2011

Opportunities to Foreign Investment in Kosovo: [presentation given on September 6, 2011]

Sytrime Dervisholli

Follow this and additional works at: http://scholarworks.rit.edu/theses

Recommended Citation

This Master's Project is brought to you for free and open access by the Thesis/Dissertation Collections at RIT Scholar Works. It has been accepted for inclusion in Theses by an authorized administrator of RIT Scholar Works. For more information, please contact ritscholarworks@rit.edu.
Rochester Institute of Technology/American University in Kosovo
Master of Science in Professional Studies
Public Administration

Opportunities to Foreign Investment in Kosovo

Sytrime DERVISHOLLI

August 31, 2011

Submitted as a Capstone Project in partial fulfillment of a Master’s of Science Degree in Professional Studies at the RIT Center for Multidisciplinary Studies
# Opportunities to Foreign Investment in Kosovo

## Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Figures</td>
<td>3</td>
</tr>
<tr>
<td>List of Tables</td>
<td>4</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>5</td>
</tr>
<tr>
<td>List of Abbreviations</td>
<td>6</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>7</td>
</tr>
<tr>
<td>Chapter One – General overview of Kosovo’s economy</td>
<td>10</td>
</tr>
<tr>
<td>Chapter Two – Foreign Direct Investments (FDI)</td>
<td>15</td>
</tr>
<tr>
<td>2.1 Current FDI trends in the world economy</td>
<td>15</td>
</tr>
<tr>
<td>2.2 Foreign investment in the Balkans region</td>
<td>16</td>
</tr>
<tr>
<td>2.3 Foreign investments in Kosovo</td>
<td>17</td>
</tr>
<tr>
<td>Chapter Three – Kosovo as an investment environment</td>
<td>20</td>
</tr>
<tr>
<td>3.1 Main business sectors</td>
<td>21</td>
</tr>
<tr>
<td>3.2 Incentives regime</td>
<td>24</td>
</tr>
<tr>
<td>3.3 World Bank Doing Business Report</td>
<td>24</td>
</tr>
<tr>
<td>3.4 Tax structure</td>
<td>26</td>
</tr>
<tr>
<td>3.5 Infrastructure</td>
<td>27</td>
</tr>
<tr>
<td>3.6 Trade regime</td>
<td>28</td>
</tr>
<tr>
<td>Chapter Four – Questionnaires conducted with Existing Foreign Investor</td>
<td>30</td>
</tr>
<tr>
<td>Chapter Five – Role of Diaspora on Kosovo’s development</td>
<td>37</td>
</tr>
<tr>
<td>5.1 Remittances</td>
<td>39</td>
</tr>
</tbody>
</table>
Opportunities to Foreign Investment in Kosovo

Chapter Six – Privatization in Kosovo

5.1 Case Study 1- Post and Telecom of Kosovo (PTK) ................................................................. 42
5.2 Case Study 2 – KEK Electricity Distribution and Supply Network (KEDS) ......................... 46
5.3 Case Study 3 – Prishtina International Airport (PIA) ............................................................ 50

Chapter Seven – Questionnaires conducted with Potential Foreign Investor – Project Investigation & Analysis .................................................................................................................... 54

Chapter Eight – Final Discussions and Recommendations .............................................................. 62

References ................................................................................................................................ 69
Appendices (1&2) ........................................................................................................................ 72

List of Figures

Figure 2.1 Global FDI inflows .......................................................................................................... 15
Figure 2.2 Foreign Investments in Kosovo ...................................................................................... 17
Figure 3.1 Kosovo - Compared to global good practice economy .................................................. 25
Figure 3.2 Imports in Kosovo ........................................................................................................ 29
Figure 3.3 Exports from Kosovo .................................................................................................... 29
Figure 4.1 Main type of business .................................................................................................. 30
Figure 4.2 Year of companies’ establishment in Kosovo ................................................................. 31
Figure 4.3 Number of employees prediction .................................................................................. 31
Figure 4.4 Years of doing active business in Kosovo .................................................................. 32
Figure 4.5 Initial Domestic to Foreign Stakeholder Ratio .............................................................. 32
Figure 4.6 2010 Domestic to Foreign Stakeholder Ratio ............................................................... 33
Figure 4.7 Percentage of companies that have made investments up to 2010 ............................. 33
Figure 4.8 Ranking of business environment ................................................................................... 34
Figure 4.9 Factors that attracted companies to invest .................................................................. 34
Figure 4.10 Investment plans in the future .................................................................................... 35
Figure 4.11 Factors that indicated difficulties for companies ....................................................... 35
Opportunities to Foreign Investment in Kosovo

Figure 4.12 Actions that Government of Kosovo should take ....................................................... 36
Figure 6.1 Comparison with other countries (PTK)........................................................................44
Figure 6.2 Statistics on passenger traffic ....................................................................................... 50
Figure 6.3 Passengers by country ............................................................................................... 52
Figure 7.1 Main type of business ............................................................................................... 54
Figure 7.2 Location of head offices of companies ........................................................................54
Figure 7.3 The classification of Kosovo investment situation ....................................................... 55
Figure 7.4 The level and quality of the information regarding business environment ...............55
Figure 7.5 How companies heard about Kosovo........................................................................... 56
Figure 7.6 Some of the most important areas to invest in ......................................................... 57
Figure 7.7 Most important factors that attracted companies to invest ............................................58
Figure 7.8 Is this the first time that companies considered to invest in Kosovo ....................... 58
Figure 7.9 How many occasions have the companies considered investing in Kosovo .......... 59
Figure 7.10 Does the companies’ have a precise date in mind for making an investment ......... 59
Figure 7.11 The size of investment ............................................................................................ 60
Figure 7.12 Main reasons for the reluctance to invest ............................................................... 60
Figure 7.13 Main incentives required by foreign investors ..................................................... 61

List of Tables

Table 1.1 Main macroeconomic indicators ................................................................................13
Table 2.1 Foreign investment in the Balkan region .................................................................. 16
Table 2.2 Number of foreign enterprises based on sectors ...................................................... 18
Table 2.3 Number of foreign enterprises based on countries of origin ................................ 19
Table 3.1 Kosovo’s ranking in Doing Business Report ........................................................ 25
Table 3.2 Topic rankings of Doing Business Report 2010-2011 ............................................. 26
Table 3.3 Comparison of tax systems in the region ................................................................. 26
Table 5.1 Remittances - by years .............................................................................................. 39
Table 5.2 Remittances – by countries ..................................................................................... 39
Table 6.1 Participation in the process of privatization .............................................................. 41
 Opportunities to Foreign Investment in Kosovo

Acknowledgements

I would like to acknowledge and extend my heartfelt gratitude to the following persons who have made the completion of this Capstone Project possible:

First and foremost, USAID and Government of Kosovo for giving me the opportunity to be part of the prominent universities like RIT and AUK.

My mentor, Dr. Brian Bowen (Vice President for RIT Academic Affairs at AUK), for his vital encouragement and valuable guidance. He never accepted less than my best efforts. Thank you.

My consultants, Dr. Myrvete Badivuku – Pantina (Professor at the Faculty of Economics, University of Prishtina), Mr. Fatos Sahiti (Advisor to the former Minister of Trade and Industry and currently Advisor to the Raiffeisen Bank) and Mr. Mustafë Hasani (Former CEO of Investment Promotion Agency of Kosovo and currently Financial Advisor to the Ministry of Finance) for their valuable advices throughout the completion of this project.

All the companies inside and outside Kosovo, for their time and valuable feedback. Without them, I could have not completed the most vital part of this project.

All AUK/RIT academic and administration staff, for their cooperation and support.

My colleagues, from the Ministry of Trade and Industry, Ministry of Finance and Ministry of Economic Development for their cooperation and contribution.

All my friends for their consideration and motivation.

I dedicate this Capstone Project to my family for their understanding, encouragement and endless love in every way possible throughout the process of the Master studies, this Capstone Project and beyond.
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAA</td>
<td>Civil Aviation Authority of Kosovo</td>
</tr>
<tr>
<td>CBAK</td>
<td>Central Banking Authority of Kosovo</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kosovo</td>
</tr>
<tr>
<td>CEFTA</td>
<td>Central European Free Trade Agreement</td>
</tr>
<tr>
<td>ECIKS</td>
<td>Economic Initiative for Kosovo</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoK</td>
<td>Government of Kosovo</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPAK</td>
<td>Investment Promotion Agency of Kosovo</td>
</tr>
<tr>
<td>KEDS</td>
<td>KEK Electricity Distribution and Supply</td>
</tr>
<tr>
<td>KEK</td>
<td>Kosovo Energy Corporation</td>
</tr>
<tr>
<td>MTI</td>
<td>Ministry of Trade and Industry</td>
</tr>
<tr>
<td>PAK</td>
<td>Privatization Agency of Kosovo</td>
</tr>
<tr>
<td>PIA</td>
<td>Prishtina International Airport</td>
</tr>
<tr>
<td>POE</td>
<td>Publicly Owned Enterprise</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
</tr>
<tr>
<td>PTK</td>
<td>Post and Telecommunications of Kosovo</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
</tr>
<tr>
<td>SOK</td>
<td>Statistical Office of Kosovo</td>
</tr>
<tr>
<td>TRA</td>
<td>Telecommunication Regulatory Authority</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
Executive Summary

Aware of the importance of foreign investments for the economic development of Kosovo, the project identified the motivations and concerns of foreign investors for investing in Kosovo and for exploring opportunities that Kosovo offers. In addition, this project examined the process of privatization as one of the opportunities to attract foreign investment and the role of Kosovo’s Diaspora in attracting foreign investment.

Methods of analysis included via e-mail and face to face questionnaire as well as case studies with regard to the privatization of three major Public Owned Enterprises: Post and Telecom of Kosovo (PTK), KEK Electricity Distribution and Supply Network (KEDS) and Prishtina International Airport (PIA).

**Main reasons for the reluctance to invest in Kosovo**

- Infrastructure & physical environment: 58 points
- Corruption & nepotism: 33 points
- Bureaucratic procedures: 33 points
- Political environment: 50 points
- Trade limitations: 17 points

*Source: Data obtained during project survey*

Results of data analyzed shows (see above figure) that according to potential foreign investors the main reasons for the reluctance to invest in Kosovo are weaknesses in: infrastructure & physical environment (58 points from survey respondents), political environment (50 points), corruption & nepotism (33 points), bureaucratic procedures (33 points) and trade limitations (17 points). The project found that Kosovo offers good investment opportunities in many fields such as: agriculture, energy and mining, tourism, construction, ICT (Information and Communication Technology) and shared services,
textiles and vineyards. With the commitment of all stakeholders Kosovo could become an even more desirable place to invest, especially to try to draw attention of the major international enterprises, with substantial investment potential and employment creation.

