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FOREIGN DIRECT INVESTMENT IN KOSOVO

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TABLE OF CONTENTS

INTRODUCTION	1
1 AN OVERVIEW OF KOSOVO’S ECONOMIC DEVELOPMENT	2
1.1 Kosovo in brief.....	2
1.2 Economic development in Kosovo in the past: focusing on transition	3
1.3 Kosovo after transition.....	7
1.4 The economy of Kosovo today	8
1.5 Macroeconomic trends	9
1.5.1 Main sectors.....	11
1.5.2 Imports and exports in Kosovo	14
1.6 SWOT analysis for Kosovo	19
2 GLOBAL FOREIGN DIRECT INVESTMENTS OVERVIEW	22
2.1 The importance of FDI for economic development.....	24
2.2 Determinants of attractiveness of a country for FDI	26
2.3 FDI incentives.....	27
2.4 FDI trends in the world economy	28
2.5 Foreign investments in Balkan.....	29
3 FDI IN KOSOVO	30
3.1 Foreign investments in Kosovo	30
3.2 Motives for investing in Kosovo	31
3.3 Problems investors face in Kosovo.....	32
3.4 Investment promotion in Kosovo.....	34
3.5 Privatization in Kosovo as a source of FDI.....	35
3.5.1 Post Telecommunication of Kosovo	36
3.5.2 Privatization of distribution and supply network of KEK (KEDS)	36
3.5.3 Prishtina International Airport	37
3.6 Potential foreign investors – project investigation and analysis	39
3.7 General overview of business environment in Kosovo.....	42
3.8 Infrastructure	46
3.8.1 Legislation	46
3.8.2 Transport.....	47

3.8.3	Air.....	47
3.8.4	Railway.....	48
3.9	Trade regime	48
4	RECOMMENDATIONS.....	49
	CONCLUSION.....	50
	REFERENCE LIST	51
	APPENDIX.....	58

LIST OF FIGURES

Figure 1:	GDP per capita in Kosovo in US dollars	9
Figure 2:	GDP growth in Kosovo 2010-2018, in %	9
Figure 3:	GDP per capita for Kosovo in comparison with EU and other countries in region in EUR, 2016.....	11
Figure 4:	Wood processing, import and export 2005-2013 (in million EUR).....	12
Figure 5:	Imports and exports of construction materials in Kosovo in million EUR	14
Figure 6:	Exports with raw data and seasonally adjusted, in millions of euro 2003- 2012	16
Figure 7:	Export structure in percentage	17
Figure 8:	Export dynamics, import and trade balance of Kosovo 2001-2013(in million EUR).....	18
Figure 9:	Trade deficit as percentage of GDP (2006-2017)	18
Figure 10:	Kosovo unemployment rate in %	22
Figure 11:	Number of migrant's resident status in destination countries, 2016 (in US dollars)	23
Figure 12:	Countries with most FDI in 2017, (in US dollars billion)	28
Figure 13:	Foreign direct investment in the Western Balkans in the period 2005 - 2015 (in US dollars)	29
Figure 14:	Foreign investments in Kosovo net inflows (percentage of GDP).....	30
Figure 15:	Number of foreign enterprises based on sectors and number of employees, 2017.....	31
Figure 16:	The security of investors in Kosovo, 2017, % of all respondents	33
Figure 17:	Obstacles to foreign investment, 2015, , % of all respondents	33
Figure 18:	The assessment of the level and quality of the information regarding business environment, 2017, % of respondents	39
Figure 19:	Some of the most important areas to invest in according to the future investors, 2016, % of respondents.....	40
Figure 20:	Which is your area of most interest for investment, 2016?% of all respondents choosing a specific category.....	40

Figure 21: The size of the investment that foreign companies are considering to invest, % of all respondents	41
Figure 22: Main reasons for the reluctance to invest, % of all respondents	41
Figure 23: Main incentives required by foreign that government of Kosovo should consider, % of all respondents	42
Figure 24: Comparison of tax system in the region	46

LIST OF TABLES

Table 1: Main transition reforms in Kosovo by field of reform: evaluation score by EBRD.....	4
Table 2: Economic result of transition.....	6
Table 3: Main macroeconomic indicators in the period 2017-2018 (in percentage)	10
Table 4: The flow of goods in foreign trade (000 EUR)	16
Table 5: SWOT analysis	20
Table 6: Business environment in Kosovo – overview	42
Table 7: Kosovo’s ranking in Doing Business 2011	45

LIST OF ABBREVIATIONS

CBAK	– Central Bank Authority of Kosovo
CEFTA	– Central European Free Trade Agreement
EBRD	– European Bank for Reconstruction and Development
EU	– European Union
FDI	– Foreign Direct Investment
GDP	– Gross Domestic Product
IBRD	– International Bank for Reconstruction and Development
IDA	– International Development Association
IFC	– International Financial Corporation
IMF	– International Monetary Fund
IPAK	– Kosovo Investment Promotion Agency
KEDS	– Kosovo Energy Distribution
KFOR	– Kosovo Force
MOF	– Ministry of Finance
NATO	– North Atlantic Treaty Organization
PIA	– International Airport of Prishtina
PTK	– Post Telecommunication of Kosovo
SOE	– Socially Owned Enterprises

UN – United Nations

UNCTAD – United Nations conference on trade and development

UNMIK – United Nations Mission in Kosovo

US – United States

WB – World Bank

WTO – World Trade Organization

INTRODUCTION

After its partition from Serbia, Kosovo's economy transformed from a centralised model to a more dynamic form of economy. In spite of some economic progress achieved, including the improvements in business conditions and positive strides towards the improvement of a well-working business sector economy, Kosovo still faces significant financial difficulties, such as high unemployment rate.

After the war, in the crisis period of Kosovo's reproduction, the participation of potential businesspeople and financial specialists was huge. Review of patterns and general patterns and monetary restoration and chances to build up their business in crisis work to maintain a strategic distance from warships, chiefly the supply of development materials and shopper products and commitment in development works, was the fundamental thought process. Investigating potential open doors for more good business exercises, for example, Foreign Direct Investment (hereinafter: FDI) was the other thought process.

Contacts were concentrated more with the members of Kosovo Diaspora who could finally meet the new political and financial conditions presented, and start building a foundation of an association with the nation's neighbours. The objective of this thesis is to study the functions of FDI for economic development in Kosovo and the role of FDI incentives in promoting Kosovo as an attractive place for investment. This thesis will also focus on elaborating strengths and weaknesses the country is facing, and present a set of policy proposals in this regard.

The question that the thesis will address is divided into two parts: The first part will investigate the role of FDI in general, while the second part will focus on Kosovo. Therefore, the following research questions will be addressed:

- Why is FDI important for economic development?
- What attracts FDI to a specific country? What are the determinants of location attractiveness?
- What are policy measures that states use to promote FDI/attract FDI?
- What is the current state economic development of Kosovo?
- What has been the nature of FDI to Kosovo so far?
- What attracted investors to Kosovo so far?

This thesis will follow a qualitative approach, where for the theoretical part, the methods of description, analysis and synthesis will be used to prepare an overview of the development role of FDI, as well as FDI theory based on available literature

(scientific papers United Nations (hereinafter: UN conference on trade and development (hereinafter: UNCTAD), International Monetary Fund (hereinafter: IMF) research and others).

As for the empirical part of the study, for the first part, I will use databases that contain statistical information Central Bank of Kosovo (hereinafter: CBK, Statistical Yearbook of Kosovo 2016, Investments, FDI. Additionally, I will use other reports and literature as well.

For the second empirical part, I will conduct field research, analysis of the private companies/organizations and prepare case studies for Kosovo Energy Distribution Service (hereinafter: KEDS), International Airport of Pristina (hereinafter: IAP) and Post and Telecommunications of Kosovo (hereinafter: PTK), where we can understand the role of investing before and after. The preparation of this thesis also presented some limitations. The main weakness was the lack of databases and reliable data. Some data are not accurate, and I have encountered conflicting data for the same aspect, Moreover, the interviews have been challenging since some of the potential interviewees rejected the invitation for an interview.

The thesis consists of four chapters. The first chapter discusses in brief Kosovo's state of economic developments, its economic impact as well as investment incentives, and Kosovo's economy today. The second chapter outlines a global foreign direct investment overview. Chapter three elaborates the FDI investment in Kosovo and Balkans in general, and chapter four are the recommendations of the thesis.

Main findings based of this thesis are: Kosovo needs to improve the business climate, introduce lowers taxes for start-up businesses, fix electricity problems as this issue presents an additional cost for businesses, and simplify the administrative procedures for opening a business as it is difficult for foreign investments to meet all the current procedural requirements.

1 AN OVERVIEW OF KOSOVO'S ECONOMIC DEVELOPMENT

1.1 Kosovo in brief

Based on Kosovo statistics, the population is estimated to be about 2 million, with the following ethnical breakdown in percentages: Albanians (92 per cent), Serbs (4 per cent), Bosnians and Gorani (2 per cent), and Roma, Ashkali and Egyptians (1 per cent) (Statistical Repertoire economic enterprises in Kosovo, 2018).

