American University in Kosovo
in partnership with
Rochester Institute of Technology
Master of Science in Professional Studies
Public Administration

OPPORTUNITIES TO FOREIGN INVESTMENT IN KOSOVO

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Prishtina

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Presentation Outline

• Foreign Investments in Kosovo
• Foreign Investments trends in the world economy and in the Balkans region
• World Bank “Doing Business” Report
• Questionnaire results of foreign companies present in Kosovo (existing foreign investors)
• Questionnaire results of foreign companies not present in Kosovo (potential foreign investors)
• Major Recommendations
• Recommendations
Foreign investments in Kosovo 2005-2010 (€ Millions)

Source: Central Bank of Kosovo

2007 – Privatization process
2009 – Global financial downturn
FDI trends in the world economy and in the Balkans region

Global FDI inflows, average 2005-2007 and 2007 to 2010 ($ Billions)

In 2010, top 5 host economies for global FDI inflows are:

1. USA - 228 US$ billions
2. China – 106 US$ billions
3. Hong Kong, China – 69 US$ billions
5. Brazil – 48 US$ billions

Foreign investments in the Balkans region (2005-2010) ($ Millions)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Albania</td>
<td>264</td>
<td>325</td>
<td>656</td>
<td>988</td>
<td>979</td>
<td>1 097</td>
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<tr>
<td>Bosnia and Herzegovina</td>
<td>613</td>
<td>766</td>
<td>2 080</td>
<td>932</td>
<td>246</td>
<td>63</td>
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<tr>
<td>Croatia</td>
<td>1 825</td>
<td>3 473</td>
<td>5 035</td>
<td>6 179</td>
<td>2 911</td>
<td>583</td>
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<tr>
<td>Macedonia</td>
<td>96</td>
<td>433</td>
<td>693</td>
<td>586</td>
<td>201</td>
<td>293</td>
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<tr>
<td>Montenegro</td>
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<td>622</td>
<td>934</td>
<td>960</td>
<td>1 527</td>
<td>760</td>
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<tr>
<td>Serbia</td>
<td>1 577</td>
<td>4 256</td>
<td>3 439</td>
<td>2 955</td>
<td>1 959</td>
<td>1 329</td>
</tr>
</tbody>
</table>

Kosovo – compared to global good practice economy as well as selected economies:

<table>
<thead>
<tr>
<th>Topic</th>
<th>DB 2011 Rank</th>
<th>DB 2010 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>163</td>
<td>158</td>
<td>↓ -5</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>173</td>
<td>177</td>
<td>↑ 4</td>
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<tr>
<td>Registering Property</td>
<td>65</td>
<td>64</td>
<td>↓ -1</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>32</td>
<td>30</td>
<td>↓ -2</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>173</td>
<td>172</td>
<td>↓ -1</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>41</td>
<td>51</td>
<td>↑ 10</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>130</td>
<td>131</td>
<td>↑ 1</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>155</td>
<td>155</td>
<td>No change</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>31</td>
<td>28</td>
<td>↓ -3</td>
</tr>
</tbody>
</table>
Main type of business of existing foreign companies in Kosovo

Main type of business

- Rubber and Chemical Industry: 17%
- Mining: 17%
- Banking: 17%
- Food industry: 8%
- Hotels and restaurants: 8%
- Metal industry: 8%
- Non-life insurance: 8%
- Textile manufacturer: 8%
- Cement production: 8%
Ranking of business environment by existing foreign companies

Ranking of business environment in Kosovo

- Good: 25%
- Reasonable: 42%
- Not so reasonable: 33%
- Poor: 0%
Number of employees in first year, in 2010 and in 2015

Number of employees

- # of Employees in first year
- # of Employees in 2010
- Prediction for # of Employees in 2015

Company #1, Company #2, Company #3, Company #4, Company #5, Company #6, Company #7, Company #8, Company #9, Company #10, Company #11, Company #12
Percentage of companies that have made investments in various amounts up to 2010 (in € Million)

Total investment up to 2010

- 1-10...: 42%
- 20-50...: 17%
- 50-100...: 25%
- N/A: 8%
- Confidential: 8%
Factors that attracted existing investors to invest in Kosovo

Three most important factors are:
- Company’s strategy for expansion
- Young, educated, multilingual and dynamic population; good investment opportunities and central location in the region.

Three least important factors are:
- Modern telecommunications; free access to US market and customs.