Major recommendations include:

- Improvement of infrastructure and physical environment. This includes: roads, electricity, water supply and other services. Also, railway sector needs investments in maintaining and modernization of the existing network. Furthermore utilization of industrial zones and industrial parks should serve as a model for the executive of the country as a crucial project that affects the creation of favorable conditions for business.

- A key condition for economic development is political stability. (1) Strict adherence to rule of law, (2) strengthening democratic processes, (3) resources for national security and (4) cultivation of tolerance are very important elements that have great impact on investment climate.

- Building transparent and accountable systems of governance at all levels. Implementation of laws and increasing the number of judges and prosecutors for 80% are an important element that greatly reduces corruption. There is need to stimulate competition and meritocracy to reduce the level of nepotism.

- The findings of “Doing Business Report 2011” by World Bank are a good basis for improving investment climate in Kosovo. These include: 1) difficulty at starting a business, 2) obtaining permits and licenses at the central and municipal level, 3) protecting investors, 4) trading across borders and 5) enforcing contracts. These are substantial elements that the government of Kosovo must take into account in order to eliminate bureaucratic procedures and to create facilities to promote business in Kosovo. The focus should be mainly in reducing time (days) and procedures (number).

- Establishment of the Diaspora Investment Office within the Ministry for Diaspora as the only body dealing with Diaspora’s investment. 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. Depending on the need and the success of this office, in later stages this number could increase.

- Privatization of PTK and KEDS are two major goals that will have great impact on Kosovo’s economy, thus this process should run efficiently. There is need to learn from these and the experiences of neighboring countries.
1. CHAPTER ONE - General overview of Kosovo’s economy

In this chapter will be discussed about Kosovo’s economy and some macroeconomic indicators that characterize Kosovo’s economy.

Economic development of Kosovo in the period after World War II began in conditions and circumstances of a centralized socialist system that was applied in the former Yugoslav Federation. In this period Kosovo was a typical agrarian country with no developed industry where agriculture took part with 70% of the income created by that time, while only 30% with industrial products. In this period, the overall economy of Kosovo took place with a growth rate of 5.7%. Characteristic of this period was that Kosovo did not have the same treatment in economic development as other federal units even though it was the only country with the lowest level of development.

In the late 1980’s, Kosovo’s economy, although less developed compared with other regions of the former Yugoslavia, it had a more favorable economic structure compared to the previous period. At this time Kosovo’s economy was based on the large number of companies that produce semi-finished products. After the continuous destruction of the economy, since 1990 and to the end of the war in 1999, production in Kosovo was almost nonexistent and traditional foreign market had lost. Kosovo, in the period of twelve years, has gone from a post-conflict environment into a state which is considered to be under transition. It has passed the reconstruction period by orienting itself toward the economic development and looking towards European integrations. Yet, an economic development is not enough to be able to address the challenges Kosovo is facing, such as high unemployment and high trade deficit rate.

In general, the economy of Kosovo is mainly dependant on the foreign sector. The level of imports is quite high with growing trends. On one hand, this comes as a result of

---

1 M.sc. Alush Kryeziu, “Strategjia për Promovimin e Eksportit të Kosovës”, ISPE, 15 November 2010, pp.11-13
Opportunities to Foreign Investment in Kosovo

economic growth itself, whereas on the other hand from the high level of Diaspora remittances, which cover the high trade deficit. Also, economy of Kosovo is characterized with a high presence of foreign donors, but in the last few years, their gradual withdrawal has slowed the pace of economic growth.

Kosovo is characterized with poor infrastructure and, consequently, a low productivity. The existing energy capacities and the poor road infrastructure are identified as the main barriers for a sustainable economic development. However, difficulties are not only of physical nature, but in other areas such as rule of law and the developing financial sector. Natural resource potentials of Kosovo represent a good basis for future development. Plenty quantities of mineral and energy resources (at 14.7 million tones, Kosovo possesses the world’s fifth-largest proven reserves of lignite), agricultural land (out of a total surface of 1.1 million ha app. 588,000 ha or 53% is cultivable land) and tourist potentials (the natural wealth of Kosovo represents good tourism resource), are not being used sufficiently. Therefore, in order to overcome such problems, higher levels of investments are needed. Countries that invest higher proportion of their GDP tend to grow faster. However, as lack of the domestic capital and financial investments, i.e. Kosovo, foreign investments represent the most effective way to create new jobs and to create the preconditions for a sustainable economic growth in the future.

It is well known that foreign investments play a potential role in encouraging and supporting a successful transition. Foreign investments in transition economies appears to be an effective tool for several reasons such as: investment growth potential, transfer of knowledge, increased productivity, upgrading of managerial and labor force skills, improving the state balance, balancing deficits, accelerating privatization of state-owned enterprises (SOE) and quickly restructuring of them. Although all countries in transition had more or less the same final goal, the results of their efforts diverged. This was due to the diverse and/or adverse internal as well as external conditions each country initially faced and to the different strategies, policies, and paths they undertook to ensure smooth and successful transitions.
Opportunities to Foreign Investment in Kosovo

The primary interests of foreign investors are to increase profitability, competitiveness, and access to international markets. The primary interest of developing countries is to foster domestic economic growth.

The legacy of the communist regime provided the transition environment with negative characteristics and worsened the situation. Therefore, time, sacrifices and hard effort were required in order the subsequent negative outcomes could be overcome.

**Key economic indicators**

On June 29, 2009, Kosovo formally joined the World Bank and International Monetary Fund (IMF). The real development of the economy measured by the gross domestic product (GDP) has been favorable in the past years, showing a positive and continuously increasing trend. Despite the effects of the international financial crisis, Kosovo was one of the few countries in Europe that experienced positive economic growth in recent years.

As donor support decreases, the private sector consumption and investments are becoming the most important factors behind economic growth. These investments are mainly being driven by the fast expanding financial sector. Moreover, the Kosovo Government runs a stable and forward-looking fiscal policy. The tax revenue base has been widened, thus enabling the Government expenditures to increase and in turn support economic growth.

Apart from the favorable economic performance, 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. The use of the Euro has provided the grounds for low inflation and a stable macroeconomic environment. By eliminating the exchange rate risk, transaction costs have been reduced, thus 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.

**Table 1.1: Main macroeconomic indicators**

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP /1</td>
<td>3.9%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>5.4%</td>
<td>4.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Inflation /1</td>
<td>-1.4%</td>
<td>0.6%</td>
<td>4.4%</td>
<td>9.4%</td>
<td>-2.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Unemployment /2</td>
<td>41.4%</td>
<td>44.9%</td>
<td>43.6%</td>
<td>47.5%</td>
<td>45.4%</td>
<td>45%</td>
</tr>
<tr>
<td>Remittances (€ Million) /1</td>
<td>418.0</td>
<td>467.1</td>
<td>515.6</td>
<td>535.4</td>
<td>505.6</td>
<td>511.6</td>
</tr>
</tbody>
</table>

**Source:**
/1 Central Bank of the Republic of Kosovo (CBK), Monthly Statistics Bulletin May 2011
/2 Statistical Office of Kosovo (SOK)

Kosovo’s economy in 2010 recorded a real growth of Domestic Gross Product (GDP) of 4.0%. Differently from 2009, where the growth was mainly driven by the increase of public expenditures and decrease of prices, the growth in 2010 was driven by the increase of consumption and investments in private sector. The real GDP growth for 2008 was estimated at 5.4 percent. The economic growth in 2008 was driven by the increase in consumption and investments, largely financed by bank loans, remittances, public expenditures and foreign assistance.

An average increase of prices of 3.5% was recorded during 2010, which was mainly driven by the increase of prices of food products. The decline of the international presence can be considered as a partial explanation for the decline in overall levels of prices in Kosovo. In particular, despite the upward pressure of oil prices, average annual inflation in 2005 fell by -1.4%. In this case this is a deflation. The annual average inflation rate in 2008 stood at 9.3 percent. The inflation rate was generated by the increase of prices globally. This signifies the sensitivity of prices in Kosovo against the external sector, what results from the high reliance of the economy on imports.

Unlike year 2008, when inflation rate reached at 9.3 percent, year 2009 was characterized by an average inflation rate of 2.4 percent, i.e. deflation -2.4.
The decrease of import prices during 2009 was largely driven by the decline in the prices of mineral products (mainly oil), food articles, machineries and equipment. A serious problem for Kosovo also in 2010 keeps remaining the high unemployment rate, which is estimated to be around 45%. A significant contributor which has financed the domestic consumption in the country, were the migrants’ remittances, which also increased as a result of the improvements in the developed economies.
2. CHAPTER TWO - Foreign Investments

In chapter two will be discussed the current FDI trends in the world economy, foreign investments in the Balkans region in the period 2005-2010 and foreign investments in Kosovo.

2.1 Current FDI trends in the world economy

According to UNCTAD “World Investment Global Report 2011” foreign direct investment (FDI) inflows rose modestly in 2010, following the large declines of 2008 and 2009. At $1.24 trillion in 2010, they were 5 per cent higher than a year before (figure 2.1.). This moderate growth was mainly the result of higher flows to developing countries, which together with transition economies – for the first time – absorbed more than half of FDI flows.

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

---

3 World Investment Report 2011, UNCTAD
2.2 Foreign investments in the Balkans region

Improving the climate for investment is a strategic economic priority for South East Europe. The global economic crisis has highlighted the importance to the region's long-term prosperity of generating higher levels of direct investment. Many of the policy reforms needed to strengthen the investment climate are also necessary for membership of the European Union, to which countries in the region generally aspire.

Table 2.1: 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>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>264</td>
<td>325</td>
<td>656</td>
<td>988</td>
<td>979</td>
<td>1,097</td>
</tr>
<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>
</tr>
<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>
</tr>
<tr>
<td>Macedonia</td>
<td>96</td>
<td>433</td>
<td>693</td>
<td>586</td>
<td>201</td>
<td>293</td>
</tr>
<tr>
<td>Montenegro</td>
<td>501</td>
<td>622</td>
<td>934</td>
<td>960</td>
<td>1,527</td>
<td>760</td>
</tr>
<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>


FDI flows to Croatia and Serbia declined sharply in 2010, while Albania saw its FDI rise to more than $1 Billion for the first time ever, making it the second largest FDI recipient country in the sub region after Serbia.
2.3 Foreign investments in Kosovo

Taking into consideration the favorable business climate, stable macroeconomic environment and the good opportunities across different business sectors, Kosovo is increasingly becoming an attractive place for doing business. As a result, the interest of foreign investors has been increasing steadily throughout recent years. Kosovo has attracted over €1 Billion of FDIs in the past five years. After a peak in 2007 with €440 Million of FDI this mainly as a result of the process of privatization, a slight decrease has been seen in 2008 and 2009, this mainly due to the impact of the global financial downturn. In 2010 Kosovo had positive growth of FDI inflows reaching €311.2 Million. 

