citizens of diaspora⁵. It should be noted that foreign investors enjoy the right to settle investment disputes according to the requirements agreed upon between the foreign investors and the Republic of Kosovo. In the case that an agreement does not exist, foreign investors can request to settle the investment dispute through a court of competent jurisdiction in Kosovo or through local and/or international arbitration⁶.

5.2.2 The Law on Strategic Investments

Alongside with the Law on Foreign Investment, Kosovo's Parliament recently adopted one of the most important Laws in its entire history, namely the Law No. 05/L-079 on Strategic Investments in the Republic of Kosovo. The aim of this Law is to stimulate, attract and create conditions for implementation of strategic investments in the Republic of Kosovo, to establish administrative procedures and criteria for evaluation, selection, implementation and monitoring of strategic projects, as well as determining the procedures for granting the use of the property of the Republic of Kosovo, for the purpose of implementation of strategic investments projects (Law No. 05/L-079 on Strategic Investments in the Republic of Kosovo). The law covers different sectors such as Energy with infrastructure and Mining, Transport and Telecommunication, Tourism etc. The definitions are relatively the same as in the Law on Foreign Investment. The Law further establishes the Inter-Ministerial Committee for strategic investments. There is a slight description of the responsibilities of each Institution, namely, the Investment and Enterprise Support Agency serves as a Secretariat, whereas the Committee, based upon each individual case, issues a recommendation of granting the status of a strategic investor. The recommendation is basically given after the recommendation of KIESA, respectively the professional advices from the Operational Group on the preparation and implementation of strategic investment. The Government of Kosovo, on the

⁴Law No. 02/L-33 on Foreign Investment; The rights vested on this law are: constant protection and security, nondiscriminatory treatment, compensation in case of nationalization, expropriation, violation of the legislation, and protection against retroactive application of laws.

⁵Defined in the law as: 'any physical person who is a citizen of the Republic of Kosovo, but has residence abroad'. For more see Law on Foreign Investment, Article 1.3.2

⁶Law No. 04/L-220 on Foreign Investment Article 16: Mechanisms for the Resolution of Investment Disputes

²<https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=8982>

³Law No. 04/L-220 on Foreign Investment, Official Monitor No. 1/09 January 2014.

other hand, reserves the exclusivity of deciding about each and individual case.

The Law further regulates the Agreement for the implementation of the strategic project, the use of Kosovo's immovable property when implementing strategic projects, the list of projects prepared by public authorities, transfer of the right to use the publicly-owned enterprise's property to the investment entity and other important legal provisions.

5.2.3 Platform for Dialogue between Government and Investors

Kosovo Government has established the National Council for Economic Development (NCED), whose role is to organize and harmonize activities of state institutions in order to eliminate barriers and address the challenges of doing business in the Republic of Kosovo.

The National Investment Council (NIC) was established by the government of Kosovo aiming to coordinate the financing infrastructure projects in Kosovo and ensure synergy between different sources on financing, i.e. budget, loans and grants.

Additionally, there are several strategic document developed by Government of Kosovo related to economic development and attracting foreign investors, as follows:

- National Development Strategy as a key document laying out the highest priorities of the Government, which also includes measures affecting trade;
- Economic reform Agenda, a key reform agenda agreed by the Kosovo Prime Minister and EU commissioner.
- Economic Reform Program- a document providing 20 key measures to deepen the economic dialogue between Kosovo and EU.

In Kosovo, The European Investor Counsel (EIC) was established in 2014. The Council was established for the following purposes.

- a) To contribute to the improve the investment climate in Kosovo with regard for better legislation and business practices at the technical level that have a direct impact on your daily and long-term business operation.
- b) Support the alignment of the national legislation in Kosovo's EU integration process, by providing inputs based on the experience of different EU countries.
- c) Connect and cooperate with other relevant stakeholders, including international organizations, other business organizations, diplomatic

missions and similar foreign investor organizations to share the best practices and promote the common interests, etc.

5.2.4 Other important Laws related to FDI

Other important Laws related FDI interlinked with foreign direct investment are: The Law on Business Organizations, 02/L-123, The Law on Economic Zones 03/L-129, The Law on Arbitration (02/L-75), 2007, The Law on Chamber of Commerce No. 2004/7, The Law on Standardization (Regulation No.2004/12), The Law No. 03/I008 on Executive Procedure, The Law No. 05/L -057 and The Law No. 05/I -057 on the establishment of the Kosovo Credit Guarantee Fund.

All the above-mentioned laws originated from the Governmental strategy with the aim of filling the gaps that existed in different laws. This was necessary in order to complete the Legal Framework for the Foreign Direct Investments. It was irrational to think that only with a single Law on Foreign Investment the Legal Framework would be completed. Notably, there is no significant lack of the specific provisions laid down in different laws which protect the Foreign Investor. In this respect the procedures relating to the enforcement of contracts are regulated by the Law on Contested Procedure and the Law on Execution. In general, the basic courts have jurisdiction to enforce contracts, with the exception of matters falling within the jurisdiction of the Commercial Court, which is responsible for enforcement (Economic Initiative for Kosovo, 2011, n.n).

5.3 The Stabilization and Association Agreement (SAA)

Kosovo in 2015 signed onto the European Unions' (EU) Stabilization and Association Agreement (SAA). The agreement is focused on bringing the EU and Kosovo closer together to promote sustainable economic growth in Kosovo. The SAA creates a free trade area between Kosovo and the EU with EU standards and laws being applied in the country (Council of the EU, 2015). There are other provisions in the agreement such as cooperation in employment, energy and education. The agreement does not only improve conditions on the ground but can also improve perception of the country. If foreign investors see Kosovo as a legitimate country cooperating with the EU in various sectors, businesses will be more comfortable and confident in investing in the country (Council

of the EU, 2015).

5.3.1 Western Balkan Regional Economic Area

In addition to signing the SAA, Kosovo is a participant in an EU initiative to create a Western Balkan Regional Economic Area; other participants include Albania, Bosnia, Macedonia, Montenegro and Serbia. Its primary purpose is to create a free movement area where goods and services can move freely throughout, very similar to the EU common market. The aim is to deepen economic integration in the region with the ultimate hope of EU membership. While the European Commission endorses the plan and has said it is willing to assist it is ultimately up to the countries themselves to implement and regulate. For investment, participants have agreed to create a regional investment agenda focused on exchanging information and the best practices on investment policies. Ideally this will lead to a harmonization of investment policies across the area. There is a focus to stimulate private sector growth to maximize potential gains from the economic agreement (European Commission 2017).