As indicated by the Factbook World information from 2009, Kosovo's population remains at 1,804,838 individuals, asserting that ethnic group was 88 per cent of Albanians, 7 per cent of Serbs and 5 per cent of other ethnic groups including Bosnians,

Gorani, Roma, Turks, Ashkali, Egyptians and Janjevci - Croats (KPMG, 2017). Italians took over most of Kosovo region after the Second World War. In the meantime, a part of Kosovo's north territory was under the control of Germany which had Serbia under its dominance. Kosovo witnessed a certain level of self-governance during 1974-1990 as it became an autonomous province under the Social Federal Republic of Yugoslavia.

Tensions in Kosovo conflict levels began increasing after the Yugoslav Republic's disintegration in 1990. This occurrence attracted the international community's responsiveness in 1998, which led to the North Atlantic Treaty Organization (hereinafter: NATO) interference on March 24 in 1999 after a failure of Serbian and Albanian negotiations.

The war between the two parties ended in 10 June 1999. Security for the Interim Administration Mission in Kosovo (hereinafter: UNMIK) was provided by Kosovo's force (hereinafter: KFOR) commanded by NATO after it entered Kosovo's territory in the post-war period. UNMIK the responsible authority for Kosovo's governance, The 1244 Security Council's Resolution positioned Kosovo under transitional administration in 1994.

As of February 17th 2008, Kosovo was declared independent from Serbia by Kosovo's Assembly and its independence was accepted by 98 UN states by December 2012. Kosovo has joined the IMF the WB, and, on December 2012 it became a member of the European Bank for Reconstruction and Development (hereinafter: EBRD) by being the 66th country of this group. Ever since Kosovo declared its independence, it aims to be a part of the European Union (hereinafter: EU) (Szak, 2007).

1.2 Economic development in Kosovo in the past: focusing on transition

After World War II, the economy in Kosovo started to improve. During this time, about 70 per cent of profits in Kosovo were generated from agriculture and the remaining 30 per cent came from manufacturing products. This period recorded a growth rate of 5.7 per cent of the overall economic performance by country (Kosovo Agency of Statistics, 2015). Kosovo was the least developed country in Yugoslavia, which was unmanageable as it had no treatment in economic affirmation along with other driving forces.

The liberation of Kosovo from Serbia in 1999, was a critical moment that transformed Kosovo from a centralised to an open market economy. The process of privatisation was considered as one of the biggest challenges that Kosovo suffered from after the liberation. A number of 114 socially owned enterprises (hereinafter: SOE) declared privatisation during 2009, consequently raising to 569 the total number of SOE tendered for privatisation by the end of the same year (Gashi, 2014).

During 1980s, the difference between the economies of Kosovo and other countries of the region was vast. At that time Kosovo's economy was based on the production of semi-finished products. The time after 1990, marked a dark period for the economy of Kosovo. The drastic economic consequences of the war resulted in a total destruction of local production, as well as a loss of foreign market (Kryeziu, 2010). During a twelve-year period, Kosovo has undergone major changes, and therefore it is considered as a state in transition by being oriented towards integration in the European Union. However, a high trade deficit and a high unemployment rate remain some of the main problems in the economy of Kosovo (Gashi, 2014).

The economic system in Kosovo is economy in transition. It has been a combined result including political overturn, the Yugoslav wars, and the job termination of Albanian personnel, and international sanctions on Serbia during the 18990s. Since the independence in 2008, the financial system has grown each year. The growth of the Gross Domestic Product (hereinafter: GDP) was above 5 per cent every year given the decline in foreign investment. This was the cause of the crisis of the Eurozone and the 2009 international financial disaster (Gashi, 2014).

Major financial developments have been in the areas of trade, construction and retail sales. The state of Kosovo is dependent on diaspora remittances and foreign investments. (International Monetary Fund, 2012). Kosovo's transition is still in process. At the moment, according to European Bank for Reconstruction and Development (2017), the country has made the most advancement in the field of small scale privatization as we can see on the table from 2012 to 2013, but has there is a large room for improvement in the field of Large-scale privatization. Main transition reforms in Kosovo by field of reform are indicated in table 1 and are shown the large and small scale of privatisation and each view is it shown per year 2012-2013.

Table 1: Main transition reforms in Kosovo by field of reform: evaluation score by EBRD

Default view (currency and units)	Year 2012-2013
Large scale privatisation	1.7
Small scale privatisation	3.3
Governance and enterprise restructuring	2
Price liberalisation	4
Trade and foreign exchange system	4
Competition system	2.3

Source: European Bank for Reconstruction and Development (2013).

Large and small-scale privatisation: The main purpose of privatization method in Kosovo needs to be take into consideration its financial efficiency, renovation of the

wholesome economic situation, and making sure of the appropriate length of time period for privatization, which allows for a macroeconomic stability. The policy of privatization needs to give a response related to strategic aspects of privatization of these sectors: models, procedures, attainable investors, technological modernization and overtaking of social barriers.

The process of privatization and transition which has now covered countries of the Eastern and Central Europe, aims at profound monetary and political transformation of these countries. To attain this, it is always required to have some primary preconditions, which are related to incitement of widespread effects of the enterprises, expansion of the capital market, the introduction of competition, improvement of commercial enterprise in private property, and freedom of entrepreneurship. Impacts of privatization in monetary development of Kosovo take a widespread area in contrast to other countries (Selmanaj, 2006).

Governance and enterprise restructuring: privatization shall be accompanied by good governance mechanisms for the enterprises; distribution of property through shares must be avoided as it creates vacuum out of which only manager's benefit, but not the shareholders (USAID, 2014-2018). Privatization of economies that are built on the basis of non-ownership of property can be treated as a transformation technique of such economies.

In general, the privatization system in the developed market economies is specified into these goals: 1) transformation of establishments and agencies in the discipline of public zone aiming the privatization of property, 2) opening of public quarter activities in the direction of competition within the scope of customary coverage of liberalization, 3) release of the public sector from some things to do which go with non-public sector competencies, 4) cede from the services except compensation of the region for the advantage of complete or partial participation (Selmanaj, 2006).

Price liberalization: Kosovo is creating macroeconomic stability starting from trade and currency exchange reforms, price liberalization and privatization, while at the next stage it is also regulating the restructuring of the competition policy, business infrastructure, and non-bank financial reforms, as well as the banking system. The nation has to a great extent had solid spending execution even though the spending shortage in 2011 augmented to 4 per cent of GDP. Duty gathering enhanced by 4 per cent in 2012, compared to the previous year. In any case, in 2012, Government of Kosovo consumptions surpassed incomes, bringing about a shortage of over 2 per cent, and the Ministry of Finance (hereinafter: MOF) measures that spending will keep on exceeding profits throughout the following three years.

This quick increment is presently the most significant impetus behind development in a venture. The private venture has stayed at 20 to 22 per cent of GDP for as long as five

years, while open speculation has expanded from 5 per cent to 12 per cent of GDP (United States Agency for International Development, 2014).

Table 2: Economic result of transition

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP	39,0	5,6	-2,4	-0,1	2,0	3,9	4,0	4,0	5,4	4,0
Private consumption	Na	na	na	na	0,2	0,1	0,0	0,1	0,2	na
Public consumption	Na	na	na	na	-0,3	0,0	0,0	0,0	0,0	na
Gross fixed capital formation	Na	na	-12,8	-7,4	-0,1	0,0	0,1	0,1	0,3	na
Exports of goods and services	Na	na	na	na	1,0	0,1	0,3	0,2	0,1	na
Imports of goods and services	Na	na	na	na	0,0	0,1	0,1	0,2	0,2	na
Consumer prices (annual average)	Na	na	2,0	1,2	-1,4	-1,4	1,5	4,4	9,4	-2,4
General government balance	-10,1	6,7	3,7	2,1	-3,9	-1,4	1,6	6,8	0,1	na
Current account	-1,302.0	-644,9	-826,2	-777,6	-389,0	-380,5	-414,3	-585,5	-1,088.6	-1,173.7
Trade balance	-1,378.0	-673,9	-827,2	-937,6	-1,201.2	-1,320.1	-1,433.6	-1,828.5	-2,398.1	-2,327.8
Merchandise exports	169,0	10,6	27,6	35,6	70,6	71,3	139,1	225,6	290,5	na
Merchandise imports	1,547.0	684,5	854,8	973,3	1,271.9	1,391.3	1,572.7	2,054.1	2,688.6	na
Foreign direct investment, net	0,0	5,4	10,9	32,6	23,1	101,2	307,0	647,3	498,2	588,5
Population (end-year, million)	1,8	1,9	2,0	2,0	2,0	2,0	2,0	2,1	2,2	2,2
GDP (in billions of Euro)	0,7	1,2	2,6	2,5	3,0	3,0	3,1	3,4	3,8	3,9
GDP per capita (in US dollars)	377,7	558,3	1,304.8	1,242.6	1,457.0	1,464.0	1,487.0	1,602.0	1,784.0	1,766.2
Current account/GDP (in per cent)	-189,4	-62,4	-31,9	-31,0	-13,1	-12,6	-13,3	-17,2	-28,3	-30,3

Source: European Bank for Reconstruction and Development (2017).

As indicated in table 2, GDP has begun to stabilize and increase since 2004. Kosovo as a developing country certainly must work harder in improving the current situation. Also, foreign investments in Kosovo are growing, and has an impact on GDP growth. The economy has begun to stabilize and an increase in exports and imports was recorded in the past years, which indicates a good balance and good relations with other countries.