Apart from investment pioneers such as the Raiffeisen Bank and Procredit, which entered the Kosovar market at the beginning of the transition phase, there are many other foreign companies engaged in a wide range of business sectors. According to the Business Registry data so far, there are 3,973 companies of foreign and mixed ownership that have already used the opportunity to invest in Kosovo. The large amount of foreign companies operating in Kosovo is living proof of the opportunities and benefits that the country offers, and also represents a base of quality products and a successful service-providing community.

Figure 2.2: Foreign investments in Kosovo 2005-2010 (€ Million)

Source: Central Bank of Kosovo (2011)
Opportunities to Foreign Investment in Kosovo

The difficulties related to the access of Kosovo’s firms in a part of regional market, caused by Serbia and Bosnia and Herzegovina remain an important challenge for Kosovo in attracting new FDI.

In 2010, the manufacturing sector represented the sector with the largest FDI inflows (23.0 percent of total FDI). Another important sector with regard to the amount of received FDI consists of the financial sector, which absorbed 22.1 percent of total FDI in Kosovo. The FDI in the financial sector are mainly composed of reinvested earnings of financial institutions that operate in Kosovo. The real estate sector (15 percent of total FDI) and the construction sector (15 percent of total FDI) also represented important sectors for the attraction of FDI in Kosovo during 2010.

The origin of foreign investors in Kosovo is mainly from the EU countries. Germany continues to be the country where most of the FDI come from, followed by Slovenia which represents the second country in terms of the volume of investments in Kosovo. An important share of FDI in Kosovo also comes from Austria and China.

Table 2.2: Number of foreign enterprises based on sectors and number of employees

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Number of enterprises</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking sector</td>
<td>6</td>
<td>369</td>
</tr>
<tr>
<td>Banking and financial sector</td>
<td>115</td>
<td>4428</td>
</tr>
<tr>
<td>Construction</td>
<td>466</td>
<td>2253</td>
</tr>
<tr>
<td>Education</td>
<td>30</td>
<td>192</td>
</tr>
<tr>
<td>Hotels and Tourism</td>
<td>295</td>
<td>1039</td>
</tr>
<tr>
<td>Medical</td>
<td>49</td>
<td>148</td>
</tr>
<tr>
<td>Other services</td>
<td>156</td>
<td>767</td>
</tr>
<tr>
<td>Processing</td>
<td>579</td>
<td>6736</td>
</tr>
<tr>
<td>Services</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Services activity</td>
<td>423</td>
<td>2359</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>94</td>
<td>953</td>
</tr>
<tr>
<td>Trade</td>
<td>1606</td>
<td>4953</td>
</tr>
<tr>
<td>Transport</td>
<td>144</td>
<td>399</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3973</strong></td>
<td><strong>24611</strong></td>
</tr>
</tbody>
</table>

*Source: Investment Promotion Agency of Kosovo (IPAK)*
Table 2.3: Number of foreign enterprises based on countries of origin

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Albania</td>
<td>531</td>
</tr>
<tr>
<td>2.</td>
<td>Macedonia</td>
<td>438</td>
</tr>
<tr>
<td>3.</td>
<td>Turkey</td>
<td>405</td>
</tr>
<tr>
<td>4.</td>
<td>China</td>
<td>401</td>
</tr>
<tr>
<td>5.</td>
<td>Germany</td>
<td>293</td>
</tr>
<tr>
<td>6.</td>
<td>Italy</td>
<td>147</td>
</tr>
<tr>
<td>7.</td>
<td>USA</td>
<td>115</td>
</tr>
<tr>
<td>8.</td>
<td>Bulgaria</td>
<td>99</td>
</tr>
<tr>
<td>9.</td>
<td>Croatia</td>
<td>85</td>
</tr>
<tr>
<td>10.</td>
<td>Austria</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: IPAK

In order to put in place certain legal guarantees that are necessary to encourage foreign investment, in April 2006 the Government of Kosovo promulgated a Law on Foreign Investment (Law No. 02/L-33). According to this law a foreign investor has the same treatment and rights like local/domestic investor.

The Investment Promotion Agency of Kosovo (IPAK) is the primary Government Institution supporting foreign investment in the Kosovo. IPAK was established in 2006. It is a new agency with small number of staff and with an insufficient budget. IPAK’s budget for 2011 is €322,368. This amount is from Kosovo Consolidated Budget, while support by international organizations such as World Bank BETA project is $307,000. The financial support of World Bank is dedicated mainly for: research studies for improvement; capacity building and support for investment promotion activities. Currently, the Investment Promotion Agency of Kosovo has 12 employees.

---

4 Mustafë Hasani – Former CEO of IPAK, August 2011, Prishtina
5 Investment Promotion Strategy 2011-2013
3. CHAPTER THREE - Kosovo as an investment environment

In this chapter will be discussed about main sectors that offer good investment opportunities; incentives regime; World Bank Doing Business Report 2010&2011; tax structure, infrastructure and trade regime.

Kosovo’s business environment provides several comparative advantages that are important for a flourish private sector as well as for attracting FDI in the tradable sectors. For example, the tax system is simple and has low rates, and labor market rigidities are also very low, while at the same time wages are much lower than the region. These advantages, as compared to the region, are very important for attracting foreign investors.

Top ten reasons to invest in Kosovo according to Investment Promotion Agency are:

1. **Youngest population in Europe** - With an average age of 25 years, Kosovo has the youngest population in Europe. Albanian and Serbian are the official languages; English and German are widely used.

2. **High availability of skilled and cost effective labor** - The average monthly cost of labor in Kosovo is slightly over €250. Wages in Kosovo are unburdened by costly social contributions, unlike those in the countries of the region.

3. **EURO as the official currency** - Euro is the official currency in Kosovo, thereby eliminating currency and exchange rate risks.

4. **Free access to markets of EU, US and CEFTA** – Kosovo derives three major benefits from trade liberalization, namely improved export possibilities, a better investment environment and stable relations with its neighbors.

5. **Low taxes** - Kosovo has a simple and straightforward tax system. International Accounting Standards apply.

The tax burden is very low:

- Personal Income Tax 0-10 %
- VAT 16 %
- Corporate Income Tax 10 %
- Mandatory contributions for employees only 5 % of gross salaries
Opportunities to Foreign Investment in Kosovo

6. **Stabilizing political environment** - Kosovo’s independence marks the end to a long period of economic and political uncertainty. In addition to increased stability being created in the entire region, it presents a perspective of regional economic development and EU integration. Kosovo has become a member of international institutions such as the International Monetary Fund and the World Bank.

7. **EU-compatible legislation** - Since 1999, Kosovo’s legal system has been re-built and is now completely compatible with the EU legislation. Foreign investors enjoy national treatment, protection against expropriation and nationalization. The repatriation of profits and transfer of invested capital is free and unrestricted.

8. **Strategic location and developing infrastructure** - Located in the heart of the Balkans, Kosovo’s capital Prishtina is one hour driving time to any neighboring country. Ongoing infrastructure projects include modern highway connections to Albania, Serbia, and Macedonia.

9. **Sound banking system** - Kosovo’s financial sector has been built on completely new foundations. All financial institutions in Kosovo are private and have remained stable despite the financial crisis.

10. **Great investment opportunities** - Kosovo is well endowed with natural resources and agricultural land. The sectors of agriculture, food and wood processing, construction, textile, IT, automotive components, energy, and mining offer the most opportunities for foreign investors.

3.1 Main business sectors

Kosovo has a number of sectors offering good business opportunities such as:

**Agriculture** - with some 60 percent of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Combined with the temperate climate that prevails throughout the country, very good conditions for the agricultural production exist.
Opportunities to Foreign Investment in Kosovo

**Mining and Energy** - Kosovo has an enviable endowment of natural resources. At 14.7 million tons, Kosovo possesses the world’s fifth-largest proven reserves of lignite.

Apart from lignite fired energy generation capacities, Kosovo can also offer vast opportunities in the renewable energy sector. Currently some 98 percent of electrical energy is produced through thermal power plants.

**Wood processing** - Over 40% of Kosovo's land mass is covered by forest, representing an area of approximately 465,000 hectares. Kosovo has a long wood processing tradition and its soils are generally nutrient-rich providing a very good growth medium for natural plants and trees.

**Metal Processing Industry** - Kosovo has a long history of metal processing and the sector has undergone major changes over the past twenty years. The sector exports a range of metal products, mainly galvanized steel strip and steel forgings, to 15 European countries.

**Decorative Stone Industry** - The availability of one of the world's most beautiful decorative stone is one of Kosovo's hidden secrets. Kosovo’s geology is rich and varied and its evolution over time has been influenced by its location in an active tectonic zone.

**Tourism** - The natural values of Kosovo represent high quality tourism resources. The description of Kosovo’s potential in tourism is closely related to the geographic position of Kosovo. The mountainous south of Kosovo has great potential for winter tourism. One of the most interesting opportunities for foreign investors in this region is the skiing resort Brezovica in the Sharr Mountains.

The prestigious British newspaper ‘The Guardian’ invited its readers to spend their winter holidays in Brezovica.

**Automotive components industry** - The origins of the automotive components industry in Kosovo date back to the 1960s, when the first large scale auto components manufacturing companies were founded.
The trend of shifting production to Central and Eastern Europe makes the Kosovar automotive component industry even more interesting for investors or partners wishing to benefit from increasing opportunities in the region.

**Construction Industry** - During past years the construction industry became one of the most important sectors contributing to Kosovo’s economic growth.

The construction industry remains a sector with highly promising economic potential for Kosovo.

**Banking and financial services** - All of Kosovo’s banks are now private with some being foreign-owned. There are six registered banks, eight insurance companies, five pensions’ funds, twenty one Other Financial intermediaries and fifteen Financial Auxiliaries (mainly money transfer agencies).

The role of the Central Banking Authority of Kosovo (CBAK) is to regulate the financial sector and protect its stability as well as to foster its development.

**Textile Industry** - With over 200 years of tradition, textiles were the second largest industrial sector in Kosovo, after mining. In the past, products from Kosovar manufacturers targeted the local market, as well as other markets throughout the former Yugoslavia, Western and Eastern Europe and the United States.

**Information technology** - According to the latest figures of the Telecommunication Regulatory Authority – TRA app. 15,3% of the Kosovars use internet on regular basis. Compared to the EU – average of 38%, the usage of Internet in Kosovo can be therefore considered as being significantly lower to an EU – average. This gap represents an existing potential of this sector that is waiting to be facilitated.

**Food Processing** - Kosovo's climate is influenced by its proximity to the Adriatic and Aegean Seas, as well as the continental European landmass to the north. The overall climate is of a modified continental type.
Opportunities to Foreign Investment in Kosovo

With some 60 per cent of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Agriculture is the main source of income for the majority of the population. The agribusiness and food processing sector is traditionally one of the strongest sectors in Kosovo's economy.