More integration across the region will make it more attractive and competitive. The Balkan market would be 20 million consumers who have remained untouched by current 10 economic activities. This will encourage more FDI which will create jobs and economic growth. EU and Balkan companies would be able to work closer together and develop relationships or supply chains. This integration would be incredibly beneficial for the Balkans and Kosovo specifically as they reform their institutions and develop their economies in hope of EU membership. What the SAA and Regional Economic Area do that will attract more foreign investment is it makes the Kosovo economy bigger. Kosovo has a smaller population which discourages investment due to a small consumer pool. With these two agreements the Kosovo market becomes much bigger and makes it a much more attractive place to invest due to its new market access.

5.3.2 Central Europe Free Trade Agreement (CEFTA)

Complementary to the SAA is CEFTA 2006⁷, the second EU instrument for trade integration and economic development of the WB region. CEFTA is a trade agreement between Non-EU countries in Central and South-Eastern Europe, enabling its producers to access the regional market com-

prising of the 25 million customers, free of any customs duties⁸. The agreement aims at establishing a free trade zone in the region by 31 December 2010.

As of 1 May 2007, the parties of the CEFTA agreement are: Kosovo, Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro and Serbia. Current membership criteria since Zagreb meeting in 2005:

- WTO membership or commitment to respect all WTO regulations
- Having an European Union Association Agreement
- Free Trade Agreements with the current CEFTA member states

At the EU's recommendation, the future members will be prepared for membership by establishing free trade areas. A large proportion of CEFTA foreign trade is with EU countries.

Additionally, Kosovo has signed double taxation treaties with Albania, Macedonia, Slovenia, Austria, Turkey, the United Arab Emirates, and the United Kingdom. Older treaties with Hungary, Netherlands, Germany, Finland, and Belgium from the time of the former Yugoslavia still apply for Kosovo.

Kosovo is member of the European Common Aviation Area and member of the Athens Process on Energy for the Southeastern Europe Energy Community Treaty. More information on Kosovo's trade agreements can be found on the website of the Ministry of Trade and Industry.

5.4 Tax system in Kosovo

The tax policy in Kosovo is oriented towards simple regulations that ensure broad tax basis and prevent tax evasion. Taxes differ based on type of business and annual turnover.

The tax administration applies three main taxes plus Pension Contribution main tax regimens⁹: Value Added Tax (VAT); Corporate Income Tax (CIT); Personal Income Tax (PIT) and Pension Contribution.

5.4.1 Value Added Tax (VAT)

The main tax in Kosovo is the Value Added Tax (VAT), which is paid for goods and services. The tax rate is 18% and reduced rate is 8% and¹⁰. Businesses that have annual turnover of 30.000

⁷<https://www.rks-gov.net/EN/f133/foreign-economy/cefta>

⁸<https://www.rks-gov.net/EN/f133/foreign-economy/cefta>
⁹<http://www.atk-ks.org/>

€ and above must register for VAT. In terms of import the period for VAT payment is 6 months and it is collected at administrative borders of Kosovo.

5.4.2 Corporate Income Tax

This tax is paid every three months depending on the annual turnover. The corporate tax rate for annual turnover over 50,000€ is 10%.

5.4.3 Personal Income Tax

This type of tax is applied on incomes from wages, business, rent, interest, real estate, etc. Tax rates for personal income wages are normally progressive, based on the level of earned salary and lower rates in the region and countries of EU.

The tax rates are:

- 0% up to 80 euros/monthly
- 4% 80-250 euros/monthly
- 8% 250-450 euros/monthly
- 10% over 450 euros/monthly

5.4.4 Pension Contribution

Kosovo Pension Savings Fund is responsible for administering and managing the individual pension saving accounts. This tax obliges the employee and the employer to contribute in financing the employee's pension at the rate of 5% from the employee's salary and 5% from the employer¹¹.

5.5 Customs

The Customs Service gives its contribution in economic and security matters. The collected customs taxes such as Duty Taxes, Value Added Taxes, and Duty of Excise go to the Consolidated Budget of Kosovo thus helping the economic development of the country. The Customs Service also checks the import and export by ensuring the protection of economy and protection of trademarks as well as accurate statistics

¹⁰The standard VAT rate is 18%. A reduced rate of 8% applies to the following supplies: Supply of water, except bottled water. Supply of electricity, including transmission and distribution services, with central heating, waste collection and other waste treatment. Grains such as barley, corn, maize varieties, oats, rye, rice and wheat. Products made from grain for human consumption, such as flour, pasta, bread and similar products. Cooking oils made from grains or oilseeds for use in cooking for human consumption. Dairy and dairy products intended for human consumption. Salt used for human consumption. Eggs for consumption. Textbooks and serial publications. Supply including lending of books from libraries, including brochures, leaflets and similar printed materials, children's picture books, drawing and coloring books, music printed texts or manuscripts, maps and hydrographic charts and similar. Information technology equipment. Supply of medicines, pharmaceutical products, instruments, medical and surgical devices. Medical equipment, ambulances, aids and other medical devices to facilitate or treat inability for exclusive use by the disabled, including the repair of such goods and supply of children's vehicle seats.

¹¹<https://www.rks-gov.net/EN/134/finance-taxes-customs/taxes>

about external trade.

Customs tariffs in Kosovo regarding import are:

Costumes tariffs in Kosovo regarding imports are:

- 0% for goods imported from CEFTA countries except Serbia and B&H.
- 100% for goods imported from Serbia and B&H to 100%¹².
- Progressive tariff for goods imported from EU countries, according to SAA.
- 10% for goods imported from third countries.

5.6 Economic Zones

Kosovo Investment and Enterprise Support Agency (KIESA), operating under the Ministry Of Trade and Industry, is also responsible for the development of the private sector, including the development of economic zones. Economic Zones are regulated by the Law on Economic Zones.

The GOK has established 3 economic zones (EZs) that are compliant with European Union and World Customs Organization standards: They are: Free Economic Zone in Mitrovica Cadastral area; Free Economic Zone in Gjakova cadastral area, and Free Economic Zone in Prizren cadastral area, which are compliant with European Union and World Customs Organization standards.

And other economic zones such as: Drenas Business Park, Shtime Technology Park, Suhareka Agro Industrial Zone, Lipjan Industrial Zone and Economic Zones, in Gjakova, where the Ministry of Trade and Industry with their municipalities continues to co-invest in order to complete physical infrastructure.

5.7 Investment Guarantees

The Multilateral Investment Guarantee Agency (MIGA) (a member of the World Bank Group) guarantees Investment in Kosovo up to the value of EUR 20 million.