Trade and foreign exchange system: While Kosovo use the EUR exchange rate, it has certainly begun to have revenue from foreign exchange. Kosovo in 2010 amounts to about 2.54 billion EUR based on exchange. (Topxhiu & Krasniqi, 2011). During 2009

Kosovo's imports of goods reached about 2.16 billion EUR, an increase of 11.48 per cent, while in 2010 there was an increase of 79 per cent compared to the previous year, amounting to a total of 295.9 million EUR (Holzner & Peci, 2012).

Competition policy: Competition law is in its initial stage of implementation the improvement in competition policy began in 2004, with the adoption of Kosovo's Law on Competition, the country's very first regulation aimed to regulate the legal foundation of the free market competition. The Law on Competition of 2004 had many shortcomings both with regards to its content and level of implementation. For this reason, a new Law on the Protection of Competition was adopted in 2010.

The latter act is in force now alongside with an Amendment that was passed in early 2014. Taken in its entirety, Kosovo's competition policy framework meets the EU requirements, as it is in accordance with EU *acquits*. Kosovo, although it is only in the preliminary stages of its contractual relations with the EU through the Stabilization and Association Agreement (SAA) of 2015s, has aligned most of its legal framework in the area of the competition policy with the requirements of EU *acquits* (Prašnikar, 2014).

1.3 Kosovo after transition

In 2016, the economic growth in Kosovo was 3.4 per cent, compared to 2015 when it was 4 per cent. Personal consumption is one of the main drivers of growth in Kosovo, along with investment in infrastructure such as the 65km highway linking Pristina with Macedonia. Government consumption and exports do not contribute to growth, but it also shows a weak production base in Kosovo and low competition. In the first half of 2017, Kosovo's economic system was functioning properly, with an annual growth of approximately 4.2 per cent.

The growth was driven by high quality funds and contributions as well as net exports and private consumption (European Bank for Reconstruction and Development, 2017). The financial system is expected to grow annually, where in 2018 it is expected to be 3.5 per cent based on the inputs and investments needed in the transport and electricity infrastructure. Current political insecurity is a factor that can cause damage to the trust of investors and consumers (European Bank for Reconstruction and Development, 2017).

The economy of Kosovo in general is dependent on the external sector. Imports follow an upward trend, which is the result of economic growth itself. On the other hand, the high level of diaspora remittances covers the trade deficit. Kosovo's economy has grown due to the contribution of foreign donors but recently its number has decreased, which as a result, has slowed economic growth (Government of Republic of Kosovo, 2008).

Kosovo is portrayed by the not great framework and, therefore, low profitability. The current vitality limits and the poor infrastructure are recognised as the principal obstructions to a consistent economic development. Be that as it may, troubles are of physical nature, as well as in different zones, for example, and the creating budgetary lines. General resource potential outcomes of Kosovo address an OK explanation for the future change. Abundance measures of mineral also imperativeness resources (at 14.7 million tons, Kosovo has the fifth-greatest exhibited stores of lignite in world), agrarian land (a total area of 1.1 million ha application, or 53 per cent is cultivable land) and vacationer potential outcomes (the typical abundance of Kosovo speaks to excellent tourism asset), are not being utilized enough (Government of Republic of Kosovo, 2008).

To overcome economic and financial challenges in Kosovo today, more investment is needed. The growth trend for countries which invest in their GDP increases faster. Given that Kosovo has a lack of capital to undertake large investments, foreign investment would enable the creation of new jobs, which in turn, create the conditions for economic stability for the future.

Remote interests on the move economies seems, by all accounts, to be a compelling instrument for a few reasons, for example, venture advancement potential, exchange of information, expanded profitability, overhauling of legislative and work drive abilities, enhancing the state adjust, adjusting shortfalls, quickening privatization of state-possessed endeavours SOE and rapidly rebuilding of them (Organisation for Economic Co-Operation and Development, 2002). All countries in transition have the same goal: rom the various countries that first faced the strategy, policies, and the various ways they took to ensure a successful transition.

The main concerns for foreign investors are profit growth, access to international markets, and competitiveness. Encouraging economic growth in the country is the main benefit of developing countries. Transition as an inheritance of the communist regime exacerbated the situation with negative characteristics. Serious endeavours and efforts in economic development are crucial in this regard.

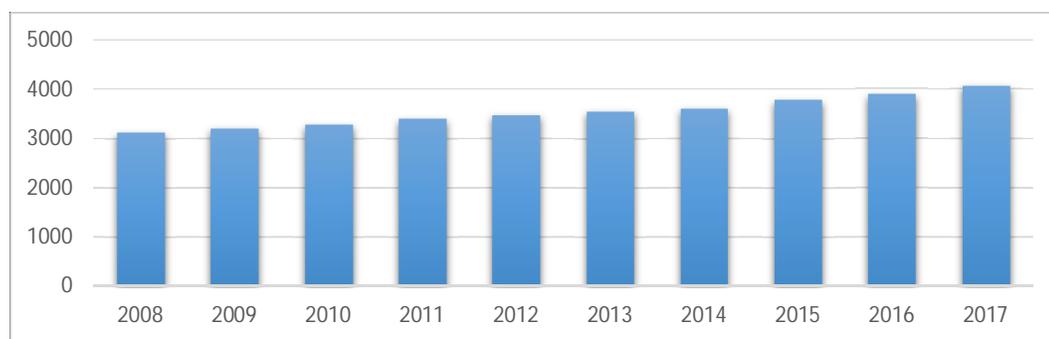
1.4 The economy of Kosovo today

Kosovo is a parliamentary republic. It declared its independence on February 17, 2008 and is recognized as an independent country by 114 out of 193 Member States of the United Nation, as well as by 23 out of 28 EU member states. Kosovo is a potential candidate for EU accessions, a procedure that marked a step forward with the signing of the Stabilization Association Agreement in 2015 of October 2015, in force since April 2016. Present Government was voted on September 9, 2017 (World Bank Group, 2018b).

1.5 Macroeconomic trends

GDP per capita in Kosovo was last recorded at 4068.21 US dollars in 2017, as seen in figure 1. The GDP per Capita in Kosovo is proportionate to 32 per cent of the world's normal. GDP per Capita in Kosovo reached the mid-point of 3116.36 US dollars from 2000 until 2017, reaching the amount of 4068.21 US dollars in 2017, compared to a record low of 1919.84 US dollars recorded in 2000 (Trading Economics, 2018a).

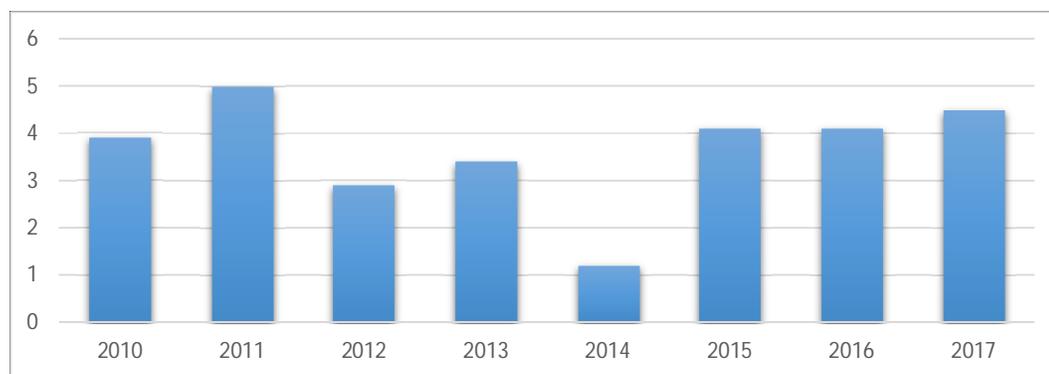
Figure 1: GDP per capita in Kosovo in US dollars



Source: Trading Economics (2018a).

Kosovo's aggregate national output has increased 3.5 per cent in the first quarter of 2018, compared to a 3.2 per cent increase in previous period, as shown in figure 2. Yield progressed quicker for net capital development (10 per cent from 4.5 per cent in Q4 2017), family unit's utilisation (1.4 per cent from 0.1 per cent) and government use (5.2 per cent from 3.5 per cent). GDP Annual Growth Rate in Kosovo has come at the midpoint of 3.65 per cent from 2010 until 2018, reach an unequalled high of 10.90 per cent in the first quarter of 2011 and a record low of - 4.50 per cent in the first quarter of 2012 (Trading Economics, 2018a).

Figure 2: GDP growth in Kosovo 2010-2018, in %



Source: Trading Economic (2018a).

Monetary improvement in 2016 is evaluated at 3.4 per cent, somewhat smaller when compared to a 4.0 per cent in 2015. Some of the drivers of economic development in Kosovo continue to be public investments, such as the 65 km segment of the Pristina-Skopje highway. Then again, government utilisation and net fares made adverse commitments to development, with the last mirroring the nation's feeble generation base and low aggressiveness. Kosovo's economy continued to record a good performance in the first half of 2017, with an expected annual development rate of 4.2 per cent, fundamentally determined by rising venture yet with concrete commitments additionally from net fares and private utilisation (European Bank for Reconstruction and Development, 2017).

The economy is developing sustainably. Fundamental drivers of development are private investment and solid venture figures, which like this are driven by open interests in the framework. The IMF program terminated in August 2017.