3.2 Incentives regime

The existing legal framework in Kosovo allows incentives for foreign and local investors. They are up to date and promote the growth of the SME-Sector. Current incentives cover the following issues:

- Carrying forward of losses;
- Special allowances of new assets;
- Avoiding double taxation;
- Customs;
- Investment guarantees:

According to the Law on Foreign Investments of Kosovo, foreign investors have the same rights and obligations as residents of Kosovo and are treated equally.

Taking into the account that the countries of the region through their strategies have a number of financial and non-financial incentives for foreign investors, Kosovo to be a competitor it is necessary to draft a policy of incentives for foreign investment such as:

- Special economic zones
- Tax holidays

3.3 World Bank Doing Business

Opportunities to Foreign Investment in Kosovo

Figure 3.1: Kosovo - Compared to global good practice economy as well as selected economies:

![Ease of Doing Business - Global Rank](image)


Table 3.1: Kosovo's ranking in Doing Business 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>Doing Business 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>119</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>163</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>173</td>
</tr>
<tr>
<td>Registering Property</td>
<td>65</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>32</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>173</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>41</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>130</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>155</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>31</td>
</tr>
</tbody>
</table>


Kosovo made business start-up more difficult by replacing the tax number previously required with a “fiscal number,” which takes longer to issue and requires the tax administration to first inspect the business premises.

The table shows that five indicators needs immediate improvement. They are: Starting a Business; Dealing with Construction Permits; Protecting Investors; Trading Across Borders and Enforcing Contracts.
Opportunities to Foreign Investment in Kosovo

Table 3.2: Topic rankings of Doing Business report (2010-2011)

<table>
<thead>
<tr>
<th>Topic Rankings</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>
</tr>
<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>

<table>
<thead>
<tr>
<th>Doing Business 2011 Rank</th>
<th>Doing Business 2010 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>119</td>
<td>118</td>
<td>↓ -1</td>
</tr>
</tbody>
</table>

3.4 Tax structure

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 tax regimes:

- Corporate Tax
- Value added tax
- Personal Income Tax

Table 3.3: Comparison of Tax Systems in the region – 2010

<table>
<thead>
<tr>
<th></th>
<th>VAT</th>
<th>Corporate Tax</th>
<th>Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosovo</td>
<td>16%</td>
<td>10%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Macedonia</td>
<td>18%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Serbia</td>
<td>18%</td>
<td>10%</td>
<td>10-20%</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>17%</td>
<td>10%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Croatia</td>
<td>17%</td>
<td>20%</td>
<td>12-40%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>17%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Investment Promotion Agency of Kosovo (IPAK)
3.5 Infrastructure

3.5.1 Legislation

In order for economy to function in accordance with the Western principles of free market currently in commercial sphere in Kosovo were adopted nine regulations on:

- Foreign Investments
- Business Organizations
- Contracts for Selling of Goods
- Guarantees
- Rules of Security and Supervision
- Payment Transactions
- Basic Labor Law
- Standards for Financial Reports
- Establishment of Office for Guarantees

The other regulations are expected to be adopted, among which are:

- Bankruptcies
- Mortgages
- Competition Protection
- Intellectual Properties

3.5.2 Transport

Roads

The territory of Kosovo has a suitable road infrastructure for the development of different business activities. The road network comprises 630km of main roads. With the construction of motorway with Albania, Kosovo will be an important bridge between West Europe and Adriatic Sea.
Opportunities to Foreign Investment in Kosovo

Railway

Kosovo possesses a railway system of 330 km covering all the territory of Kosovo by connecting the north with south and east with west. Kosovo Railways enable the construction of private industrial rails from the railway lines to the destination of clients.

Air

Kosovo has only one airport, Prishtina Airport, which is one of the most frequented airports in the region. This airport provides flights to most important centers in Europe but also in USA.

3.6 Trade Regime

Kosovo has a liberal trade regime and derives three major benefits from trade liberalization, namely improved export possibilities, a better investment environment, and stable relations with its neighbors.

Committed to establishing principles for the stable development of a pure market economy, since a very early stage of development, Kosovo’s government has been working towards establishing a system for the free movement of goods and services throughout the country’s borders. As a result, Kosovo currently enjoys free trade within Central European Free Trade Agreement – CEFTA, enabling its businesses and producers of goods to access the regional market comprising of 30 million consumers, free of any customs duties.

In addition, Kosovo benefits from non-reciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime (extension 2011-2015 currently still pending). Quantitative and qualitative restrictions remain in force only for a very limited number of goods. Furthermore, a significant number of goods produced in Kosovo enjoy a preferential treatment in the US market.

3.6.1 Imports and Exports 2005-2010

Kosovo is still an import-based economy. Imports have been increasing steadily in recent years (as the figure shows) reaching some €2.14 Billion at the end of 2010. The main
importing countries in Kosovo are EU-countries followed by CEFTA-members. Even though local production is increasing steadily, Kosovo is still forced to import goods and raw materials that are not offered by the local market. The main imports of commodity goods range therefore from transport means, chemical products and base metals to machinery and mineral products.

Figure 3.2.: Imports in Kosovo – by year (€ Millions)

Source: IPAK (Investor Guide 2011)

Recognizing the opportunities that the local market is offering, and benefiting from various cross-sector incentives introduced by the Government, local production has grown exponentially in recent years. Not only does local demand continuously rely on local production but Kosovo is increasing its exports to its main trade partners, EU-countries and CEFTA-members. At the end of 2010, exports reached €294 Million, an increase of 81 percent in comparison to 2009. The main exports of Kosovo comprise mainly base metals and mineral products, as well as vegetables and prepared foodstuff.

Figure 3.3: Exports from Kosovo – by year (€ Millions)

Source: IPAK (Investor Guide 2011)
4. CHAPTER FOUR - Questionnaires conducted with Existing Foreign Investors - Project Investigation & Analysis

This chapter includes a questionnaire conducted with 12 foreign companies which are present in Kosovo, i.e. existing foreign investor. It was used a questionnaire via e-mail and face to face questionnaire. The selection of companies is done mostly based on their size of capital and some of them are selected randomly. The survey took almost two months to complete (January – March 2011).

6.1 Existing Foreign Investors (companies present in Kosovo)

The first part includes the results of the questionnaires with foreign companies that are present in Kosovo. The respondents companies come from the sector of mining, food industry, rubber and chemical industry, hotels and restaurants, metal industry, non-life insurance, textile manufacturer and cement production (Figure 4.1). The company names shall not be published in this project for confidentiality reasons.

Figure 4.1: Main type of business of existing foreign companies in Kosovo
50% of companies established during the period 2000-2005 and other 50% during 2006-2010 (Figure 4.2).

Most of the companies predict that they will increase the number of employees until 2015 and this indicates that companies may expand their investments in the future in Kosovo (Figure 4.3).

To the question of years of doing active business in Kosovo, 50% of companies respond with 0-5 years; 33% with 6-10 years and 17% with 11-15 years (Figure 4.4).
Regarding the ratio of Initial Domestic to Foreign Stakeholder 50% of companies respond with Foreign; 42% did not respond (N/A) and 8% of companies said €3 Million, while in 2010 the situation remain the same comparing with initial phase of doing business in Kosovo (Figure 4.5 and Figure 4.6).
Total investment up to 2010 looks like this: 42% of companies invested €1-10 Million; 17% invested €20-50 Million; 25% invested €50-100 Million; 8% did not respond and 8% said this is information is confidential (Figure 4.7).

Figure 4.7: Percentage of companies that have made investments in various amounts up to 2010

The chart presents how companies have ranked the business environment. The results are almost balanced; especially there is no big difference between the options Reasonable and Not so reasonable (Figure 4.8).
The chart indicates factors that attracted foreign companies to invest in Kosovo. As most important factors are: young, educated, multilingual and dynamic population; good investment opportunities; central location in the region; tax incentives; currency EURO; competitive, low cost and well skilled labor force, etc (Figure 4.9).

Comments provided under option Other:
- Company’s strategy for expansion
- People/partners who are trustable
Opportunities to Foreign Investment in Kosovo

The chart below (Figure 4.10) indicates the plans of companies about their investment in the future where 75% of companies want to invest in the future; 17% do not want to invest in the future and only 8% are indecisive about the future investment in Kosovo.

Figure 4.10: Investment plans in the future

According to respondents factors that indicated difficulties to do business in Kosovo are as following: bureaucratic procedures; corruption & nepotism; political environment; infrastructure & physical environment and trade limitations (Figure 4.11).

Figure 4.11: Factors that indicated difficulties for companies
Opportunities to Foreign Investment in Kosovo

Comments provided under option Other:

- CEFTA and EU
- Legislation & Energy

The main actions that Government of Kosovo should take in order to improve business environment are as following: reformation of education system; reformation of government administration; prevention of corruption, etc (Figure 4.12).

Figure 4.12: Actions the Government of Kosovo should take

Comments provided under option Other:

- Reform Kosovo’s judiciary
- Stop informal economy
- Improve legal environment
5. CHAPTER FIVE - Role of Diaspora on Kosovo’s development

In this chapter will be discussed about the contribution of Diaspora of Kosovo on development of the country and remittances.

The issue of Diaspora is regulated by Law on Diaspora of Kosovo No. 03/L-171. The purpose of this Law is to have influence on preservation and cultivation of language, culture and education identity of the Diaspora members and to define their relations with institutions of Republic of Kosovo.

The role of Kosovar Diaspora on the Kosovo’s development is very important and undeniable. Migration for Kosovars has been a tradition for many decades, and Kosovo is among the countries with greatest migration in Europe. In the 1990s, outmigration accelerated because of the hardships of the war, and culminated in 1999 when hundreds of thousands Kosovars had to leave. However, the resolution of the conflict a decade ago does not seem to have provided incentives for the migrants to return (apart from those that were sent back by host countries providing temporary refuge). Migration has provided a safety valve for large part of the population, providing a source of livelihood in an environment of very high unemployment and poverty rates. The key motivation of migration from Kosovo is employment. At the end of the 1990s, war was a major cause of migration, but now it has been supplanted by unemployment. A common, yet disputed, estimate is that 800,000 members of Kosovo Albanian Diaspora live abroad.

The role of migration in building up capacity and skills should not be underestimated. Furthermore, migration can in itself be motivated by the desire to acquire skills and education abroad. If these migrants return, Kosovo could experience a brain gain. Other countries’ experiences suggest that improvements in the business environment have provided a basis for migrants or remittance-receiving families to invest. Migrants and Diaspora can contribute to economic development in countries of origin in many ways other than by sending remittances alone. These contributions are less tangible than remittances, but not necessarily less relevant. For instance, they might contribute to economic growth through setting up enterprises themselves or helping families and
relatives to do so. This is not only a function of remittances, but it also potentially implies a beneficial transfer of know-how and competencies - a so-called ‘brain gain’.