The US Overseas Private Investment Corporation (OPIC) Also provides political risk insurance for foreign investors in Kosovo.

¹²During the November in 2018, the Government has decided to increase the customs duty on products imported from Serbia and Bosnia to 100 per cent. In addition, the Government forced the Kosovo Customs to prohibit the entrance into Kosovo with inscriptions that are not compliant with the official description in the Constitution of the Republic of Kosovo. This decision was taken one day after Kosovo's failure to ensure Interpol membership, which according to Kosovo Government came as a result of Serbia's campaign. The reason behind this decision was the continuous violation of the Central Europe Free Trade Agreement (CEFTA) by Serbia and Bosnia and Herzegovina against Kosovo. Office of the Prime Minister of Kosovo. Decision 76. Source: <https://bit.ly/2FJHLMH>

The investment and credit guarantees from Austria - the Austrian Kontrollnamk (OeKN) and for Germany, the Euler Hermes Kreditversicherung.

5.8 Privatization

Privatization Agency of Kosovo is an independent body established by the Assembly of the Republic of Kosovo and is spread and operates throughout the territory of the country. The Agency has the mandate and authority to sell or transfer the enterprises and/or assets to private investor-buyers, or to liquidate them. For chart results of sells or transfer assets please visit the KPA website¹³:

The GoK (Government of Kosovo) has been attempting to privatize publicly owned assets since the early 2000's. State owned assets are diverse and include ownership in the agricultural sector, mining, minerals, and hospitality services. Potential investors whether foreign or domestic are all treated the same, in the bidding process. In 2016 the Kosovo government adopted the "Law on Strategic Investment" in hopes of attracting foreign investment. The primary focus of the law is to transfer ownership of SOEs to strategic investors. What makes the law unique from other privatization schemes is that the law allows GoK to directly negotiate with potential investors without going through traditional bidding procedures in special cases.

PAK officials point out that up to 50 per cent of property or social assets have been privatized so far.

¹³www.pak-ks.org

CHAPTER-SIX: REASONS TO INVEST IN KOSOVO

Some of the benefits from investing in Kosovo are as follow:

6.1 Young population

Kosovo has the youngest population in Europe, 70% of its population are under 35 years. Albanian and Serbian are both official languages in Kosovo, while due to the high international presence English has been established as the third official language. Accordingly, the number of English-speaking Kosovars is far above the regional average. About 25% of Kosovars live in the European Union, mostly in the German-speaking countries.

6.2 Competitive operating costs

High taxes burden the creation of countries work and the incentive to invest in one place. Regarding this issue Kosovo compared to countries of the region has a low tax burden (all taxes Value Added Tax (VAT); tax in Personal Income (TAP) and Tax on it corporate income (CIT) where rates taxes are the lowest in the region).

IETL through this study provides worth information's comparing tax burdens of Kosovo with the countries of the region, namely: Northern Macedonia, Serbia; Bosnia and Herzegovina; Albania and Montenegro, which can serve the government at the local level and central for promoting investment attraction.

Value Added Tax (VAT) Tax Rate between the Kosovo and region countries

Recently there are three VAT rates in Kosovo: (0%) for exports, (8%) for essential products and (8%) for luxury products. By comparing with other countries in the region Kosovo ranks as one of the countries with the lowest VAT rate in the region (for more detailed information, see Table 1)

Corporate Income Tax between the Kosovo and region countries

As for the income tax rate, Kosovo has (10%) and followed by Montenegro (9%), while Serbia (15%), Albania (15%) while Croatia (18%) has the highest rate of this tax in the region (for for more detailed information, see Table 1).

Personal Income Tax Rate between the Kosovo and region countries

Regarding the income tax rate personal, Kosovo applies the favorable rate compared to other region countries. Kosovo applies progressive norm monthly taxes which start as follows: the tax rate of (0%) applies to salaries 0 to 80 Euro / month; the tax rate of (4%) applies to salary 80 to 250 euros/month; tax rate of (8%) applies for salaries 250 to 450 euros/month; and the tax rate of (10%) applies to salaries over 450 euros/month. The following table shows taxes in the countries of the region: and the tax rate of (10%) applies to salaries over 450 euros / month. The following table shows taxes in the countries of the region:

Table 1. The comparison of the taxation rates between the Kosovo and region countries

Country	Tax		
	VAT	Corporate Income Tax	Personal Income Tax
Kosovo	The standard VAT rate is 18%	10%	0%- 4% 8% 10%
	The lowest VAT rate is 8%		
North Macedonia	The standard VAT rate is 18%	10%	10%
	The lowest VAT rate is 5%		
Serbia	The standard VAT rate is 20%	15%	10%
	The lowest VAT rate is 10%		
Bosnia and Herzegovina	The standard VAT rate is 17%	10%	10%
	There is no reducet VAT rate		
Croatia	The standard VAT rate is 25%	18%	36% ¹⁴
	The lowest VAT rate is 13% ¹⁵		
Albania	The standard VAT rate is 20%	15%	23% ¹⁶
	The lowest VAT rate is 10%		
Montenegro	The standard VAT rate is 19-21% ¹⁷	9%	9%
	The lowest VAT rate is 7% ¹⁸		

Source: Tax Administrations/Public Revenue Offices in the countries of the region mentioned in the table

Social Security Contributors

The data (see Table 2) show that Kosovo has the simplest and most favorable system compared to other countries in the region. In Kosovo at present only the Pension Contribution is obligatory, which is the simplest and the lowest compared to other countries in the region, with the current rate of (10%) divided in payments of (5%) paid by the employer and (5%) paid by the employee. Despite the existence of the Law on Health Insurance that provides for a rate of (7%)

in total again divided into payments of (3.5%) paid by the employer and (3.5%) paid by the employee, however its implementation is impossible due to the lack of budget.

Other countries in the region apply other obligatory social security contributions, including: health insurance, employment and unemployment insurance, which affect business operating costs. Table 2 below shows the rates for social security contributions in the Republic of Kosovo and the countries of the region.