Table 3: Main macroeconomic indicators in the period 2017-2018 (in percentage)

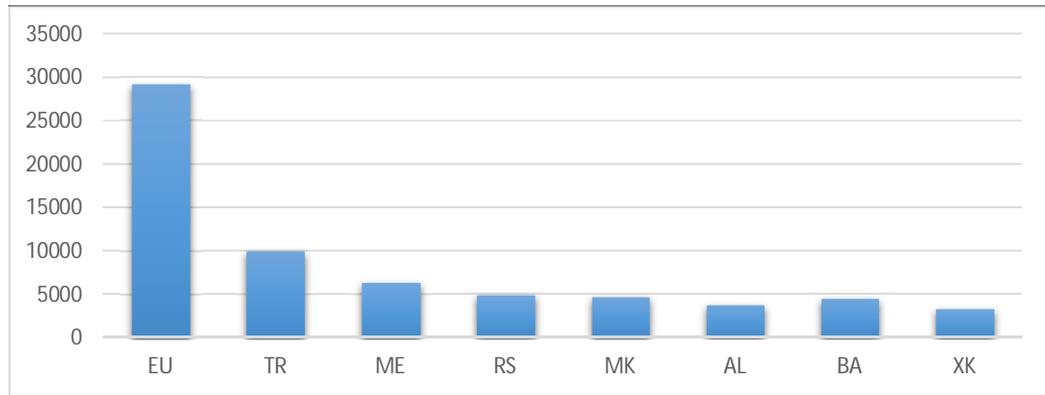
	2013	2014	2015	2016	2017
GDP Growth	3.4	1.2	4.0	3.4	3.7
Inflation (average)	1.8	0.4	-0.5	0.3	1.4
Government balance GDP	-3.1	-2.6	-1.9	-1.4	-3.4
Current account balance/GDP	-3.6	-7.0	-8.5	-9.8	-11.0
Net FDI/GDP	-4.9	-2.2	-4.7	-4.2	-5.2
External Debt/GDP	30.2	31.2	33.3	34.2	n.a
Credit to private sector/GDP	33.0	33.6	34.5	36.6	n.a

Source: European Bank for Reconstruction and Development (2017).

As it is shown on table 3 the economy is anticipated to grow by 3.7 per cent in 2017 and 3.5 per cent in 2018, driven by settlement inflows and basic interest in transport and vitality framework; however, threats to this growth remain: the ongoing political vulnerability may adversely affect financial specialist and purchaser certainty and could postpone key foundation investment, which are vital for the nation's long-term development.

Some measures to improve the environment for foreign investments have been presented. These include improvements on the legal framework in this regard, which is intended to improve the procedure for financial specialists and increase foreign direct investment (FDI), and advancement in the field of agreement implementation. Last year, measures have been taken to facilitate trade between Kosovo and Albania, and this has been continuously improved (European Bank for Reconstruction and Development, 2017).

Figure 3: GDP per capita for Kosovo in comparison with EU and other countries in region in EUR, 2016



Source: Eurostat (2018).

The effect of the worldwide monetary and monetary emergency on the development nations differed relying upon every nation's financial structure and the idea of its budgetary and global exchange relations with whatever remains of the world based on 2016 year. Those nations most incorporated into the worldwide economy had a tendency to be most influenced by the emergency: for instance, there was a moderately huge withdrawal in monetary action in Turkey in 2016 (down 4.7 per cent when balanced for value changes) as it is shown on figure 3. Then again, in a portion of the littler economies that are less presented to the worldwide economy for instance, Albania or Kosovo genuine GDP development kept on following a positive improvement in 2016 see on figure 3 (Eurostat, 2018).

1.5.1 Main sectors

The Republic of Kosovo offers good opportunities to invest in several sectors including:

- Agriculture, forestry and fisheries.
- Manufacturing.
- Wood processing.
- Mining and energy.
- Decorative stone industry.
- Construction industry.
- Banking and financial services.

Agriculture, forestry and fisheries: Most of Kosovo's territory is rural land, cultivated for the most part by families. Kosovo is not independent in creating enough supplies for agricultural produce. Before 1999, agriculture represented 33 per cent of the total GDP, while 10 years later, it made up a little more than one-tenth of the GDP (Kosovo - Agricultural Sector, 2017). About a large portion of the farmland is utilized for

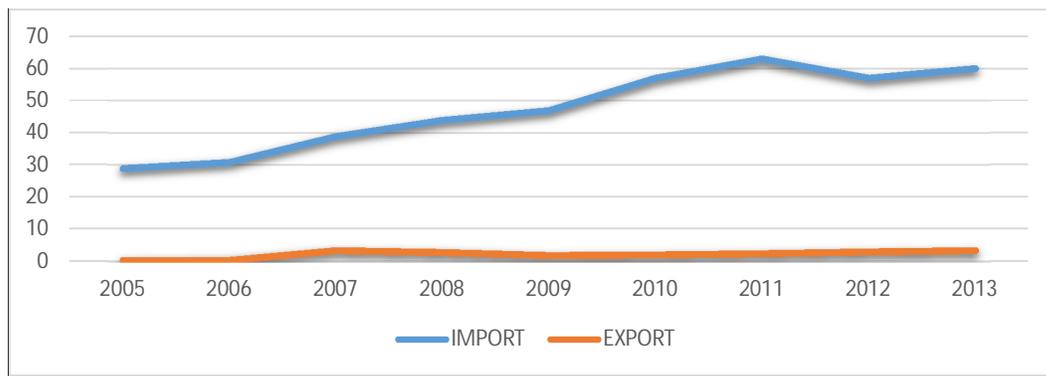
cultivating grains, primarily wheat and corn (maize), and also potatoes, berries, and peppers. High cost for agrarian supplies such as rudiment and fertilizers has hindered the expansion of rural development. Mechanical contamination of soil and water additionally represents a major issue in some zones. The vast majority of the timber gathered is utilized for fuel. Fisheries are most created in western Kosovo, mainly in Istog. Assembling and other auxiliary enterprises represent around one-fifth of the GDP. Kosovo produces development materials, nourishment and drinks, apparatus, and machines (Kosovo - Agricultural Sector, 2017).

Metal handling is critical too: Kosovo has a long experience of craftsmanship, particularly in and around Prizren, Peja, and Gjakova. Prominent craftsmanship incorporates silver filigree, woodwork (particularly cut entryways and roofs), fleece materials and covers, and copper and mud family merchandise.

Wood handling: More than 40 per cent of Kosovo's property mass is secured by wood territory, speaking to around 465,000 hectares. Kosovo is known for a long wood-handling custom given that a decent development medium for normal plants and trees. Wood handling takes after a marginally extraordinary model from the general pattern (Wood Processing, 2018).

Fare bend achieves the top in 2007, demonstrating an expansion from 0.7 million EUR to 3.3 million EUR, however from that point forward has varied, achieving a somewhat littler measure of 3.2 million EUR in 2013 where we can see on figure 4 also for each year. Nonetheless, the proportion amongst import and fare it is altogether diminished as the normal yearly development has surpassed the development rate of import (Encyclopedia britannica, 2018).

Figure 4: Wood processing, import and export 2005-2013 (in million EUR)



Source: Tosuni & Vokri (2015).

Mining and energy: Kosovo is the fifth largest in the world for lignite reserves, and about 14.7 million tonnes have natural resources. Kosovo likewise can offer vast opportunities in the renewable energy sector because from lignite-fired energy

generation capacities. Thermal power plants produce around 98 per cent of electrical energy. Kosovo has a great resource of regular assets. At 14.7 million tons, Kosovo has demonstrated stores of the fifth biggest on the planet for lignite. This mineral is of outrageous significance for the nation, speaking to in the long haul, a standout amongst the most basic elements for power age.

Given the high market interest for energy in the region, the Government is creating significant projects related to the exploitation of new lignite and power generation facilities. These activities offer remarkable open doors for organizations wishing to take part in the vitality or mining in the area. Coal is the most important energy resource of Kosovo, supplying around 97 per cent of total electricity production. But Kosovo has no fund for energy efficiency (KPMG, 2017).

Decorative stone industry: The admiration of one of the most beautiful ornamental stones in the world is one of the hidden secrets of Kosovo. Experts are confused by the fact that Kosovo has a natural stone such as diversified, attractive, colourful and convenient, and it can remain a relatively unknown source.

Kosovo, has a diverse and rich geology, with its evolution over time being affected by its position in an active tectonic zone. Kosovo has at least 24 quarry sites identified with a wide selection of colourful decorative stones individual and multiple combinations of colours and patterns. These have been widely recognised for their unique appearance and attractiveness and are used to decorate large buildings in the Balkan region and beyond. Some of these countries have existing infrastructure stone quarry development and therefore constitute a point accessible to start. Extensive information on these quarry sites is available for potential investors (KPMG, 2017). A shallow level of international information for this resource in Kosovo so far has prevented foreign investment in this sector. Consequently, an ornamental stone sector in Kosovo has considerable untapped potential.

Construction industry: The construction industry remained one of the most important sectors contributing to economic growth. Building entrepreneurs have high potential for Kosovo's economy. The construction sector has served as a significant pillar of Kosovo's economy and despite the challenges continued to extending the economic crisis in Kosovo. With a 9.5 per cent share of the construction sector was the employer of the 4th largest in Kosovo in 2014, employing about 39,000 people. Although participation in employment construction sector among all other areas declined in 2014, to also comparisons last year from 11.4 per cent to 9.5 per cent, the total number of employees has increased to 10.000 (Helvetas Swiss Intercooperation, 2015).