Currently, for several reasons, many members of the Kosovo Diaspora do not see investing in Kosovo as a priority. First, with the exemption of a few successful businessmen, they do not possess great financial potential. Second, members who have a certain financial potential to invest view the business culture in Kosovo as an obstacle. They complain about corruption, lack of basic infrastructure and the lack of reliability of the business people in Kosovo. Lastly, most potential migrant investors remain hesitant to invest in Kosovo because of a pervading perception of abandonment by their “homeland” after having contributed for decades to its political development. The failure to acknowledge the contributions of the Diaspora by governmental institutions and the lack of tax facilitation and subventions decreases their interest and motivation to investment in Kosovo.

In May 2011 is established the Ministry for Diaspora, as a necessity to have an address for our Diaspora. The Ministry is in its beginning of functioning and in the near future this institution will be the main body that will provide help and support to our Diaspora.

In other side, one of the priorities of the Investment Promotion Agency of Kosovo is to encourage investments from Diaspora as promoters of foreign investment and consequently Diaspora can be consider as first “foreign” investor. IPAK is actively seeking to increase its representation abroad among other things to attract also investments from Diaspora. Currently IPAK is represented in German speaking countries by ECIKS Vienna Office in Austria.

Diaspora is very important not only economically but also socially, culturally and politically – because of the links it establishes between countries and cultures.
5.1 Remittances

Remittances represent a substantial source of income for Kosovo’s population and hence have a major impact on poverty. The pace of migration has not been affected much by the economic crisis. Following the end of the conflict, the pace of migration increased until 2007, and then slightly decreased in 2008. However, it is not clear whether the trend reversal in 2008 was a result of the economic crisis. The same trend continue in 2009 where the effects of the crisis manifested by decline remittances. Year 2009 marked a decline of 5.6% in Kosovars’ remittances. Year 2010 marked almost the same trend like in 2008 and 2009 as the figures shows below.

While remittances have helped decrease poverty, they have not played a major role in stimulating economic activity. The bulk of remittances seem to be used for immediate consumption, and only a small share goes to business investments, or education. Remittance trends in the past decade prove that the links between migrants and their families in Kosovo remain strong.

<table>
<thead>
<tr>
<th>Remittances</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>418.0</td>
<td>467.1</td>
<td>515.6</td>
<td>535.4</td>
<td>505.6</td>
<td>511.6</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kosovo, Monthly Bulletin May 2011

Table 5.2: Remittances - by countries

<table>
<thead>
<tr>
<th>Description</th>
<th>Germany</th>
<th>Switzerland</th>
<th>Italy</th>
<th>Austria</th>
<th>USA</th>
<th>Canada</th>
<th>England</th>
<th>Slovenia</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>37.7</td>
<td>15.9</td>
<td>13.1</td>
<td>6.2</td>
<td>2.8</td>
<td>2.2</td>
<td>1.5</td>
<td>1.4</td>
<td>2.6</td>
</tr>
<tr>
<td>2009 Q1</td>
<td>34.9</td>
<td>21.4</td>
<td>10.5</td>
<td>5.3</td>
<td>3.5</td>
<td>1.6</td>
<td>1.6</td>
<td>1.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Q2</td>
<td>39.4</td>
<td>19.7</td>
<td>11.3</td>
<td>6.1</td>
<td>2.6</td>
<td>1.8</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Q3</td>
<td>37.4</td>
<td>21.2</td>
<td>9.8</td>
<td>6.0</td>
<td>2.6</td>
<td>2.1</td>
<td>1.3</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Q4</td>
<td>38.1</td>
<td>22.0</td>
<td>9.8</td>
<td>5.5</td>
<td>2.3</td>
<td>1.9</td>
<td>1.3</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>2010 Q1</td>
<td>34.8</td>
<td>21.0</td>
<td>8.8</td>
<td>5.7</td>
<td>3.9</td>
<td>1.3</td>
<td>1.5</td>
<td>3.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Q2</td>
<td>34.7</td>
<td>20.7</td>
<td>7.9</td>
<td>3.9</td>
<td>4.7</td>
<td>2.0</td>
<td>1.7</td>
<td>3.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Q3</td>
<td>33.2</td>
<td>21.4</td>
<td>7.0</td>
<td>6.5</td>
<td>4.8</td>
<td>2.3</td>
<td>1.6</td>
<td>5.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Q4</td>
<td>34.1</td>
<td>21.6</td>
<td>7.2</td>
<td>5.5</td>
<td>3.1</td>
<td>1.9</td>
<td>1.3</td>
<td>4.5</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kosovo, Monthly Bulletin May 2011
6. CHAPTER SIX - Privatization in Kosovo

In this chapter will be discussed about the privatization process in Kosovo and will be analyzed three case studies of PTK, KEDS and PIA.

Privatization is an alternative way of distributing and choosing the means of generating wealth. Consequently, it may also be considered as a distribution of political and economic power in the long run (Bitzenis, 2009, 57).

The main objectives of privatization may be summarized in the following:
- The reduction of the state sector
- Promotion of wide share ownership
- Greater efficiency within privatized entities, coupled with profit motivated decisions
- Raising revenue for the government
- Reduced government interference, increasing speed of decision making
- Introduction or enhancement of competition.
- Exposure to the disciplines and opportunities of private sector markets for capital and other resources.

The Privatization Agency of Kosovo (PAK) is established as an independent public body that shall carry out its functions and responsibilities with full autonomy, by the Assembly of Kosovo Law No. 03/L-067, on the PAK.

Over the past years, Kosovo has embarked upon major social and economic developments that shape the future of the country. One of the processes is privatization of the previously socially-owned enterprises (SOE).

---

6 Professor Mohammed Fathy Mahmoud, *Privatization: A Solution to Problems of Public Enterprises*, King Saud University, Riyadh, Saudi Arabia, p.37
A legal framework for the ownership of POEs, respectively their corporate governance is laid down by the Law on Publicly Owned Enterprises, law no 03/L-087 (POE Law). Under this law, POEs have to be organized as joint stock companies.

Table 6.1: Participation in the process of privatization

<table>
<thead>
<tr>
<th>Wave No 1-35</th>
<th>Internationals</th>
<th>Diaspora</th>
<th>Mix - Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL:</td>
<td>29</td>
<td>38</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Privatization Agency of Kosovo

Some of the major recent events in the privatization process are:

- Privatization of the Prishtina International Airport through concession for 20 years. The investment will be carried out by the Turkish-French Consortium ‘Limak – Airport de Lyon’
- Express of interest for the New Power Plant called Kosova e Re (New Kosova)” whose construction is expected to begin this year. The power plant is expected to produce 500 megawatts of energy with the possibility of additional 500 megawatts. Construction costs are estimated to amount to €1 Billion, and will be co-financed by the Government of Kosovo and the winning company.
- Privatization of the electricity distribution network in Kosovo. This process is expected to be completed by the end of 2011.
- Privatization of 75% of the Post-Telecom of Kosova which is expected to be carried out in 2011.
- New project for Prishtina-Skopje highway. The construction of 55-kilometers highway is planned to be carried out through public-private partnership during 2011.

The ongoing privatization process in Kosovo offers new opportunities to invest at a time when the private sector in Kosovo is becoming the main factor for the sustainable economic development of the country.
6.1 Case Study 1:

Post and Telecommunications of Kosovo (PTK)

Brief summary

The Post, Telephone and Telegraph of Kosovo were established in 1959 under a Decision no. 1115497/1-1959 of the Steering Council of Yugoslavian PTT Communion. Then, as of 13.09.1990 all the Albanian employees and other minorities who disagreed with the politics of Milosevic were driven out of their workplaces by force. During the war all the office items and assets of the PTK were stolen, demolished, and some of them completely damaged. After the war, negotiating teams of the PTK, KFOR and UNMIK enabled the legal return of employees to their workplaces. At that time, postal services were unfeasible whereas the Telephony and Telegraphy of Kosovo as well as international connections were almost inoperative.

After 6 years of efforts, PTK has established following three business units: Post of Kosovo, Telecom of Kosovo, and Vala mobile network operator. These three business units of the PTK are licensed by the Kosovo Telecommunications Regulatory Authority. On 29 June 2005, PTK was transformed into a joint-stock-company under the new name of PTK J.S.C.

PTK J.S.C. has actually a five years business plan with an investment of €550 Million.

Lack of international telephony code is the cause that still impedes the development of the PTK, in comparing with other operators in the region and farther.

The Government of Kosovo decided to include PTK in the privatization process. The Law on Publicly Owned Enterprises (POEs) stipulates that “Shares in a Central POE may be freely sold if the Government adopts a written decision authorizing a Government Privatization Committee to proceed with the tendering and selling of such shares”.

Problem identification (PTK)

The main issues surrounding the privatization of PTK are the following:

- According to most key performance indicators, PTK is severely lagging behind its peers, even when the company is observed without the post.
- The company has too many employees, which is why a hiring freeze was introduced in the company in May 2010.
- Failure to carry out capital projects
- Mismanagement of the company
- Doubts about the period of PTK privatization (is it right time)?

Analysis of the relevant facts (PTK)

Kosovo market has become very competitive since the market entry of Telekom Slovenije - Ipko. Price war between PTK and IPKO has decreased the tariffs for all services dramatically and the increase in average usage of services has not been sufficient to maintain the revenues at the previous levels.

However, PTK will be included in the privatization process. The corporation of Post & Telecommunication of Kosovo will be transferred into the hands of new owners by September this year, according to the plans of the Government. The corporation was put on sale in the middle of last year and is expected to be sold for around €300 Million up to €600 Million. This privatization will be viewed by international governmental and inter-governmental bodies such as the European Union, International Monetary Fund and World Bank as well as international investors as a measure of the GoK’s commitment to a liberalized economy hospitable to foreign investment and where companies are operated transparently for the benefit of shareholders.

Consulting companies TelCo AG and Wolf Theiss selected to advise Kosovo Government on Telecom privatization. Already they prepared a strategy where they proposed privatization of 75% of the Post-Telecom of Kosova.
Five companies are interested to buy the 75% of shares in two business units of PTK, “Vala” and “Telekom”, but after appraising the application of companies participating in the pre-qualification phase, Government Privatization Committee (GPC) of Post and Telecommunications of Kosovo J.S.C. (PTK) announces that the following companies qualify for the tender of purchasing 75% of the shares of PTK Sh. A:

1. Hrvatski Telekom d.d., Croatia, parent company Deutsche Telekom, Germany
2. Telekom Austria AG, Austria.

In the business unit “Posta e Kosovës” the Government of Kosovo will retain 100% of the shares. The money will then be used to pay the bills of “Bechtel&Enka,” the company which will construct the highway that costs around €700 Million.