Table 2: The comparison of the obligatory Social Securities (Insurances) rates between the Republic of Kosovo and region countries

Country	Social security contributions		Total
	Paid by employer	Paid by employee	
Kosovo	5.0%	5.0%	10.0%
Pension contribution	5.0%	5.0%	10.0%
Health insurance* Law is still not implemented	N/A	N/A	N/A
North Macedonia	8.3%	24.0%	32.3%
Pension and Disability Insurance	5.5%	15.0%	20.5%
Health Insurance	2.3%	8.5%	10.8%
Unemployment Insurance	0.5%	0.5%	1.0%
Serbia	17.7%	20.3%	38.2%
Pensions	12.0%	14.0%	26.0%
Health Insurance	5.2%	5.5%	10.7%
Unemployment Insurance	0.8%	0.8%	1.5%
Bosnia and Herzegovina	10.5%	31.0%	41.5%
Pension and Invalid Insurance	6.0%	17.0%	23.0%
Health Insurance	4.0%	12.5%	16.5%
Unemployment Insurance	0.5%	1.5%	2.0%

¹⁴In Croatia, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labor, pensions, interest and dividends.

¹⁵The standard VAT rate is 25% and the lower rate is 13% for accommodation, food and newspapers.

¹⁶In Albania, the Personal Income Tax Rate is a tax collected from individuals and is

imposed on different sources of income like labor, pensions, interest and dividends.

¹⁷The VAT law in Montenegro has been updated by the parliament to include a rise in the VAT rate from 19% to 21%. The change will come into effect on 1 January 2018.

¹⁸The reduced VAT rate of 7% applies for basic foods, medicines, hotel and tourist accommodation, among others.

Country	Social security contributions		Total
	Paid by employer	Paid by employee	
Croatia	17.0%	20.0%	27.0%
Health Insurance	16.50%	20.0%	36.50%
Albania	16.7%	11.2%	27.9%
Social Insurance Contribution	15.0%	9.5%	24.5%
Health Insurance Contribution	1.7%	1.7%	3.4%
Montenegro	10.3%	24.0%	34.3%
Pensions	5.5%	15.0%	20.5%
Health Insurance	4.3%	8.5%	12.8%
Unemployment Insurance	0.5%	0.5%	1.0%

Source: Tax Administrations/Public Revenue Offices in the countries of the region mentioned in the table

6.3 Business Environment in Kosovo

According to the Kosovo Investment Enterprise Support Agency (KIESA), the business environment in Kosovo is becoming one of the most competitive in the region. Advantages such as an excellent tax system (taxes in Kosovo are very low compared to neighboring countries); the tax system is kept extremely simple, abundant natural resources, quick and easy business registration, and transparent laws on foreign investment, make Kosovo an attractive and friendly environment for foreign investors. For companies looking to invest in a low-cost location with easy access to the EU, Central European and Balkan markets, Kosovo represents a highly attractive option. For the first time in Kosovo, an investor can register a business in 2 days, free of charge with zero chartered capital (for LLCs). In the World Bank Doing Business indicator report, Kosovo is ranked in the 60th position in the world, by confirming a huge progress made by Kosovo in applying reforms and improvement country's doing business environment.

Regarding foreign investment there is a Foreign

Investment Law, which protects foreign investors and treats them as equals to domestic investors. To operate as a legitimate business, foreign and domestic enterprises must be registered in the Business Registration Agency, at the Ministry of Trade and Industry¹⁹.

6.4 Central geographic location

Located in the heart of the Balkans, Kosovo serves as a connecting bridge between the South Eastern European countries, through air, road, railway transport and three sea ports, such as:

¹⁹To operate as a legitimate business, foreign and domestic enterprises must be registered in the Business Registration Agency, at the Ministry of Trade and Industry as one of the following business categories: 1. Individual Business, 2. General Partnership, 3. Limited Partnership, 4. Limited Liability Company 5. Joint Stock Company, 6. Foreign Company, 7. Socially Owned Enterprise, 8. Publicly Owned Enterprise, 9. Agricultural Cooperative, 10. Other enterprises under the jurisdiction of KTA In accordance with the provisions of the Foreign Investment Law, foreign companies are allowed to engage in any business activity which is open to local businesses, and there is no restriction in terms of capital that these companies may have. Foreign investors can establish their branches in the same way as local businesses.

Figure 25. Travel distance from Prishtina to Regional Centers in kilometers (km)

City	Kilometers	City	Kilometers
Skopje	86	Durres	262
Sofia	279	Sarajevo	390
Thessaloniki	329	Bari - Italy	531
Tirana	256	Zagreb	741
Belgrade	355	Budapest	747

Source: Kosovo Investment Enterprise Support Agency

6.5 Liberal Trade Regime

Kosovo is part of CEFTA since 2007, and also benefits from Autonomous Trade Preferences (ATP) with EU and duty-free trade with US, and trade connections with Japan, Norway and Turkey. Free access to European Union market and neighboring markets Modern institutions in support of businesses - Stabilization and Association Agreement (SAA) with European Union (EU) –is signed in October 2015 and is in power from 1st April 2016. (For more details on SAA you can find in: www/mti.rks-gov.net)

- Free Trade Agreement with EU (28 countries), a market above 500 million – third largest in the world with population, after China and India.
- The Central European Free Trade Agreement-CEFTA (2006) that includes 7 non-EU member states: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia, population: 21 million.
- Generalized System of Preferences (GSP) Program with US, Japan and Norway.
- Free Trade Agreement with Turkey.

6.6 Economic Stability

The real development of the country, measured by the gross domestic product (GDP), has been favorable the past years, showing a positive and continuously increasing trends, despite the effects of the international crisis. The private sector consumption and investments are the most important factors behind economic growth. These investments are mainly being driven by the quickly expanding financial sector. Moreover, Kosovo's Government runs a stable and forward-looking policy. The tax revenue base has been widened, thus enabling Government expenditures to increase and, in turn, sup-

port economic growth. Kosovo runs a very stable monetary policy. Kosovo is one of the few countries outside the EU-zone that has introduced the Euro as its official currency. By eliminating the exchange rate risk, transaction costs have been reduced, facilitating the promotion of trade and investment. Due to the absence of monetary instruments resulting from the use of the Euro, Kosovo does not run any monetary policy risk either. Prices are expected to remain stable in the future.

6.7 Stable currency (Euro) and low inflation

The EURO became the official currency used in Kosovo from January 1st 2002, eliminating this way the currency and exchange rate risk. In particular, the euro gave Kosovo a considerable advantage over its competitors in the region by making it more attractive to foreign investment and by bringing financial and macroeconomic stability that many countries in the region lack. In addition, it enabled Kosovo to offer the lowest transaction costs in the region.

6.8 Modern Telecommunications

Kosovo offers modern telecommunication systems, just like you are used to in the developed EU countries. There are 3 fixed telephony operators and 2 mobile telephony operators, offering the latest and most modern technologies, including VoIP, GPRS, etc. Three main internet service providers offer stable and broadband Internet, including DSL, Wireless, and Cable, with lower prices than in any other European Country. According to Eurostat's publication "Basic figures on Enlargement countries" – Edition 2019, in 2018, Kosovo had the highest

percentage of households with home-based Internet access in the region (93%)²⁰.