In Kosovo is very dynamic the construction sector. This sector includes around 3,800 enterprises and accounts for about 20 per cent of new businesses that join every year. Among 2010 and 2014 the number of companies in the industry rose to approximately

30 per cent. Trade statistics provided by the agency of statistics show that there is a huge trade deficit in the sector of construction materials in Kosovo. Imports construction materials reached 94 million EUR on average per year between 2011 and 2013 as on figure 5.

Figure 5: Imports and exports of construction materials in Kosovo in million EUR



Source: Trade Statistic (2016).

The share of imports of construction materials in total imports was around 4 per cent between 2010 and 2013. The Kosovo government predicts that 61 per cent of budget revenues for 2015 will be customs revenues, a situation similar to previous years. Given that the Kosovo budget relies heavily on customs revenue, no measures likely to derail the current trade balance (Helvetas Swiss Intercooperation, 2015). Banking and financial services. The most of the banks in Kosovo are presently private with some existing foreign-owned as Pro-Credit Bank, TEB with BNP Paribas, Raiffeisen Bank, Nlb Bank etc. There are 6 certified banks, 8 insurance companies, 5 pensions' funds, twenty-one other financial mediators and 15 financial auxiliaries (mainly money transfer agencies). The role of the Central Bank Authority of Kosovo (hereinafter: CBAK) is to coordinate the financial sector and protect its stability as well as to foster its development.

1.5.2 Imports and exports in Kosovo

In the opening decade of the 21st century, Kosovo's exchange shortfall developed significantly. The shortage stayed huge after freedom, as Kosovo needed to import a lot of its sustenance, fuel, and hardware for the most part from Macedonia, Serbia, Germany, Turkey, and China. Kosovo's fares, dominatingly scrap metal, went for the most part to Italy, India, Albania, and Macedonia. Kosovo turned into a gathering to the

Central European Free Trade Agreement (hereinafter: CEFTA) in 2006; in any case, Serbia, additionally a CEFTA part, declined to perceive Kosovo as an autonomous exchanging partner (Allcock, Young & Lampe, 2018).

In the absence of a developed manufacturing industry, Kosovo continues to import nearly all products, ranging from consumer products to strategic products. The total value per year of imported goods in Kosovo according to official data amounts to over 2.5 billion EUR, while the export of Kosovo products to countries in the region and Europe does not reach the value of over 300 million EUR per year.

Data from the Kosovo Agency of Statistics show that Serbia continues to be the main importer in Kosovo. Most of these products, which are imported from Serbia or other countries, says economics expert that can also be produced in Kosovo at a cheaper cost. The balance of payments is defined by a positive balance and the current account deficit, while the deficit over the course of 2012 and 2013 continues to remain at a high level. Commodity trade is constantly characterized by a high degree of trade deficit (Gërguri, 2013).

The exchange balance is a standout amongst the most prevailing things in the present record, and its significance lies in furnishing data about exchange trade with the outside world and in that capacity empowers us to distinguish the nation's beneficial power, the nation's devouring force, neighbourhood request, remote customer, or investment funds patterns, and gives us detailed data on which nations are firmly connected to the most productive and delicate areas of the national economy.

Kosovo is an apparent economy the share of export and import in GDP (or market primary factor, i.e. $\text{export} + \text{import} / \text{GDP}$) was over 0.7 in 2010 as on table 4 (for previous years the condition does not change significantly) (Gërguri, 2013). Imports command remote exchange; the fare level is little, bringing about a high exchange shortfall that speaks to one of the fundamental qualities of Kosovo's universal exchange and one of the greatest difficulties for Kosovo's establishments.

From the post-war period, external exchange has increased in import. The low-price base has had a moderate effect on lowering Kosovo's exchange rate. Although over the years, Kosovo's export ability has been increasing, at the same time, imports have increased keeping the ever-high trade deficit.

Exchange with Kosovo is thought to be on the rise, given that imports have achieved an estimation of more than 2.4 billion EUR while exports were near 300 million EUR in 2013. Kosovo's economy is still exceedingly subject to imports (the proportion among import and export is 8: 1). Restricted cooperation with local and worldwide markets has 'prevented Kosovo o experience a more articulated presentation to the worldwide economy; however, it also restrains the enthusiasm of remote speculation (Stiglitz & Greenwald, 2014).

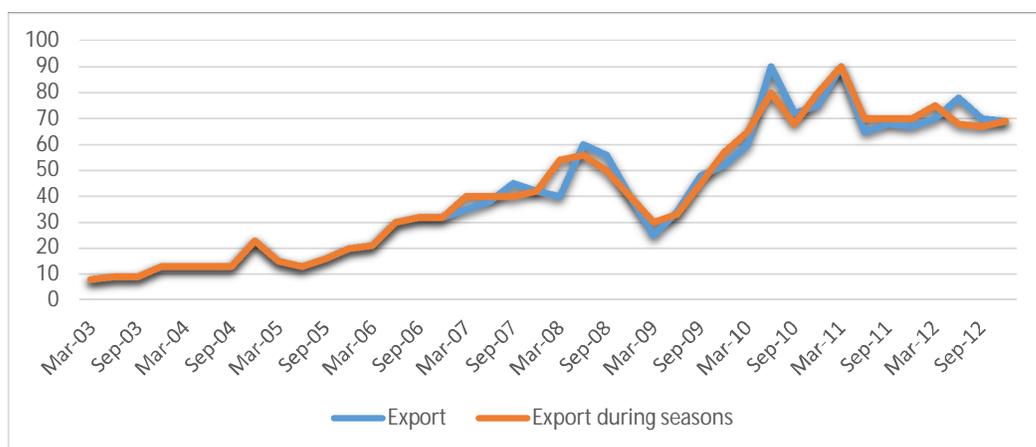
Table 4: The flow of goods in foreign trade (000 EUR)

Period	Export		Import		Trade Balance	Percentage of coverage
1	2	Chain indexes	3	Chain indexes	4=2-3	5=2/3
2001	10,559	-	648,500	-	-673,941	1.54
2002	27,599	261.38	854,758	124.87	-827,159	3.23
2003	35,621	129.07	973,265	113.86	-937,644	3.66
2004	56,567	158.80	1,063,347	109.26	-1,006,780	5.32
2005	56,283	99.50	1,157,492	108.85	-1,101,209	4.86
2006	110,774	196.82	1,305,879	112.82	-1,195,105	8.48
2007	165,112	149.05	1,576,186	120.70	-1,411,074	10.48
2008	198,463	120.20	1,928,236	122.34	-1,729,773	10.29
2009	165,328	83.30	1,935,541	100.38	-1,770,213	8.54
2010	295,957	179.01	2,157,725	111.48	-1,861,768	13.72
2011	319,165	107.84	2,492,348	115.51	-2,173,184	12.8
2012	276,100	86.51	2,507,609	100.61	-2,231,509	11.0
2013	293,919	106.45	2,450,363	97.72	-2,156,444	12.0

Source: Kosovo Agency of Statistics (2018) and author's calculations.

Export of products for the period 2001-2013 have expanded overall by 32 per cent every year, while in 2009, because of the effect of the worldwide financial crisis and the decrease in prices in global markets, trade diminished by around 18 per cent in 2012 compared to the previous, when a decrease of 13 per cent in exports was recorded as we can see on figure 6. An upward trend in exports is additionally noted in the graph below (with and without regular alterations) (Stiglitz & Greenwald, 2014).

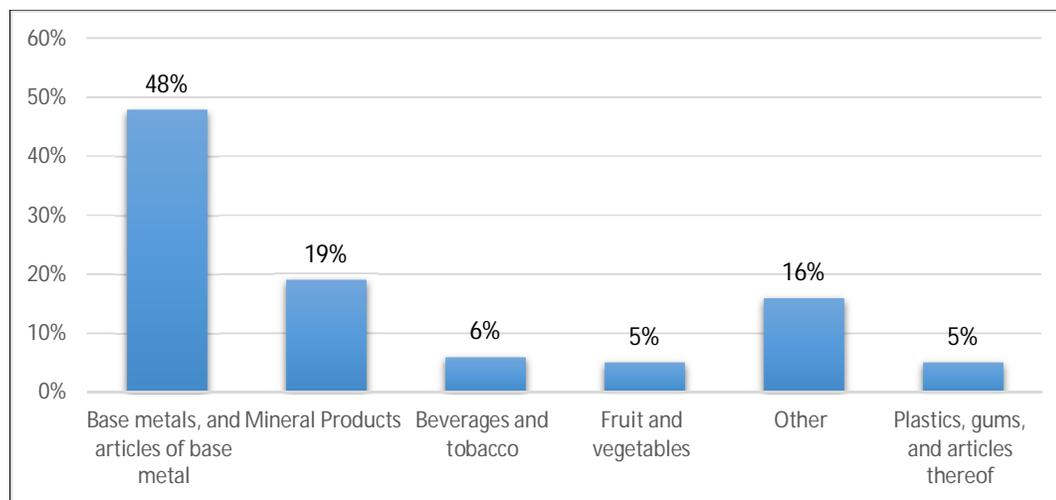
Figure 6: Exports with raw data and seasonally adjusted, in millions of euro 2003-2012



Source: Gërguri (2013).