For many years this unit of PTK works with losses, which losses are covered by the business of other units, so after the privatization this unit will be the burden for the Government, if it continues with the same business.

Figure 6.1: Comparison with other countries

Source: Ministry of Economic Development

---

7 Dr. Myrvete Badivuku – Pantina, Professor of the Faculty of Economics, University of Prishtina, July 2011, Prishtina
Opportunities to Foreign Investment in Kosovo

Conclusion (PTK)

So far, Kosovo has proved that it is for liberalize market and want to be part of global market. The telecommunications field requires continuous investments which may be provided through privatization. From the analysis, the privatization of PTK has raised many debates. Some argue that it is good to privatize the PTK in order to bring new spirit in the management of this company and that this company to cope with global competition. Other side argues that PTK should not privatize because this company is most profitable company in Kosovo and is pointless to sell PTK.

The privatization of PTK would remove the state monopoly in the field of telecommunications as well as contribute to the development of competition in the market. With the entrance of new mobile operators in the market, prices have drastically fallen whereas quality and diversity of services has increased.

Recommendation (PTK)

- It is good to learn from the experiences of neighboring countries in order to maximize the benefits from the privatization of PTK.
- Since PTK is a profitable company there is need to analyze whether privatization of this company should take place right now.
6.2 Case Study 2

Privatization of distribution and supply network of KEK (KEDS)

Brief summary

Kosovo Energy Corporation j.s.c (KEK) is the sole power corporation in Republic of Kosova. KEK j.s.c is vertically integrated and was legally incorporated in the end of 2005 year. In different periods of time KEK j.s.c went through a lot of changes. For a long period of time Kosovo’s power system was part of ex Yugoslavia power system. During this period of time energy production in Kosovo was concentrated in production of energy from a coal and small quantity from the water. During that period of time the supply with power was not only from Kosovo’s plants but also from the other sources of energy production in the other places of ex Yugoslavia. Now the core business of the Corporation is production of coal, energy production, and supply with energy, sales and customer care service. In accomplishing the above mentioned functions the KEK is organized into four main divisions: Mines, Generation, Distribution and Supply Divisions. There are two open-cast mines, namely the Mirash mine and Bardh mine, two power plants, PP “Kosova A” and PP” Kosova B”, around 18.898km (from 0.4 kV voltage level to 35 kV) of distribution network covering the whole territory of Kosovo and the operation is finalized with supply activity, including the energy sale function . The functions of KEK are regulated according the politics of Energy Regulatory Office of Republic of Kosovo. There are approximately 400.000 customers in different levels and there are approximately 8000 employees in different sections.

The Government of Kosovo has begun the privatization process through Public Private Partnership (PPP) for KEK Distribution Network and Supply.

In the meantime, express of interest for the New Power Plant called Kosova e Re (New Kosova)” whose construction is expected to begin this year. The power plant is expected to produce 500 megawatts of energy with the possibility of additional 500 megawatts. Construction costs are estimated to amount to €1 Billion, and will be co-financed by the
Government of Kosovo and the winning company. Currently 4 international consortiums have expressed their interest. The winner of the project will also have the rights for coal exploitation in Kosovo.

**Problem identification (KEDS)**

The main issues surrounding the privatization of KEDS are the following:

- Ensure security of supply of electricity
- Eliminate unsustainable Government subsidies
- Enhance performance and delivery of electricity throughout the country
- KEK is a major fiscal burden

**Analysis of the relevant facts (KEDS)**

The existing power plants (Kosovo A and B) are aged, in poor condition and subject to risk of major failure. Both plants burn lignite, the only fuel source available in Kosovo. The Kosovo A power plant was built in the 1960s and is the largest point source of air pollution in Europe. It is scheduled to close in 2017. The Kosovo B plant was built in the 1980s and is not functioning to its design capacity due to poor maintenance. Planned rehabilitation and emission control upgrades will allow it to operate at least through 2024. However these upgrades reduce generation capacity as units are taken out of service and repaired. Both plants are located within a couple of miles of Pristina and air quality, particularly in winter, is extremely poor and unhealthy.

Because of the continuing poor collection performance of KEK Distribution, the Government has begun the process of separating and privatizing the distribution assets of KEK through a separate transaction.

In 2008, the Government of Kosovo approved the unbundling of the country’s electricity distribution and supply network to form a new company for privatization through an open and competitive international tender. Kosovo has made much progress in creating a legal
and regulatory framework which investors in the energy sector and other sectors will find conducive to doing business in Kosovo. According to KEDS project implementation unit, KEK Electricity Distribution and Supply is an inefficient and costly operation. The Government of Kosovo is not able to deliver the level of expertise, investment and technical operating skills necessary for a world class operation. These inefficiencies, coupled with collection deficiencies, theft, and outdated infrastructure, create an enormous financial drain on the Consolidated Budget of Kosovo.

Government subsidies to KEK are not sustainable. The drain on the Government’s budget negatively impacts the Government’s ability to address critical needs elsewhere.

Private sector investment in KEDS will improve infrastructure, operating efficiency, collections, energy security, reliability and sustainability – all critical to Kosovo’s economic future, and an improved quality of life for all citizens.

So far, four companies are pre-qualified in the process of privatization of KEDS: “Limak”, “Çalik”, “TAIB”, and “Ellsewedy”.

Because of old equipment, poor management, low tariffs and high technical and commercial losses, KEK received about €1.1 billion in subsidies during 2000–2009 (an amount equal to total expenditure of the 2010 budget), of which about €0.5 billion came from the Kosovo budget and €0.6 billion came from donors.

Privatization of distribution and supply network of KEK with strategic investor, for improvement of management, increase of billing, reduce of technical losses and enhancement of supply and quality of services, for private clients and for businesses. Privatization of distribution and supply will enable increase of revenue collection to 100% and will enable reduce of losses as well as improve managment of energy demands. The fiscal burden of the energy sector on the Kosovo budget has been running at over €70 million in subsidies per year over the last four years, or 11 percent of the budget on average. The main causes for KEK’s negative fiscal impact are technical and commercial losses; power imports requiring a subsidy of about €50 million in 2009, a subsidy that will increase in the future as equipment ages and demand and power import prices increase again; and urgently needed investments and maintenance in generation
Opportunities to Foreign Investment in Kosovo

and distribution. Investments for the opening of the Sibovc SW mine have been supported through about €145 Million in Kosovo Consolidated Budget (KCB) loans. Kosovo is part of the regional energy market established between the EU and Southeast Europe.

Conclusion (KEDS)

Lack of steady supply of electricity continues to be the biggest impediment to firms from all sectors of the economy. Nevertheless, the power sector has significant potential. Abundant reserves of good quality lignite are Kosovo’s main natural energy resource. Efficient and relatively low-cost production of lignite from a new mine and electricity from proposed new or rehabilitated power plants owned or managed by the private sector would vastly improve the reliability of supply in Kosovo. Instead of a drain on the budget, the sector could become a contributor, and instead of a constraint on growth, the sector could become a growth engine. From the analyses, the privatization of KEDS and the building of new power plant “Kosova e Re” has its PROs and CONTRAs. Those who support the idea of privatization argue that the situation with energy supply will improve after the process of privatization. Those who are against privatization argue that Government should defend the public property, especially to protect the Sibovc mine which is considered to be worth about €8 Billion. Also, after the privatization the prices may rise and this would be problem for people with lowest incomes, i.e. they cannot enjoy the basic good.

Recommendation (KEDS)

- Use effectively the potentials of power sector. Abundant reserves of good quality lignite are Kosovo’s main natural energy resource.
- Improve the quality of the electricity supply as one of the conditions to attract foreign investors.
- Contractual undertakings to be well defined between government and the private owner
6.3 Case Study 3

Prishtina International Airport (PIA)

Brief summary

Prishtina International Airport is the only Airport in the Republic of Kosovo. It commenced with its functioning since year 1965. Initially, its destination was to serve as military airport, whilst later on it was in conformity to civilian needs, too. After the war in Kosovo, 1999, up to the year 2003, the international multinational force, KFOR, managed Prishtina International Airport whereas after 2003 it has gained a status of the civilian airport. After transfer from military to civilian authorities, Airport was come under the supervision by the state of Iceland, a country that last year, 2008, has certified this Airport for accomplishment of the safety conditions and criteria. During this period, Company has invested, in different projects, over €50 Million, in order to convert it to a safe Airport for operations of biggest international airliners and to modernize it in order to keep step with the time and other Airports in the region. Projects, which were under investment and that are worthy to emphasize out are as follows: resurfacing of the runway in a value of €16 Million, runway lighting with its cost of €6 Million, perimeter fence and road in an amount of over €1 Million, and many other smaller projects.

Figure 6.2 Statistics on passenger traffic 2005-2010

Source: Civil Aviation Authority of Kosovo
Problem identification (PIA)

The main issues surrounding the privatization of PIA are the following:

- Expansion of the Prishtina Airport capacities
- Increase the capabilities of this airport continuously

Analyses of the relevant facts (PIA)

Pristina International Airport is of strategic importance to Kosovo’s economy and as the country’s only international airport, it serves as the Republic’s primary gateway to the rest of the world. In addition to being a vital component of Kosovo’s transport infrastructure, PIA is one of the busiest airports in the Balkans, serving 1.2 million passengers and handling 14,000 aircraft operations in 2008. While it is evident that Pristina International Airport can function adequately as a publicly owned and operated enterprise, the Government of Kosovo seeks to ensure that the Airport meets its full economic and operational potential, while simultaneously remaining competitive with other airports in the region. For this reason, and on the basis of an investment grade feasibility study prepared by Netherlands Airport Consultants B.V. (‘NACO’) and Innova Aviation Consulting LLC (“Innova”), on June 12, 2009, via Government Decision 05/68, the Government of Kosovo formally authorized proceeding with a Public-Private-Partnership for the operation and expansion of Pristina International Airport. The Project is envisioned to take the form of a 20-year Design-Build-Finance-Operate-Transfer (DBFOT) contract and will involve the operation and maintenance of Pristina International Airport, as well as the design, construction, and financing of required infrastructure improvements. Limak - Aeroports de Lyon was awarded the contract on August 12, 2010 after they offered the Government of Kosovo an average 39.42% of gross income in exchange for the right to operate the Airport.

On February 7th, 2011 the process of executing the agreement between the Government of Kosovo and Limak Kosovo International Airport JSC (LKIA) for the transfer of
Opportunities to Foreign Investment in Kosovo

Prishtina International Airport – Adem Jashari (PIA-AJ) to LKIA, which is managed by the Turkish-French consortium Limak-Aeroports de Lyon, has begun. The private partner has in accordance with the provisions of the Agreement asked to extend the deadline for another 30 days. This process was preceded by the fulfillment of certain preconditions, among which was the ensuring of financing by LKIA, the approval of designs for the terminal, etc.