6.9 Secure banking system

Over the recent years Kosovo's financial sector has been built on completely new foundations. The Banking and Payments Authority of Kosovo (BPK), established in November 1999, is an independent body which acts as a Central Bank of Kosovo and successfully regulates the banking and insurance sectors. There are ten registered banks, ten Savings and Credit Associations, twelve micro-finance institutions, four other non-banking financial institutions and nine insurance companies in Kosovo, including the Austrian Uniqa and Wiener Städtische. The banks that operating in Kosovo are: Banka Për Biznes, Banka Kombetare Tregtare, Banka Ekonomike, Komercijalna Banka, NLB Prishtina, Procredit Bank, Raiffeisen Bank Kosovo, Türkiye İş Bankası, T.C. Ziraat Bankasi Kosova and TEB SH.A. Foreign banks dominate the banking market.

²⁰<http://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/kosovos-internet-access-is-higher-than-the-eu-average>

CHAPTER-SEVEN: INVESTMENT OPPORTUNITIES

Kosovo has a number of sectors that provide good business opportunities, such as:

7.1 Energy and Mines

Kosovo has abundant underground resources, with 14,700 million tons of lignite reserves, it has the fifth place in the world. The reserves of this mineral, which are used as the main source of the energy production in Kosovo, are estimated to last for the next 650 years, with the rhythm of current extraction. The reserves of lignite are also scattered in the basins of Dukagjini and Drenica but the extraction of the mineral is currently limited only in the basin of Kosovo. Besides lignite, Kosovo is also rich with other minerals such as: aluminum, gold, lead, zinc, copper, bauxite, magnesium, asbestos, chromite, limestone, marble and quartz. zinc, steel, gold, cadmium, and bismuth. As estimated by the World Bank While, the majority of Kosovo's natural resources remain unused, its huge reserves are a great potential for future growth.

Trepca Mines: about 23,000 employees, at a time it was one of the largest companies in Yugoslavia. Kosovo's government is working on a new strategy for Trepca. For more, please visit the Kosovo's Ministry for Economic Development webpage²¹.

7.2 Agriculture and Farming

Kosovo is rich with agricultural land; 53 percent of the total surface is arable land. Currently, the agricultural sector contributes with only 19 percent of total Annual Work Unit (AWU) and 15 percent of export value. Food processing in Kosovo has been traditionally managed by the socially owned enterprises, whereas today they are inactive; new private companies have begun operating in this field. Most of these companies are small and are not capable of meeting the largest part of demands in the market. Investment in these companies, securing of new management techniques could rejuvenate the industry of agro processing in Kosovo to the extent where it could be competitive in international markets.

7.3 Energy

Much of Kosovo's energy supply is mainly based on lignite²². Currently two Kosovo A plants (5

²¹<http://mzhe-ks.net/en/procedures-for-investment-241>

units with 800 MW installed) and Kosovo B (two units with 678 MW installed) are in operation. The actual capacity of these plants is around 915 MW entirely. They are notorious for their contribution to air pollution and Kosovo A should be closed by the end of 2017, according to an EU commitment.

A new 500 MW lignite power plant - New Kosovo - has been under development for many years (<http://bankwatch.org/our-work/projects/kosova-e-re-lignite-power-plant-kosovo>). It was originally planned as a 2000 MW plant but failure to find investors has gradually reduced ambitions.

Kosovo has a significant potential of Renewable Energy Sources (RES), including hydro energy, wind energy, solar energy, biomass, thermal energy, etc. For more, please visit the Kosovo's Ministry for Economic Development webpage²³.

7.4 Information Technology and Communication – ITC

The Kosovo government has recognized the strategic importance of the ICT industry for economic development and structural transformation towards a knowledge-based economy. Consequently, in 2013 the government of Kosovo officially declared the ICT industry a high priority sector for its economy. According to an Information and Communication Technology Survey published by the Kosovo Agency of Statistics (KAS), the country's ICT sector is growing fast, having been one of the priorities of the government for the last five years.

Kosovo has the youngest population in Europe. It is both skilled and multilingual, with English being only just short of an official language to high international presence. According to Eurostat's publication "Basic figures on Enlargement countries" – Edition 2019, in 2018, Kosovo had the highest percentage of households with home-based Internet access in the region (93%)²⁴.

Kosovo has emerged as one of the Europe's top locations for global sourcing of IT services. According to the Global Sourcing Association (GSA) the Southeast Europe – Kosovo region has become an attractive location for sourcing/out-sourcing due to the low cost of qualified staff

²²Kosovo has very large lignite resources, totaling 12.5 billion tones, which it claims are the second largest in Europe and fifth largest in the world

²³<http://mzhe-ks.net/en/procedures-for-investment#.XfSxOYNKjGg>

²⁴<http://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/kosovos-internet-access-is-higher-than-the-eu-average>

and a large number of highly educated, bilingual and qualified IT professionals. Almost 1/3 of Kosovo companies are engaged in export services (Outsourcing possibilities and Kosovo companies)²⁵.

The International Association for Outsourcing Professionals has chosen Kosbit (<https://www.kosbit.net/>) among the TOP 100 Global Outsourcing Providers. Kosbit is working with companies such as AT&T, IBM and Cisco, and with over a decade worth of experience it is providing a wide range of services, IT outsourcing services, global telecom solutions, system integration, and software development services to reduce ICT costs, improve service delivery and enable business growth. Stellarion (<https://stellarion.fi/>) is a company established in Finland by Finnish and Kosovan partners. It has been expanding quickly and works with AR/VR projects including the project in developing the tourism for the city of Hämeenlinna. The American company Kode Labs, a company specialized in IoT for 'commercial real estate', bought a Kosovan company Zag Apps, an IT company developing software products. These are only some examples to show how great the potential of this sector is in Kosovo. For more, please visit the Kosovo's Ministry for Economic Development webpage²⁶.

7.5 Construction

In the recent years the construction industry has become one of the most important sectors in the economy of Kosovo. This sector continues to be a great economic potential for Kosovo, taking into account the need for the construction of new settlements and road infrastructure. GDP From Construction in Kosovo averaged 101.49 Euro Million from 2011 until 2019, reaching an all-time high of 195.70 Euro Million in the second quarter of 2019 and a record low of 34.10 Euro Million in the first quarter of 2011.