The main export products of Kosovo are raw metals, wherein 2013 they accounted for about 48 per cent of exports, mineral products (19 per cent of imports), as well as beverages and tobacco (with about 7 per cent participation) as it is shown on figure 6. Exports are dominated mainly by raw materials. Kosovo's liberal trade regime is characterized by simplicity and neutrality, key features considered to be important for stimulating private sector led growth as well as creating the condition for healthy exports.

Figure 7: Export structure in percentage



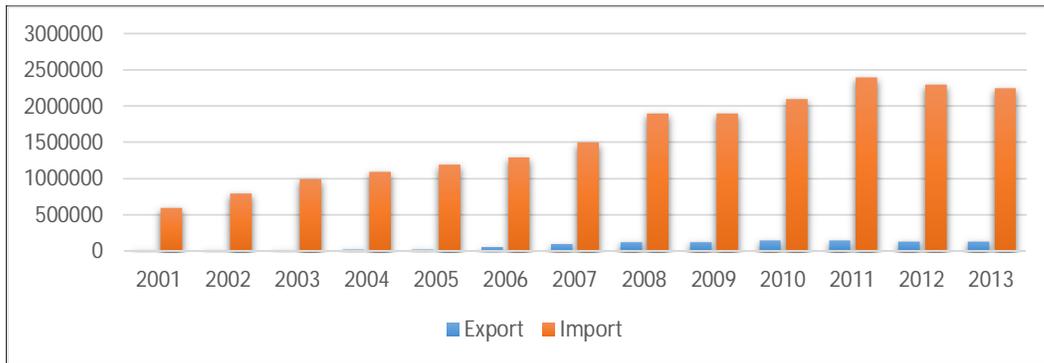
Source: Gërguri (2013)

Figure 7 exhibits the export structure of Kosovo's aggregate exports proceeds with the segment of base metals, which denoted a slight decrease in 2013 chiefly because of the fall in metal costs amid this period. While exports of mineral merchandise, beverage and tobacco, elastic, plastics, and different items, and in addition agrarian items emphatically affected the development of Kosovo's exports during this period. The most products with the highest shares of in exports during this period are mineral products, mostly comprising of zinc and lead.

Also, the growth in exports of agricultural products and paper items in 2013, as opposed to the decline of imports of these categories in this period, is an indication of the increase of domestic production in these categories, affecting the replacement of these previously imported goods (Gërguri, 2013).

Despite the fact that import inclusion is as yet shallow, it has relentlessly advanced since 2001, reaching double-digits in 2007 and 2008, respectively 10.5 per cent; 10.2 per cent. Additionally, as is it appeared in figure 8, from 2010 onwards the inclusion rate is a double-digit, running from 11 per cent to more than 13 per cent (Kosovo - Import Tariffs, 2017).

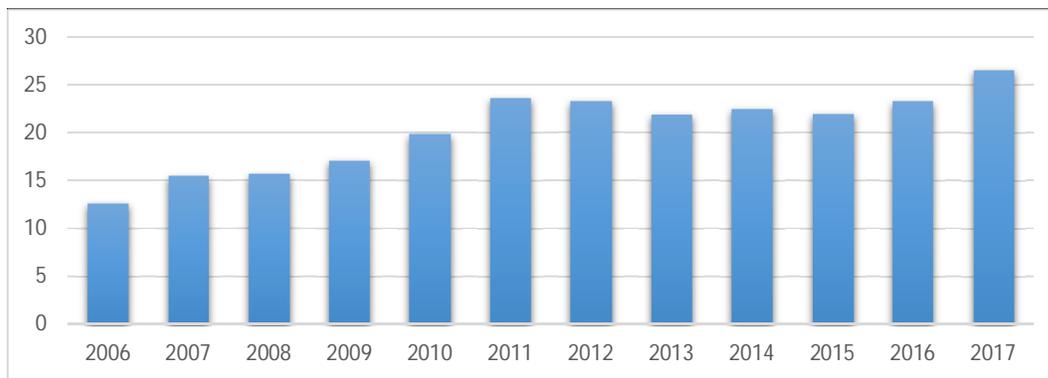
Figure 8: Export dynamics, import and trade balance of Kosovo 2001-2013(in million EUR)



Source: Trade Balance of Kosovo (2013).

In spite of the positive trends of export development throughout the years, Kosovo's trade deficit has been consistently growing because of the huge amounts of import that Kosovo has. Exchange shortfall from 2011 onwards adds up to more than 2 billion euros making it more than 40 per cent of Kosovo's GDP.

Figure 9: Trade deficit as percentage of GDP (2006-2017)



Source: World Bank (2017).

As displayed in figure 9, we see that Kosovo generally has a trade deficit that is averaging around 1.5 billion for the period 2001-2013, or a normal of 41.2 per cent of GDP (period 2004-2013). This negative net export implies that Kosovar cash flows out to purchase outside merchandise and ventures, decreasing household creation, which at that point causes constriction both in the employment and in the national production.

Each country benefits from trade exchange, but international trade has its drawbacks, Kosovo is a loser in international trade as a result that Kosovo firms cannot compete with foreign producers. The positive things that Kosovo benefits from foreign trade are many. It benefits more goods and services from abroad, benefits goods with a great

diversity, benefits goods of higher quality and more stable, benefits goods and services at lower prices, and so on. Kosovo benefits from the products it cannot produce itself, such as coffee, cocoa, banana, pineapple, and many other things (Republic of Kosovo, 2017).

The biggest winners from international trade in Kosovo are consumers, while the biggest losers from foreign trade are local producers. Local producers are the most affected by international trade. Local producers are not competitive with the countries of the region and beyond. Many firms in Kosovo do not have economies of scale, which means they are not very productive in the production of goods and services (Ministry of Trade and Industry, UNMIK European Union Pillar, 2004).

Kosovo can produce and have enough capacity but does not use them in the best possible way. Trade deficit may also come as a result of the lack of subsidies in Kosovo. If we take the case of Alpsko in Slovenia, we can see that the Slovenian Government subsidizes Alpsko by covering its packaging expenses; thus, when Alpsko is exported to Kosovo, it comes at a good price and also with the highest quality. Export growth is considered to be the determinant of production and also rising employment. The main goal of Kosovo in the coming years is to achieve rapid economic growth and export growth, as it is almost the main growth point of employment (European Commission, 2013b).

1.6 SWOT analysis for Kosovo

Situated in South-eastern Europe, Kosovo's economy has moved toward becoming a part of economic exchange in this part of the world, which gives chances to advertise development in a broad region. The objective presently is to build the intensity of this economy by expanding its export potential in order to diminish the trade deficit that Kosovo right now has.

As a basic place for business improvement, Kosovo offers a number of points of interest, for example, the young and all-around qualified population, whose average age is very young, regular assets, great atmosphere conditions, new foundation, monetary strategy with bring down expense rates in the area, topographical area with access to the CEFTA local market and of the EU. Kosovo other than being an individual from CEFTA, in June this year has additionally joined the IMF and WB and tries to other ground-breaking monetary budgetary components, for example, the EBRD, the World Trade Organization (hereinafter: WTO).

Free economic zones, lowest operating costs in Europe, lower European taxes, free access to the European Union Market, South eastern Europe: Turkey, America, Japan and Norway, securing foreign investments, improving infrastructure, as well as ongoing

reforms in improving the investment climate are just some of the reasons why Kosovo has strengths and should be considered a suitable place for realizing investment.

Kosovo has for some time been one of the poorest places of the Balkans. Amid the second half of the twentieth century, when Kosovo was a part of Serbia, some of the Yugoslav republics questioned the government financial help given to Kosovo (Allcock, Young & Lampe, 2018).

Kosovo as a young country has the advantages and opportunities to maximize its use it will certainly be even stronger as a state. Of course, it must work on reducing corruption, strengthening the rule of law, and having good relations with Serbia as imports and exports go through these two states. We can see on table 5 in detail the SWOT analysis for Kosovo:

Table 5: SWOT analysis

Strengths	Weaknesses:
<ol style="list-style-type: none"> 1. European Partnership Implementation 2. Participation in Regional Initiatives 3. The positive attitude of institutions towards the EU 4. Presence and assistance of international institutions 5. Establishing the approximation of laws 6. Geographical position 7. Human Potential: New Population (Foreign Language Knowledge) 8. Institutional engagement to improve the position of minorities 9. Usage of EUR 10. New administration 	<ol style="list-style-type: none"> 1. Dismissal by all EU Member States 2. Low economic development and high unemployment rate 3. Lack of implementation of laws 4. Lack of coordination of donations by the institutions 5. Non-proactive approach of minorities to social processes in Kosovo 6. New and relatively unmanaged administration 7. General lack of knowledge for the EU 8. Current unfortunate energy situation
Opportunities:	Threats
<ol style="list-style-type: none"> 1. Kosovo's involvement in the Stabilization-Association process 2. Merging Kosovo standards into European standards 3. Kosovo's Approach to the Stabilization and Association Process Initiatives 4. International Presence in Kosovo 5. Good Reports in Neighbouring Countries 6. Exploitation of diaspora 	<ol style="list-style-type: none"> 1. Delays in recognizing the state of Kosovo from all EU member countries 2. Fading the EU commitment to the Western Balkans integration in the EU 3. Visa regime 4. Hesitation for co-operation from neighbouring neighbours 5. Negligence of the Serb minority in integration 6. External competition

Source: Own work.