Comments provided under option Other:
- Company’s strategy for expansion
- People/partners who are trustable
Investment plans in the future by existing foreign investors

Investment plans in the future in Kosovo

- 75% Companies that want to invest in the Future
- 17% Companies that do not want to invest in the future
- 8% Companies that are indecisive about future investment in Kosovo
Factors that indicated difficulties for existing investors

Factors that indicated difficulties for businesses to do business in Kosovo
(10=most difficult, 1=least difficult)

Comments provided under option Other:
- CEFTA and EU
- Legislation & Energy
Actions that Government of Kosovo should take

Actions that Kosovo government should take to improve the business environment
10=most important, 1=least important

Comments provided under option Other:

- Reform Kosovo’s judiciary
- Stop informal economy
- Improve legal environment
Main type of business of potential foreign investors

Main type of business

- Energy: 25%
- Mining: 17%
- Trade: 17%
- Agriculture: 17%
- Mechanic industry: 8%
- Infrastructure construction: 8%
- Telecommunications: 8%
Location of head office of potential foreign companies

Location of head office

- USA: 17%
- Oman: 17%
- India: 8%
- United Kingdom: 8%
- Switzerland: 8%
- Republic of Korea: 8%
- Turkey: 8%
- China: 8%
- Croatia: 8%
- Bulgaria: 8%
In general how attractive would you classify the Kosovo investment situation to be?
How potential investors heard about Kosovo?

How did you know about Kosovo?

- TV: 0%
- Newspaper: 25%
- Embassy: 25%
- Friends: 17%
- Colleagues: 8%
- Family: 42%
- Internet/Websites: 33%
- Other: 0%

Comments provided under option Other:
- Chamber of Commerce
- Personal connections
- Business operations
Some of the most important areas to invest in according to the potential investors

Which is your area of most interest for investment?

Comments provided under option *Other*:

- Manufacturing plant for wind turbines and supporting energy infrastructure
- Tobacco
- Industry - Production
Do you have a precise date in mind for making an investment in Kosovo?
The size of the investment that potential investors are considering to invest

What is the size of the investment you are considering?

- 1-10 million €: 67%
- 11-50 million €: 16%
- Over 50 million €: 17%
Main reasons for the reluctance to invest in Kosovo

- Need for special training of staff
- Lack of existing leasable space
- Negative information for investors available on internet
- Not enough road construction to make investment feasible
Main incentives required by foreign investors that Government of Kosovo should consider

What special incentives would you like from the Government of Kosovo?

- Reform government administration: 67%
- Lift unnecessary permits and procedures: 50%
- Reform and simplify further taxation regulations and procedures: 17%
- Introduce a strict measure to prevent corruption: 17%
- Reform education system to meet demand: 25%
- Other: 58%

Comments provided under option Other:
- Better access to market data
- Negative factors which must be taken care of
- More powers should be assigned to IPAK officials
- There should be little flexibility in all kind of rules & regulations
Major Recommendations

✓ Kosovo now needs to create a sound business environment.
✓ Kosovo institutions should make serious efforts in improving the items that were identified by the foreign investors, i.e. infrastructure and physical environment, bureaucratic procedures, political environment, corruption & nepotism, reform government administration and education system.
✓ Although Kosovo institutions made investments in areas such as: energy, water supply, roads, railway, telecommunication, etc, there is still needs for further investments and these areas required to be in top agenda of the government of Kosovo.
Recommendations

✓ Improve infrastructure and physical environment.
  – roads, electricity, railways, water supplies, telecommunications, etc. Total investments in all these sectors up to 2015 could be: €2.5 Billion.
  – utilization of industrial zones and industrial parks.

✓ A key condition for economic development is political stability.
  – strict adherence to rule of law
  – strengthening democratic processes
  – resources for national security
  – cultivation of tolerance

✓ Build transparent and accountable system of governance at all levels.
  – implementation of laws and increasing the number of judges and prosecutors for 80% are important elements that greatly reduces corruption.
Recommendations

✓ The findings of “Doing Business Report 2011” by World Bank are a good basis for improving investment climate in Kosovo.
  – the focus should be mainly in reducing time (days) and procedures (number).

✓ Reform of public administration.
  – a well planned civil service reformation is needed and also increased capacity and professionalism based on merit (recruitment process).

✓ Foster and strengthen the relations between Government of Kosovo and Kosovo’s Diaspora.
  – establishment of the Diaspora Investment Office within the Ministry for Diaspora. There is a need for analysis of statistical data to study the volume and the direction of remittances. Further to this, the identification of the Diaspora’s businessmen is necessary. This office could initially have 5 employees.
Recommendations

✓ Reform of education system.
  – engagement of some professional advisors who will orient students based on their professional aptitudes.
  – because of high demand there is need to increase the number of students up to 300 who complete the internships in different enterprises.

✓ Privatization process to run smoothly and efficiently.
  – there is need to learn from the experiences of neighboring countries.
Recommendations

✓ Draft a policy of investment incentives.
  – to provide a 3-5 year tax holiday if the companies invest in fixed assets an amount exceeding approximately €5 Million, and throughout the investment period they employ roughly 50 employees.

✓ Increase the capacity building of IPAK.
  – helping increase the staff up to 20 employees (well qualified) and financial resources up to €1 Million until 2015.
THANK YOU FOR YOUR ATTENTION!