7.6 Textile Industry

Textile was the second biggest sector in Kosovo. At the peak of its development, 15 socially owned enterprises for textile production employed more than 1,000 people and sales reached the amount of up to 35 million euros. In spite of recent developments in the region that resulted in the destruction of market connections, the analysis indicates that in case these connections are reestablished between 55 and 65 million euros can be acquired from the export. This sector is sufficiently attractive for

investors in order for Kosovo once again to produce final clothing products from the textile produced in the region. Kosovo offers three major benefits for investors:

- A cheap, well skilled and experienced work force;
- A solid base of technology that can be acquired through the ongoing process
- Numerous subcontracting and outsourcing possibilities (with know-how, labour force and other comparative advantages than the country offers, including the friendly business and investment environment); For more, please visit the Kosovo Investment and Enterprise Support Agency (KIESA) webpage.²⁷

7.7 Wood processing

Over 40% of Kosovo's land mass is covered by forests, or an area of approximately 465,000 hectares. Woodwork is considered one of the most strategic sectors with great potential for growth. The total standing volume on public forest is estimated at about 53 million m³. Statistic data shows that 75% of wood processing companies produces final products; 18% of produces semi-final products; and 10% produce raw material. Most of wood processing companies has shown positive results during these past years (turnover growth, value added production, increase on employment number, growth in export).

Main exporting destinations: Germany, Austria, Switzerland, (mainly export of doors, windows, kitchens and furniture), also other countries of the region.

7.8 Tourism

The natural wealth of Kosovo represents high quality tourism resources. The mountains south of Kosovo has great potential for winter tourism. One of the most interesting opportunities for foreign investors in this region is Brezovica Ski Resort in the Sharr Mountains. The resort situated between 1.700 and 2.500 m above sea level. It offers excellent weather and snow conditions, as well as long ski seasons from November to May.

Brezovica can be reached in an hour by car from both airports, from international airports Pristina (60 km) and from Skopje (70 km), and it located in the National Park of Sharr in the Republic of Kosovo, the chain of Brezovica mountains lies in 39,000 hectares of ground alpine high mountain and forest.

Also, in the Sharr Mountains in the very south of

²⁵<https://www.marketopportunities.fi/home/2019/ict-sector-in-kosovo/>

²⁶<https://mzhe-ks.net/en/information-technology-telecommunications>

²⁷<https://kiesa.rks-gov.net/page.aspx?id=2,23>

the country, bordering Macedonia and Albania, Kosovo is offering about 22.000 hectares of largely land in the mountains area, belonging to the SOE "Sharrprodhimi" for privatization.

The region offers excellent tourism opportunities, such as skiing, eco-tourism, paragliding, mountain biking, rock climbing, trekking, kayaking, horse riding, etc. The land of Dragash municipality is stunningly beautiful. It is clearly a remarkable property for eco-tourism. Other investment opportunities are Sky Center in Rugova Mountain, while Kosovo is generally rich with mountains, artificial lakes and rivers and therefore also offers possibilities for hunting and fishing.

The widespread production of rare artisan crafts in Kosovo, such as the Filigree (silver), represents an attraction for foreign tourism.

In addition, Kosovo has the potential to develop cultural tourism with numerous religious and other sites with extraordinary cultural and historical value.

The numerous thermal springs of Kosovo are well known in the region for their healing effects. Foreign investors in the field will find high demand in the regional and domestic market. For more, please visit the Kosovo Investment and Enterprise Support Agency (KIESA) webpage²⁸.

7.9 Vineyards

The growth of grape and wine production is an old tradition in Kosovo. During the golden years, only in Rahovec the wine industry had a production capacity of up to 50 million liters per year. In 1989, the export of Rahovec wine reached 40 million liters, which were mainly distributed to the German market.

²⁸<https://kiesa.rks-gov.net/page.aspx?id=2,23>

RECOMMENDATIONS

Foreign direct investment in our country is of strategic importance, it is a key factor for increasing the competitiveness of Kosovar products in international markets, for supporting economic growth and increasing competition and productivity in domestic markets, but unfortunately since the declaration of independence in 2008 and so far we do not have the desired level of FDI.

The purpose of this research was to analyze the barriers facing foreign investors in Kosovo and to provide recommendations on measures to be taken by central and local government to overcome them as well as recommendations for subsequent precautionary measures for existing investors with the aim of maintaining and expanding their investment (re-investment). These recommendations are the result of a survey with 38 foreign companies through a questionnaire containing 47 questions focusing more on the barriers faced by foreign investors.

Also, through this study, the IETL Institute provided valuable information on the potential and reasons for investing in Kosovo to continue a broad debate on the development of a new national strategy for economic development that would guide the reforms that are needed for the overall economic development and attraction of FDI.

In this context, the recommendations to the government at local and central level have also been divided into two groups:

1. Recommendations for Retaining Existing Foreign Investors
2. Recommendations for attracting new foreign businesses

Recommendations for retaining existing foreign investors

a) Recommendations for increasing credibility in institutions

Local government, other relevant municipal institutions and agencies as well as central level institutions in whose jurisdiction the foreign business is located and operate play an important role in accommodating and creating a friendly environment for foreign businesses. In this regard, the study shows that there is little trust among foreign businesses towards central government as well as local authorities (over 28.6% stated that they do not trust local and

central government) and lacks coordination between these two levels of government. In this regard, Kosovo has failed to provide a positive example of institutional coordination of foreign investment support policies and actions. Although the Kosovo Investment and Enterprise Support Agency (KIESA) has been established; National Council for Economic Development (NECD); Inter-Ministerial Committee on Strategic Investments; The Council of European Investors (CEI) to promote and support the investment climate, yet Kosovo still lacks proper coordination where there are at least 5 (five) ministries of economy aiming at enhancing the competitiveness of certain sectors and promoting foreign investment in our country. An inter-institutional coordination and focus on a common institutional "message" is one of the key preconditions for strengthening the promotion of investment opportunities and increasing FDI. The government should establish a common mechanism within the Office of the Prime Minister, with adequate budget and human resources, as well as negotiating power, so that FDI promotion policies are coordinated with the municipalities, are powerful and substantial.

b) Recommendations for improving the legal environment

Another important finding is the problems with the legal environment, namely the rule of law. Although Kosovo has made a lot of progress in doing business as well as in completing the Legal Framework for Foreign Direct Investment (legal infrastructure regulated and harmonized with EU standards); however, improving the legal environment, namely strengthening the rule of law and order, according to the research findings is one of the issues for which the new Kosovo government should take faster measures related to the strengthening of the rule of law, greater efficiency not only in dealing with commercial disputes of concern to businesses, but also in the proper implementation of laws. Courts must be effective and impartial. It is also recommended that it is necessary to establish a commercial court to deal with such litigation where fair, transparent and timely decisions are made and the empowerment of the arbitral tribunal, which greatly facilitates the resolution of business problems in domestic and international business disputes. When talking about strengthening the rule of law and order, concrete results must be seen in combating all forms of corruption at all levels, in central government and local government, as the

perception of corruption by foreign investors is very high.