Consortium Limak-Aeroports de Lyon is expected to invest in order to modernize and expand PIA-AJ by spending over €100 Million in new infrastructure, including the construction of a new terminal. The private partner is also expected to operate the Airport by offering extended services at high quality. Republic of Kosovo will retain 100% ownership of the Airport. This transfer is the result of an initiative by the Government of Kosovo to improve public enterprises by placing them in the management of private companies.

Figure 6.3: Passengers by country in %

Source: Civil Aviation Authority of Kosovo

Conclusions (PIA)
Concessioning of the Prishtina International Airport for a period of 20 years represents the largest foreign investment to date (€100 Million). During the next 20 years, the budget will benefit 40% of the contract. Concessioning will continue to develop the
capacities of the Prishtina Airport in order to accommodate more than 2 million passengers per year.

**Recommendation (PIA)**

- Increase of efficiency of air operations and air navigation
- Revitalization of the Gjakova airport. This would be healthy for the market economy in order to develop competition and to avoid the monopolistic market. This airport may also serve to the citizens of Albanian cities bordering with the city of Gjakova.
7. CHAPTER SEVEN - Potential Foreign Investors - Project Investigation & Analysis

This chapter includes the results of the questionnaires with foreign companies that are not present in Kosovo. The respondents include some of the prominent international companies but their company names shall not be published in this project for confidentiality reasons. The selection of these companies is done based on their recent contact with IPAK. Respondents come from these sectors: infrastructure construction (25%); mining, trade and agriculture (17%); mechanic industry, telecommunications and energy (8%).

Figure 7.1: Main type of business

The chart below presents the country of origin that companies come from (Figure 7.2)

Figure 7.2: Location of head offices of the companies
Opportunities to Foreign Investment in Kosovo

Regarding the investment situation, respondents gives the following answers: very attractive (8%); quite attractive (17%); reasonable (50%); not so reasonable (17%) and unattractive (8%).

Figure 7.3: The classification of Kosovo investment situation

Respondents’ assessment for the level and quality of the information regarding the business environment are as following: mainly satisfactory (42%); partly satisfactory (41%); mainly unsatisfactory (17%); while there is no rating for the options completely unsatisfactory and completely satisfactory.

Figure 7.4: The assessment of the level and quality of the information regarding business environment
Most of the respondents said that they know about Kosovo through: friends (42%); colleagues (33%); internet/websites and newspaper (25%), etc.

The option TV is not rating at all and here is the question how successful is the TV campaign “Kosovo – Young Europeans”?

Figure 7.5: How companies heard about Kosovo?

Comments provided under option *Other*:
- Chamber of Commerce
- Personal connections
- Business operations

Most attractive areas for investment are: agriculture, mining, road transport, trade, hotels and restaurants, telecommunication, etc. There is no rating for *tourism* in which area Kosovo have natural wealth (Figure 7.6)
Respondents said that areas of most interest for investment in Kosovo are:
good investment opportunities; competitive, low cost and well skilled labor force;
modern EU-compatible legislation; responsive banking system; currency EURO;
investment incentives, etc. (Figure 7.7)
Opportunities to Foreign Investment in Kosovo

Figure 7.7: Which is your area of most interest for investment?

Comments provided under option Other:

- Customs

75% of respondents said that this is the first time they have considered investing in Kosovo while 25% said that this is not the first time they have considered investing in Kosovo.

Figure 7.8: Is this the first time that companies considered to invest in Kosovo?

Regarding how many times the respondent companies have considered investing in Kosovo the results are as following: Nil (8%); Once (42%); Two times (25%); Three times (8%) and N/A (17%). This indicates that respondents companies are interested about Kosovo but all what they need is Kosovo’s institutional care toward them.
Figure 7.9: How many occasions have the companies considered investing in Kosovo?

More than 80% of respondents said that they do not have a precise date in mind for making an investment in Kosovo. This is an alert for our institutions to make serious efforts to bring these investors in Kosovo.

Figure 7.10: Does the companies have a precise date in mind for making an investment?

More than 60% of respondents said that the size of the investment they are considering is €1-10 Million, while the remain percentage are as following: 16% - €11-50 Million and 17% - over €50 Million.
The respondent companies said that the main reasons for the reluctance to invest in Kosovo are: infrastructure & physical environment (58%) followed by political environment (50%), corruption & nepotism (33%), bureaucratic procedures (33%), etc.

Comments provided under option Other:
- Need for specialty training of staff, lack of existing leasable space
- Negative information for investors available on internet
- Not enough road construction to make investment feasible
More than 60% of respondent companies would like from the Government of Kosovo to reform government administration followed by 58% to introduce a strict measure to prevent corruption; 50% to lift unnecessary permits and procedures, etc.

Figure 7.13: Main incentives required by foreign investors that GoK should consider

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
CHAPTER EIGHT – Final Discussions & Recommendations

Kosovo, from 1999 through 2010, went from being a post-conflict environment into a state which is considered to be under transition. It has passed the reconstruction period by orienting itself toward the economic development as it looks forward to European integration. Yet, an economic development is not enough to be able to address the challenges Kosovo is facing, such as high unemployment and high trade deficit rate. Although there has been continuously foreign investment in Kosovo since the war ended, they have remained at a relatively low level to date.

The low level of investment in Kosovo is above all the consequence of a negative legacy with serious harm to the business climate, due to significant bureaucratic obstacles, particularly the corruption in institutions, lack of energy reliability and inadequate road infrastructure. 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.

According to the Medium Term Expenditure Framework 2012-2014, out of the total Kosovo Budget 2011, € 371,3 Million, or around 35% of the budget has been allocated for the economic development sector. Major achievements in the infrastructure and economic development sector have been:

- Road Infrastructure –Continuation of works of the Highway Morinë-Merdare.
- Improvement of Electricity supply for costumers,
- Improvement of network and infrastructure of KOSTT, KEK, Central Heating, Water and Waste in Kosovo,
- Agriculture subsidies,
- Improvement of operational conditions in Kosovo mines etc.

According to the Ministry of Infrastructure in the last 10 years investments in telecom, as the largest investors are IPKO and PTK J.S.C. IPKO has so far invested no less than €220 Million including payment for the license. PTK J.S.C. in all sectors has invested at least €450 Million. Including other companies overall investments in the telecom sector are
Opportunities to Foreign Investment in Kosovo

roughly €700 million. But if we take the whole ICT sector, investments are much larger, around €1.2 Billion. The investments in this sector should continue by attracting strategic investors.

According to Kosovo Railways data, investments in the last ten years with the railways made by the Kosovo government and donors are around €15 Million, which primarily related to investments in maintenance of rail lines. But the main challenge remains investments in capital projects knowing that investments in railway are very expensive. This sector could be attractive for foreign investors.

Roads are a very important matter for Kosovo to maintain its economic growth. Kosovo made investments in this sector for the last 10 years and infrastructure has improved but there is need to continue to invest in this sector and now mainly on local roads. Total amount of investments from 2001 to 2010 are roughly €800 Million. Last year the Ministry of Transport started the project of building new highway Morinë-Merdare costly about €700 Million. This highway connects Kosovo with Albania. The construction of this highway could have started later because it was not an urgent need. This amount of money is huge for Kosovo’s limited budget and has become a fiscal burden for the budget of Kosovo. Further to this, there is needed to invest in health and education sector. These are two important pillars for the Kosovo’s development, moreover two sectors that need urgent investments to improve capacity building.

Energy sector is very important for Kosovo’s economic development. Total amount of investments made in the last 10 years is about €1.4 Billion.

Water supply is another significant sector. According to the Ministry of Environment and Spatial Planning from 2009 until 2011, total amount of investments is over €8 Million.

Kosovo now needs to create a sound business environment. Based on the project survey with existing and potential investors it was noted that there are several important areas to now consider.
Opportunities to Foreign Investment in Kosovo

The top three concerns from the existing investors were illustrated in Figure 6.11: They are:

1. Bureaucratic procedures,
2. Corruption & nepotism and
3. Political environment.

The three major concerns from potential investors were shown in Figure 7.12: These are:

1. Infrastructure and physical environment,
2. Political environment, and

According to the World Bank Doing Business Report 2011 Kosovo ranked poorly in many areas that are crucial for development an enabling business environment. These five indicators are: 1) difficulty at starting the business, 2) obtaining permits and licenses at the central and municipal level, 3) protecting investors, 4) trading across borders and 5) enforcing contracts. The government of Kosovo should improve these areas in order to become more attractive for foreign investors and eliminate bureaucratic procedures. The focus should be mainly in reducing time (days) and procedures (number).

Poor transport infrastructure is one of the obstacles Kosovo has to overcome in order to become a viable option for foreign investors. During the war roads of Kosovo were damaged and are still needing repairs. Even, in energy and water supplies Kosovo lacks serious investors to do business.

Corruption is perceived as an impediment to promote businesses and can deter foreign investors because corruption increases political and economic risks. The Government of Kosovo should improve governance at all levels; helping the Agency for Anti-Corruption to exercise effectively its task (limited political influence) and increasing the number of prosecutors and judges is necessary.
Opportunities to Foreign Investment in Kosovo

Political environment is one of the top ranked reasons for the reluctance to invest in Kosovo. Favorable political environment is required for the survival and rapid growth of business organizations and for this, political stability is essential. Rule of law is a key element for political stability. In general, the results of the project survey with existing and potential foreign investors are not satisfying.

With existing foreign companies their investment plans in the future in Kosovo, then more than 70% responded positively (Figure 6.10). When foreign companies were asked about the ranking of business environment in Kosovo, more than 40% responded reasonable and more than 30% responded not so reasonable (Figure 6.8).

According to potential foreign investors, the level and quality of the information regarding the business environment is mainly satisfactory with 42% (Figure 7.4), while 41% of respondents with partly satisfactory. Thus, Kosovo institutions should make firm efforts to present accurate information about Kosovo’s business environment as much as possible. In this regard, the economic staff of the Embassies of Republic of Kosovo could play a key role by promoting actively Kosovo potentials in international events. The good thing is that all potential investors know and have heard about Kosovo. Most of them heard about Kosovo through their friends (Figure 7.5). It was not a satisfying result about the option of TV advertising, because none of the potential investors know or heard about Kosovo through TV. It might be asked how successful the TV campaign was ‘Kosovo – Young Europeans’? It would be better to replace this advertisement with another more impressive and creative advertisement that would focus on Kosovo’s investments potential.

Potential foreign companies asked also if they have a precise date in mind for making an investment in Kosovo, and more than 80% respond negatively. This is very alerting for relevant institutions to make firm efforts to convince and bring these investors to Kosovo.

According to project survey most required actions that Government of Kosovo should take are: reform government administration as top number one requirement from potential investors and education system as top number one requirement from existing
investors. Finally, 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.