After the war, the problems that have accompanied Kosovo's economy can be grouped into:

- Non-stable electric energy production.
- Slow privatization process.
- Lack of investment, especially speculation from abroad because of political vulnerability.
- Lack of money related capital market (high interest rates on short-term return).
- More liberal market. Here are isolated products from Macedonia Serbia and Montenegro, which comprise more than half of imported mountains. It is on the grounds that the products entering Kosovo from these nations are not subject to standard traditions charge.
- The challenges for the quick and proficient development of businesspeople abroad.
- Loads of high capital investment and imported raw material with tax and customs (we crossings), which has no stimulation in domestic production, and on the contrary stimulates imports from the countries mentioned above.

After the war, investments were concentrated primarily in exchange (development of service stations), in essence, development, support and restoration of streets, development of structures pulverized amid the war and a large portion of the little assembling enterprises.

The most important barriers for a sustainable economic development are existing energy capacities and the poor road infrastructure. However, physical nature are not the only difficulties, but in other areas such as developing financial sector and rule of law. Kosovo is characterized with a low productivity, poor infrastructure, lack of institutions, lack of legal infrastructure for communication and authority in public administration, lack of financial system at the time of the nonexistence of banks especially have had a big impact expressed discouraging after the war.

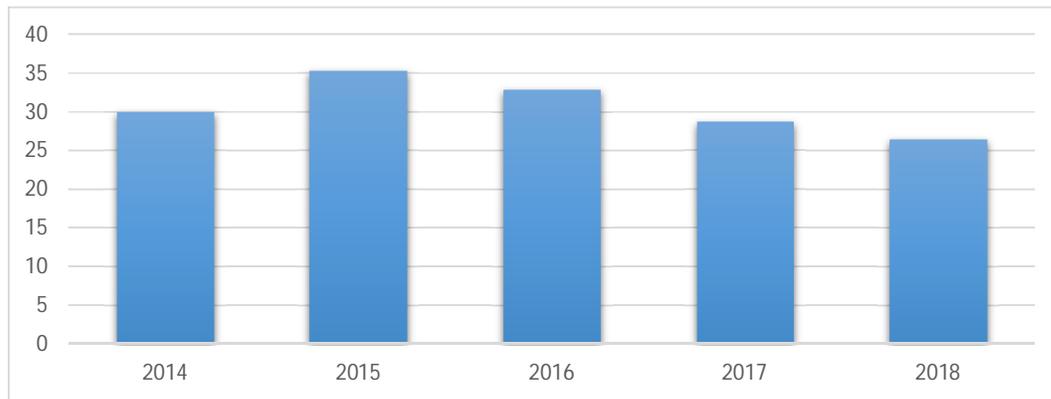
Since Kosovo has natural resource potentials it can be said that as Kosovo has a good basis for the development in future. High amounts of mineral and vitality assets (at 14.7 million tonnes, Kosovo is the world's fifth-biggest countries with supplies of lignite), horticultural land (around 1.1 million ha application or 53 per cent is cultivable land) and tourism opportunities, are not being utilized adequately (United Nations Development Programme, 2016).

Therefore, in order to overcome such problems, higher levels of investments are necessary. Kosovo's GDP is annually growing. But what is worrying still has to do with the level of revenue, which is among the lowest in Europe.

The unemployment rate in Kosovo is evaluated to be 50 per cent, and it continues to be among the highest in the area. Therefore, the reduction of these imbalances should be a long-term priority. Economic policies to overcome this situation should be focused on increasing production businesses and increasing competitiveness through export growth (Central Banking Authority of Kosovo, 2007).

Execution of some basic markers macroeconomic, in the after-war time frame, can be found in the accompanying figure 10. Unemployment Rate in Kosovo diminished to 26.50 per cent in the primary quarter of 2018 from 30.60 per cent in the final quarter of 2017. Joblessness Rate in Kosovo arrived at the midpoint of 36.90 per cent from 2001 until 2018, achieving a record-breaking high of 57 per cent in the final quarter of 2001 and a record low of 26.20 per cent in the second quarter of 2016 as it is displayed on figure 10 (Trading Economics, 2018b).

Figure 10: Kosovo unemployment rate in %



Source: Trading Economics (2018b).

2 GLOBAL FOREIGN DIRECT INVESTMENTS OVERVIEW

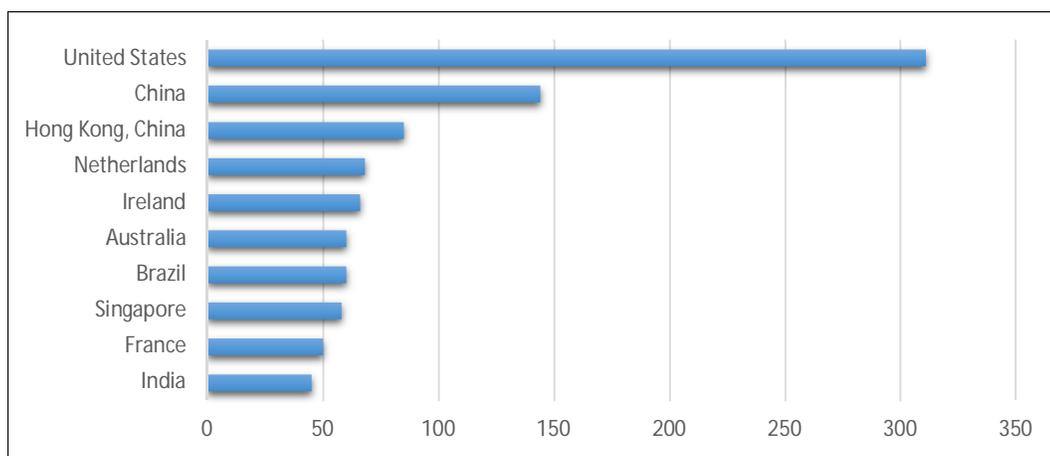
Migration has concerned many Kosovars for a long time, and Kosovo is almond the nations with the highest number of migrants in Europe. In the 1990s, emigration and work abroad counterbalanced hardships of the war which ended 1999 when a huge number of Kosovars were deported. The motivation behind Kosovo diaspora coming together per decade prior does not appear to have executed impetuses for the migrants to return. It has provided a wellbeing valve for the vast piece of the network, giving a wellspring of business in a circumstance of high unemployment rate and destitution rates. The most important motivation for emigration from Kosovo is work, since Kosovo has experienced a high unemployment rate since its 1990s. At the end of the 1990s, the war was a one of a kind explanation behind development, yet now it has been supplanted by joblessness. Statistics indicate that 800,000 individuals from Kosovo Albanian Diaspora live abroad (RIINVEST, 2007).

Financial fluctuations are not do not adequately tend to the difficulties, Kosovo is in a situation with, for example, high joblessness and a high exchange shortage rate. In general, the economy of Kosovo relies largely upon the international sector. The level of imports is generally high with developing the economy, this comes as an outcome of

financial development itself, while on the opposite side from the abnormal state of settlements by Diaspora, which overlay the high exchange shortage.

Diaspora remittances played a large role in maintaining the wellbeing of Kosovo citizens as we can see on figure 11 the countries that accepts the migrant, however, over the most recent couple of years, their slight withdrawal of remittances has impeded the pace of financial development. In Kosovo, remittances are the second biggest sources of income for families, making up around 14 per cent of aggregate income in 2006. Movement has created as an adapting procedure to neediness and joblessness, with very nearly 30 per cent of a family's having ties abroad, and more than 20 per cent of families accepting settlements. Roughly 45 per cent of the number of inhabitants in Kosovo live in poverty (underneath 1.42 EUR every day), and 15 per cent in extreme poverty (0.93 EUR every day). Kosovo's population is around 2.2 million individuals, albeit no statistics has been directed since 1981. Its ethnic organization as per Statistical Office of Kosovo is broken down in 92 per cent ethnic Albanian, 5.3 per cent Serbian, with the remaining 2.7 per cent being other minority groups (Shaorshadze & Miyata, 2010).

Figure 11: Number of migrant's resident status in destination countries, 2016 (in US dollars)



Source: World Bank (2016).

Other nations' encounters infer that increments in the business condition have been actualized with a reason for transients or settlement getting families to contribute. Diaspora and Migrants can add to economic development in nations of source from numerous points of view other than by sending remittances alone. These commitments are less steady than remittances, yet not essentially less significant. They may add to economic development by setting up tasks themselves or helping families and relatives to do as such. Numerous divisions of the Kosovo Diaspora do not see putting resources into Kosovo as a need, as a result of two reasons:

- The exclusion of a couple of successful people in business, they don't have great financial related potential.
- Members who have a particular monetary potential to fund see the business culture in Kosovo as an obstruction.

Finally, most potential vagrant financial specialists stay reluctant to put resources into Kosovo due to a swarming view of surrender by their country subsequent to having contributed for a considerable length of time to its political advancement.

2.1 The importance of FDI for economic development

The role and importance of foreign direct investment for the national economy was primarily in improving the key macroeconomic indicators (Todaro & Smit, 2006). FDI is efficient form of usage of private savings in the process of funding economic development and in reducing the gap between the investment plans and the local saving.

Secondly, it is significant contribution of FDI in overcoming the gap of foreign trade of host country. FDI investment is efficiently covering discrepancy between planned revenues and taxes collected, and the expenditures volume in the budget. FDI is useful because it contributes to transfer of managerial and entrepreneurial experiences. Finally, FDI today represents the main channel for the transfer of new technology among countries.