c) Administrative recommendations

Research shows that administrative barriers (licensing, cost, time, obtaining building permits, prolonged procedures for using municipal property, lack of business premises (economic zones) continue to create problems for foreign businesses and talk about a not-so-favorable climate. The findings of the study correspond to the World Bank Doing Business report for 2018, according to which Kosovo ranks 122nd out of 190 countries. As a conclusion Kosovo should improve in this indicator, as it is a major challenge and obstacle for foreign businesses when setting up and starting a business in Kosovo.

d) Recommendations for fiscal incentives

According to the businesses interviewed, regarding the main incentives needed, it is suggested that the Government of the Republic of Kosovo (GoK) take some measures, such as the establishment of tax holidays; full functionalization of balanced economic zones, creation of free customs zones; creating more space for business parks. These measures are one of the key elements of private sector development which will affect investment retention, expansion (re-investment or expansion by existing investors) and attraction of foreign investment.

e) Recommendations for reforming the education system and developing human capital

Many firms report problems in hiring new employees, mainly due to inadequate experience or qualifications. Developing skills is a must, a long-term goal, and not at all easy. Important attention by the new Government should be devoted to the development of human capital, starting with the reform of the education system at all levels, with the aim of fostering entrepreneurship among future generations, but also improving the relationship between demand and labor market supply. A separate study is needed to precisely determine which programs should be introduced in universities and schools to provide a good basis for skilled workers.

f) Others

When it comes to transport infrastructure, it should be noted that there have been investments in road infrastructure, but the modernization of the railway network has lagged behind, and this is what should happen in the new

government, so the continued investment in the railway network would facilitate the operation of many businesses as well as exports. Rail infrastructure is out of date, and only the reactivation / rebuilding of the railway with Northern Macedonia and Greece / Thessaloniki which is linked to the European and Asian market is considered worth investing with the aim of reaching the seaport much faster and less costs. Better exploitation of the mining sector requires, among other improvements, a modernization of the railway system.

Energy infrastructure is important. Kosovo needs to build new energy capacities to provide stable and sustainable electricity and not depend on imports. To do so, Kosovo must diversify its energy sources, in addition to traditional coal-based sources, but also invest in alternative sources.

Furthermore, the study shows that political instability plays an important role in the decision of foreign investors to invest their capital in the country.

Recommendations for attracting new foreign businesses

g) Recommendations for a sector-based strategy

Also, the IETL Institute through this study provides valuable information about the potential and reasons for investing in Kosovo, and based on the official data elaborated in Chapter 6 we have made some recommendations.

ICT sector promotion

The Government of Kosovo has recognized the strategic importance of the ICT industry for economic development and structural transformation towards a knowledge-based economy. According to the Global Sourcing Association (GSA), Southeast Europe - the region of Kosovo has become an attractive place to outsource (the Business Process Outsourcing-BPO) due to the low cost of staffing, as well as knowledge of foreign languages. But on the other hand, based on recent PISA test results that shows that more than two-thirds of young people over the age of 15 lack basic knowledge in science, and over three-quarters of them are below the level of proper reading and math, whereby this phenomenon underscores the fact that the government needs to become more pro-active to attract more FDI into the ICT sectors, which would enable ICT companies to reach out to larger contracts with external contracting. The government should take some of the following

measures:

- Include specific extracurricular subjects in higher education and primary school in order to increase the competitiveness and attractiveness of this sector.
- Designing school curricula according to market needs and requirements.
- Mechanisms of cooperation between technical schools, universities, and businesses.

Promotion of energy, mining and other strategic sectors

Kosovo has great sectoral investment opportunities in specific sectors, such as: energy; renewable energy; mining; wood and metal processing; agribusiness - food processing and packaging; tourism; textiles etc. A sector-based strategy enables central and local government to focus resources on sectors that offer the greatest investment opportunities and maximize FDI benefits in the local economy.

In addition to the above, providing a variety of incentives to key sectors would further influence investor decisions to invest in these sectors. In the long run, the government's focus should be on persuading investors to invest in activities that can bring tangible benefits to economic development and create more employment opportunities in Kosovo.

h) Stimulating Kosovo's diaspora to invest

The Government of Kosovo can initiate the creation of effective business associations in the countries where most of the Kosovar diaspora is concentrated, namely Switzerland and Germany. This would, among other things, help potential investors from the diaspora by creating opportunities for pooling and raising investment capital as well as providing more information on sectors with potential for export growth. The Law on Strategic Investments regulates the tax exemption from 3 to 7 years for new investments, depending on the value of the investments and the number of employees. This is a good decision, but facilities should be created for all categories of businesses (even small and medium-sized businesses), not necessarily for large businesses, as this limits the ability of people who want to, people who have the skills, have the capacity to invest and especially the creation of better conditions for Kosovo's migrants to invest their capital in Kosovo.

i) Privatization of socially owned property and assets

So far, Kosovo has made progress in the privat-

ization of property or social assets. Potential investors, foreign or domestic, are all treated equally in the bidding process. By law, in special cases, the Government of the Republic of Kosovo (GoK) has the right to negotiate directly with potential investors without going through traditional tendering procedures. Challenge for future government remains to review the legal infrastructure for municipal property management.