**Recommendations**

**Recommendation 1**

*Improve infrastructure and physical environment.* This includes: roads, electricity, railways, water supplies, telecommunications, etc. The quality of infrastructure is a key FDI determinant. The focus of Kosovo institutions should be in particular on roads and railways which enable connection of Kosovo with region and Europe. Total investments in all these sectors up to 2015 could be: €2.5 Billion. Furthermore utilization of industrial zones and industrial parks should serve as a model for the executive of the country as a crucial project that affects the creation of favorable conditions for business and environmental protection.

**Recommendation 2**

*A key condition for economic development is political stability.* (1) Strict adherence to rule of law, (2) strengthening democratic processes, (3) resources for national security and (4) cultivation of tolerance are very important elements that have great impact on investment climate.

**Recommendation 3**

*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. There is need to stimulate competition and meritocracy to reduce the level of nepotism.
Opportunities to Foreign Investment in Kosovo

**Recommendation 4**

The findings of “Doing Business Report 2011” by World Bank provided a good basis for improving the investment climate in Kosovo. 1) Difficulty at starting the business, 2) obtaining permits and licenses at the central and municipal level, 3) protecting investors, 4) trading across borders and 5) enforcing contracts, are substantial elements that government of Kosovo must be taken in order to eliminate bureaucratic procedures and to create facilities to do business in Kosovo. The focus should be mainly in reducing time (days) and procedures (number).

**Recommendation 5**

Reform of public administration. Public administration is the backbone of the Government. A well planned civil service reformation is needed and also increased capacity and professionalism based on merit (recruitment process).

**Recommendation 6**

Reform of education system. Education is an engine for growth and innovation. Engagement of some professional advisors who will orient students based on their professional aptitudes could increase the quality. Because of high demand there is need to increase the number of students up to 300 who complete the internships in different enterprises.

**Recommendation 7**

Foster and strengthen the relations between Government of Kosovo and Kosovo’s Diaspora. Establish the Diaspora Investment Office within the Ministry for Diaspora as only body dealing with Diaspora’s investment. There is need for analysis of statistical data in order to study the volume and the direction of remittances. Further to this, the identification of Diaspora’s businessmen is necessary. This office could initially have 5 employees. Depending on the need and the success of this office, in later stages this number could increase.
Opportunities to Foreign Investment in Kosovo

Recommendation 8

*Privatization process to run smoothly and efficiently.* Privatization of PTK and KEDS are two major goals that will have great impact on Kosovo’s economy, so this process should run efficiently. There is need to learn from the experiences of neighboring countries. The government of Kosovo should find alternative solutions for more efficient use of the trust funds, privatization funds, so that these funds to use rationally for the economy of Kosovo and based on projects studied. Keeping or insertion them in the market with symbolic rates is not a solution.

Recommendation 9

*Draft a policy of investment incentives.* One of the attractive incentives that Kosovo institutions could provide is a *tax holiday.* 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.

Recommendation 10

*Increase the capacity building of IPAK.* There is need for adequate human and financial resources to support this agency to function properly, helping increase the staff up to 20 employees and financial resources up to €1 Million until 2015.
Opportunities to Foreign Investment in Kosovo

References

Books and Journals

Aristidis Bitzenis (2009), *The Balkans: Foreign Direct Investment and EU Accession*, University of Macedonia, Greece


M.sc. Alush Kryeziu (2010), “Strategjia per Promovimin e Eksportit te Kosoves”, Institution for European Political Studies (ISPE), Prishtina

Myrvete Badivuku-Pantina, Ph.D. Associate Professor, Mihane Berisha-Namani, PhD. Assistant Professor, University of Prishtina-Faculty of Economics, “The importance of foreign direct investments on economic development of Kosova”


Electronic Sources


Assembly of Kosovo, [http://www.assembly-kosova.org](http://www.assembly-kosova.org)


Opportunities to Foreign Investment in Kosovo


Forum for Democratic Initiative, Diaspora as driving force for development in Kosovo: myth or reality?, May 2009


KEK Distribution and Supply Network, www.keds-piu.org


Mohammed Fatthy Mahmoud, Privatization: A Solution to Problems of Public Enterprises, King Saud University, Riyadh, Saudi Arabia, p.37
Opportunities to Foreign Investment in Kosovo

Partnerships Kosovo, http://pppkosova.org/?cid=2.29

Post and Telecom of Kosovo, http://www.ptkonline.com


Riinvest Institute, Diaspora and Migration Policies, December 2007 Prishtina


Strategy of privatization – Post and Telecom of Kosovo

The Legal Guide to Kosovo, October 2010,


United States Agency for International Development (USAID)
Appendix 1

Foreign Investor Confidential Questionnaire

EXISTING FOREIGN INVESTORS QUESTIONNAIRE

Company Name _________________________________
Contact Person _________________________________

Q1  Your main type of business, please √ in □ that fits best

1) Agriculture
2) Mining (minerals excluding coal)
3) Food industry
4) Textile industry
5) Infrastructure
6) Railway transport
7) Trade
8) Tourism
9) Hotels and restaurants
10) Banking system
11) Health
12) Education
13) Telecommunications
14) Energy (natural gas, coal, petrol, nuclear)
15) Water
16) Other, please specify _________________________

Q2  Year of establishment in Republic of Kosovo

__________________________

Q3  Number of employees
1) in first year
2) in 2010
3) in 2015
Opportunities to Foreign Investment in Kosovo

Q4 Year (s) of doing active business in Kosovo. Please √
   1) 0-5 year (s) □
   2) 6-10 years □
   3) 11-15 years □

Q5 Shareholding structure
   a) Initial Domestic to Foreign Stakeholder Ratio
   b) 2010 Domestic to Foreign Stakeholder Ratio
   c) Total investment up to 2010

Q6 Ranking of business environment in Kosovo. Please √
   a) Good □
   b) Reasonable □
   c) Not so reasonable □
   d) Poor □

Q7 What attracted you to invest in Kosovo? Please give a score of 1-10
   Score 10= Most Important and 1=Least Important
   1. Good investment opportunities
   2. Central location in the region
   3. Young, educated, multilingual and dynamic population
   4. Competitive, low cost and well skilled labor force
   5. Modern Telecommunications
   6. Modern, EU-compatible legislation
   7. Responsive banking system
   8. Free access to EU-market
   9. Free access to US-market
   10. Free access to CEFTA members market
   11. Customs
   12. Tax incentives
   13. Investment incentive
   14. Currency: EURO
   15. Modern business support institutions
      15a) Investment Promotion Agency
   16. Other, please specify ____________________________
Opportunities to Foreign Investment in Kosovo

Q8  Investment plans in the future in Kosovo. Please ✓

a) Yes □

b) No □

c) If YES, please specify how much (approximately) (€)

Q9  Please prioritize your difficulties. Please give a score of 1-10

Score 10= Most Difficult and 1=Least Difficult

1) Trading limitations
2) Corruption & nepotism
3) Bureaucratic procedures
4) Political environment
5) Infrastructure & Physical Environment
6) Other, please specify ____________________________

Q10  Please choose the most important actions that Kosovo government should take to improve the business environment. Please give a score of 1-10

Score 10= Most Important and 1=Least Important

a) Reform government administration
b) Lift unnecessary permits and procedures
c) Reform and simplify further taxation regulations and procedures
d) Introduce a strict measure to prevent corruption
e) Reform education system to meet demand
f) Other reasons, please specify ____________________________

Q11  Additional comments

________________________________________________________________________
Appendix 2

Foreign Investor Confidential Questionnaire

FUTURE FOREIGN INVESTORS QUESTIONNAIRE

Company Name ______________________________________
Contact Person _______________________________________

Q1 In general how attractive would you classify the Kosovo investment situation to be? Please ✓
   a) Very attractive            ❑
   b) Quite attractive           ❑
   c) Reasonably                ❑
   d) Not so reasonably         ❑
   e) Unattractive              ❑

Q2 Where is the location of your head office?
   __________________________________________

Q3 How do you assess the level and quality of the information regarding the business environment in Kosovo? Please ✓
   1. Completely unsatisfactory    ❑
   2. Mainly unsatisfactory        ❑
   3. Partly satisfactory          ❑
   4. Mainly satisfactory          ❑
   5. Completely satisfactory      ❑

Q4 How did you know about Kosovo? Please ✓
   1. TV                         ❑
   2. Newspaper                  ❑
   3. Embassy                    ❑
   4. Friends                   ❑
Opportunities to Foreign Investment in Kosovo

5. Colleagues
6. Family
7. Internet/Websites
8. Other, please specify

Q5 Which is your area of most interest for investment? Please √
1. Agriculture
2. Mining
3. Food industry
4. Textile industry
5. Road transport
6. Railway transport
7. Trade
8. Tourism
9. Hotels and restaurants
10. Banking system
11. Health Road construction
12. Telecommunications
13. Professional and consulting
14. Sports
15. Culture and Art
16. Other, please specify _________________________

Q6 What attracts you to Kosovo? Please give a score of 1-10
Score 10= Most Important and 1=Least Important

1. Good investment opportunities
2. Central location in the region
3. Young, educated, multilingual and dynamic population
4. Competitive, low cost and well skilled labor force
5. Modern Telecommunications
6. Modern, EU-compatible legislation
7. Responsive banking system
8. Currency: EURO
9. Free access to EU-market
10. Free access to US-market
11. Free access to CEFTA members market
Opportunities to Foreign Investment in Kosovo

12. Tax incentives
13. Investment incentives
14. Modern business support institutions
   14a. Investment Promotion Agency
15. Other, please specify __________________________

Q7   Is this the first time you have considered investing in Kosovo? Please √

   Yes ☐
   No ☐

Q8   How many occasions have you considered investing in Kosovo?
     __________________________________________

Q9   Do you have a precise date in mind for making an investment in Kosovo? Please √

   Yes ☐
   No ☐

Q10  What is the size of the investment you are considering? Please √

   a. 1-10 million € ☐
   b. 11-50 million € ☐
   c. Over 50 million € ☐

Q11  Main reasons for the reluctance to invest in Kosovo? Please √

   1. Trade limitations ☐
   2. Corruption & nepotism ☐
   3. Bureaucratic procedures ☐
   4. Political environment ☐
   5. Infrastructure & Physical Environment ☐
   6. Other, please specify __________________________
Opportunities to Foreign Investment in Kosovo

Q12 What special incentives would you like from the Government of Kosovo? Please √

1) Reform government administration
2) Lift unnecessary permits and procedures
3) Reform and simplify further taxation regulations and procedures
4) Introduce a strict measure to prevent corruption
5) Reform education system to meet demand
6) Other, please specify ________________________________

Q13 Additional comments
____________________________________________________________

Please kindly return the completed questionnaire by e-mail to
sytrime.dervisholli@gmail.com

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