REFERENCES

- Adewumi, S., (2006). The Impact of FDI on Growth in Developing Countries: An African Experience.
- Assembly of the Republic of Kosovo L-Law on Chamber of Commerce, Official Monitor No. 17/2007, 01.10.2007. Official Gazette of the Republic of Kosovo.
- Assembly of the Republic of Kosovo, Law on Economic Zones, Official Monitor No. 6/ 12 March 2013. Official Gazette of the Republic of Kosovo.
- Assembly of the Republic of Kosovo, Law on the Establishment of the Kosovo Credit Guarantee Fund, Official Monitor No. 2 /08 January 2016. Official Gazette of the Republic of Kosovo.
- Assembly of the Republic of Kosovo, Law No. 04/L-220 on Foreign Investment, Official Monitor No. 1/09 January 2014. Law on Publicly Owned Enterprises, Official Monitor No. 31/2008, 15.06.2008 Official Gazette of the Republic of Kosovo.
- Assembly of the Republic of Kosovo, Law on Strategic Investment, Official Monitor No. 6/08 February 2017. Official Gazette of the Republic of Kosovo.
- Assembly of the Republic of Kosovo. Law on Support to Small and Medium Enterprises, Official Monitor No. 6/2006, 01.11.2006. Official Gazette of the Republic of Kosovo.
- Anderson, T., (2010): U.S. affiliates of foreign companies' operations in 2008, Survey of Council of the European Union (EU). 2015.
- Consilium Europa. Accessed April 4, 2018. Retrieved from: (<http://www.consilium.europa.eu/en/press/press-releases/2015/10/27/kosovo-eustabilisation-association-agreement/>)
- Goedhuys, M., (2007). Learning, product innovation and firm heterogeneity in developing countries: Evidence from Tanzania, Industrial and Corporate Change.
- The evaluation of Foreign Direct Investments and their impact in the economics of some transitions countries: the case of Kosovo. Halil, Kukaj. Alishani, Anera. 2017. Retrieved from: (<https://www.ingentaconnect.com/content/doaj/24103918/2017/00000003/00000001/art00040>)
- Academic Journal of Business, Administration, Law and Social Sciences. Vol. 3 No.1 March 2017. Accessed March 11th, 2018. Hajrizi, E. Hasani, M. 2013. "Kosovo Investment Climate and Foreign Investors' Perception". The International Federation of Automatic Control. June 6-8. Accessed March 11, 2018
- 2017 Tax Summary Kosovo. Retrieved from <https://www.pwc.com/ks/en/publications/2017%20Kosovo%20Tax%20Summary.pdf>
- Foreign Direct Investment in Kosovo and possible avenues for change Kyle Conahan M.A. in Political Science With a Concentration in European Union Policy Studies James Madison University. Retrieved from <https://pdfs.semanticscholar.org/4845/b598dc93484e7ecd3b2d559999e06cfa2c4f.pdf>
- Foreign Investor Manual, written by Sytrime Dervisholli, head of Trade Department at Ministry of Trade and Industry Kosovo, publisher by Konrad Adenauer Stiftung (2017). Retrieved from <https://www.kas.de/en/web/kosovo/laenderberichte/detail/-/content/foreign-investor-manual>
- How 'friendly' is Kosovo for Foreign Direct Investments: A Policy Review of Gaps from a Regional Market Perspective. Retrieved from <http://www.legalpoliticalstudies.org/wp-content/uploads/2017/03/How-friendly-is-Kosovo-for-Foreign-Direct-Investments-Policy-Report-GLPS.pdf>

The comparison of the tax rates between the republic of Kosovo with countries in region and the European union countries Vehbi Imeri, Phd candidate economic faculty, "Biznesi", Pristine. Retrieved from <https://eujournal.org/index.php/esj/article/viewFile/873/916>

The Legal Framework of Foreign Direct Investments in Kosovo, Kreshnik KAÇIU1 , Lulzim EJUPI2. Retrieved from <file:///C:/Users/Dell/Downloads/4397-15735-1-PB.pdf>

The Legal System for Strategic Investments in the Republic of Kosovo Hana Bahtijari Jakupi PhD Student, Faculty of Law, University of Pristina, Republic of Kosovo, Address: Pristina, Kosovo. Retrieved from <file:///C:/Users/Dell/Downloads/SSRN-id3375511.pdf>

Internet Sources

Assembly of Kosovo: <http://www.assembly-kosova.org/?krye=home&lang=en>

Central Bank of the Republic of Kosovo: <http://www.bqk-kos.org>

Central European Free Trade Agreement (2017, May 5). Retrieved from www.cefta2006.com.

<http://ask.rks-gov.net/en/kosovo-agency-of-statistics>

<http://ec.europa.eu/enlargement/archives/ear/kosovo/kosovo.htm>

http://eeas.europa.eu/delegations/kosovo/index_en.htm

<http://www.assembly-kosova.org/>

<http://www.mti-ks.org/>

<http://www.worldbank.org/en/country/kosovo>

<https://ec.europa.eu/eurostat/web/structural-business-statistics/global-value-chains/fdi>

<https://kiesa.rks-gov.net/page.aspx?id=2,15> <http://ask.rks-gov.net/en/kosovo-agency-of-statistics>

https://unctad.org/en/Docs/wir2007p4_en.pdf

<https://www.marketopportunities.fi/home/2019/ict-sector-in-kosovo/>

<https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf> (OECD Benchmark Definition of Foreign Direct Investment FOURTH EDITION 2008)

<https://www.rks-gov.net/EN/f134/finance-taxes-customs/taxes>

<https://www.rks-gov.net/EN/f139/infrastructure/roads>

International Centre for Settlement of Investment Dispute (2017, May 1), retrieved from <https://icsid.worldbank.org>.

Investment Promotion Agency for Kosovo (2017, May 7). Retrieved from www.investks.org.

Kosovo Business Registration Agency (2017, May 2). Retrieved from www.arbk.org.

Kosovo Chamber of Commerce (2017, May 8). Retrieved from www.oek-kcc.org.

Kosovo Registry of Business Organizations and Trade Names: <http://www.arbk.org/>

Kosovo's Official Gazette (2017, March 1). Retrieved from www.gazetazyrtare.com.

Ministry of Economic Development: <http://mzhe.rks-gov.net>

Ministry of Finance: <http://mf.rks-gov.net/>

Ministry of Foreign Affairs: Republic of Kosovo. 2015. "Economic Zones". Republic of Kosovo Ministry of Foreign Affairs. Accessed March 11, 2018.

The Office of the Prime Minister, (2017, April 5). Retrieved from <http://www.kryeministri-ks.net>.

Ministry of Trade and Industry, (2017, May 7). Retrieved from www.mti-ks.org.

The Overseas Private Investment Corporation (2017, March 5). Retrieved from <http://www.opic.gov/>.

The World Trade Organization (2017, June 1). Retrieved from www.wto.org.

The Parliament of the Republic of Kosovo (2017, April 5). Retrieved from <http://www.assemblykosova.org>.

United Nations Commission on International Trade Law (2017, April 3), retrieved from www.uncitral.org.

Ministry of Trade and Industry: <http://www.mti-ks.org/>

Tax Administration of Kosovo: <http://www.atk-ks.org/en/>

World Bank – Kosovo: <https://www.worldbank.org/en/country/kosovo>

www.beinkosovo.com

Current foreign interviewed business; www.arbk.org.

<https://www.pwc.com/ks/en/publications/2017%20Kosovo%20Tax%20Summary.pdf>