FDI can bring many advantages for foreign investors among which, the most important are: savings in transport costs, lower labour costs, available infrastructure, and savings in customs costs and contribution in imported goods, closer position to the customers, the possibility for fast adoption of products in accordance with market requirements (Jovanovic & Gavrilovic, 2006).

This interdependence can be seen by measurement of macroeconomic aggregates for example in growth rate, movement of investment, foreign exchange level and trend and other. Changes are related to economic development at the national level, on the basis of which it is possible to assess the success of development policy.

When the positive elements are on increase, there are positive structural changes. In periods of crises the negative changes are strengthening investments generate significant positive effects on the economy of the host country (Samuelson & Nordhaus, 1992).

Their impact of FDI recorded in two points: the quantitative growth, measures by the balance and the total inflow measured by GDP, exports and domestic investment, and qualitative through the transfer to the host country the investment, trade, technology and financial flows. To determine the effects of FDI on economic growth of the host country is not an easy task.

There are a large number of variables, where the effects are associated with specifics of each country sectors of the economy and investment. Variables can be viewed from two aspects: first, they are supplementing domestic factors of production and creating the conditions for new employment, and secondly, they stimulate the development of the host country through technology transfer manpower training, liaising with the local economy, and in enabling better presence of local companies at the world market. The effects of FDI depend on the stage of economic development of the country, and these stages are divided in four phases (Dunning, 1982).

In the first phase of development, the most important role is played by natural resources, and at this stage, no significant effects to the host country economy are visible. If the country has an economic development at the second phase, it will record an increase in domestic investment, while investing in public goods, communications and transport in present. The state in this phase, shifts its interest for natural resources to the production of labour-intensive goods, and the effects depend on the infrastructure and macroeconomic policy.

The third phase covers the period when the development of innovation, knowledge management, organizational benefits, rationalization of production and investment are supported. All these variables have the effects on strengthening the competitiveness of local companies and appearance on new market.

The fourth stage is the highest stage of economic development and in this stage a lot of post-industrial service companies have been recorded. The products are direct services and cross-border connections and effects are becoming more intense in this phase. Effects of foreign direct investment on the economic development of the host country depend on strategy which the country has chosen as import substituting strategy or export developing strategy (Dunning, 1982).

If FDI enters into the sector in which there is competition from domestic companies, there is a competitive struggle whose consequences might be the delaying in investment and exit of certain domestic companies from the sector. This will lead to reduction of the total investment in the sector and thus in the entire economy. If the FDI enters the new sector (primary, secondary, tertiary) then the total investment in the country will be increased. FDI is the most effective way to create new jobs and to create prerequisites for sustainable economic growth in the future. Nowadays, the economic world is leaving the relatively isolated national economies of history and instead developing national economies through cooperation with other countries. Government policies have a significant impact on FDI. FDI is a very important segment of a country's economic activity, due to its effects on economic growth.

In the last decades, these investments have visibly affected the economies of transition countries, have been a major source of capital, and in most cases have had a significant

impact on economic growth. In developed countries' governments make considerable efforts to encourage investment from abroad by their enterprises in order to provide opportunities to use natural resources or to increase machinery exports of equipment, and at the same time generate capital inflows that improve the balance of payments.

2.2 Determinants of attractiveness of a country for FDI

According to the 2005 World Development Report, a good investment climate will provide opportunities and incentives for private firms from farmers and small entrepreneurs to local manufacturing companies and multinational enterprises to invest productively, generate jobs and expand. For most purposes, the investment climate refers to the level of costs, risks, and barriers that may affect an investor's perception of returns to be gained from an investment. Factors that would affect the level of perceived costs, risks, and barriers may be categorized into three components.

The first would be inputs which entail infrastructure and services (both physical and financial) as well as labour that are vital to a firm's productivity. Cross-country analysis appears to corroborate that the attractiveness of a country towards FDI correlates with the availability of physical infrastructure, and that human capital formation and skills development can also attract FDI.

The second component of the investment climate is the regulatory environment which includes regulation of entry and exit, the labour market, financing and taxation, as well as public interests such as the environment, health and safety. The third component is the set of macro or country-level issues concerning economic and political stability and what Globerman & Shapiro (2002) refer to as governance infrastructure.

Positive governance infrastructure includes an effective, impartial and transparent legal system that protects property and individual rights as public institutions that are stable, credible and honest and government policies that favour free and open markets (Globerman & Shapiro, 2002).

Prospective investors are really more attracted by specific guarantees that cancel the negative effects of such disincentives, examples: freedom from prolonged, arbitrary, costly establishment licensing and FDI approval admission requirements, assurances of a treatment equal to nationals treatment, freedom to obtain and deal in foreign exchange for profits remission, capital repatriation, and current account transactions, freedom from post-investment performance requirements or revisions in incentive laws or regulations, example respect for acquired rights, adherence to Global Standards for expropriation and compensation, access to binding international arbitration and judicial enforcement of arbitral decisions, adequate institutional and judicial protection of property rights.

2.3 FDI incentives

The development of the tax system is very important for attracting FDI inflows in transition economies. When transition began, taxes on companies represented a higher share of government revenue and of GDP than in the high-income OECD countries, linked to a tradition of heavy taxation of enterprises (OECD, 2012).

In the early years of transition, countries faced erosion of tax revenues and needed to create institutions for raising revenue in a market economy. Incentives could arguably insulate potential investors both from the initial high tax rates and from the uncertainties associated with tax reform. Assessing the country's economic and political stability is an important element in the process of making investment decisions for traditional companies. Any erroneous perception in this area could jeopardize the implementation of the investment plan and has a profound effect on the benefits provided by the projects.

Another important factor of FDI is the labour force. Often the choice of investment location is affected by the combination of a cheap and skilled labour force, but also other factors such as the institution and legal environment, technical progress, and political stability. The growth of globalization offers new opportunities but also requires continued adaptation in order to keep pace with the growth of international competition. FDI can serve as a tool for transferring knowledge related to imported technology and for this reason can contribute to innovation performance (OECD, 2012).

The lack of protection of the physical property rights in the country is a major obstacle, even though the law allows foreign ownership, the accuracy of land registers and cadastral maps continue to be questioned by the private sector and international organizations (OECD, 2010). Offering various incentives to attract FDI may certainly be a rational policy if foreign investment generates positive spill overs, since market forces alone would then attract to little foreign entry. Nonetheless, there is a fear that the outcome of tax competition between countries will evolve into a race to the bottom where the host countries gain very little from FDI. International investment agreements are probably required in order to reduce such problems (Oman, 2000).

In discussing public policy, it is important to bear in mind that firms not only seek business-friendly policies at a specific point in time. More importantly, an investment involves a long-term exposure to the economic and political conditions in the host country, and firms therefore look for some commitment from the government. They need to be assured that their investment is safe from expropriation, that profits can be transferred out of the country, and that potential disputes between the host government and the multinational firm will be solved in a fair and efficient way. Countries with a record of economic, political and social stability are likely to be attractive to foreign investment (Lipsey, 1999).

2.4 FDI trends in the world economy

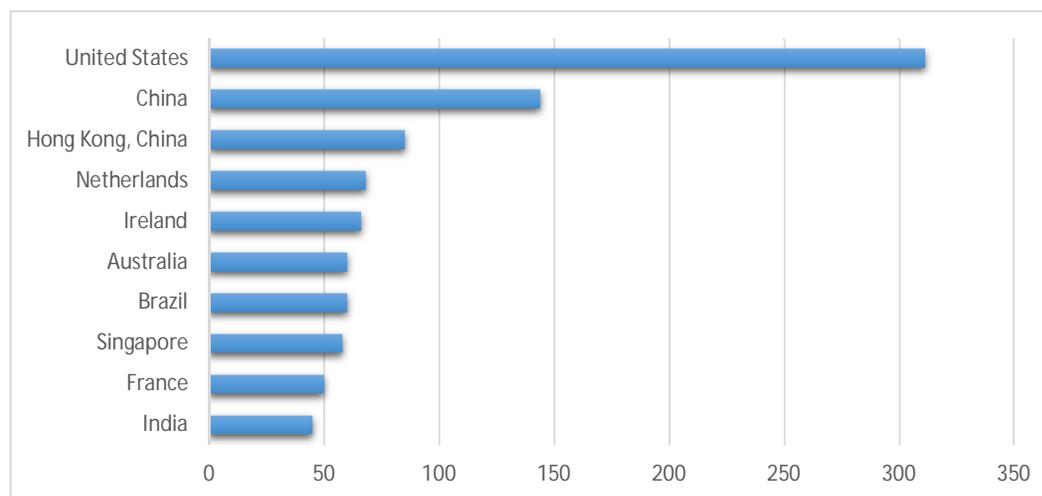
FDI remains one of the most important factors of the global economy. In developing countries, FDI is considered by researchers and politics as the main catalyst for economic development and is also used to transfer new technological and managerial skills, increase quality and productivity, and expand the annex to the world markets. Also, the high level of FDI in an economy is an important indicator of health and economic stability.

As demonstrated by UNCTAD, FDI inflows climbed unassumingly into 2010, after the extensive declines from 2008-2009. At 1.24 trillion US dollars out of 2010, they were 5 for each per cent higher than a year sooner. This next progression was, generally, the inevitable result of more noteworthy streams to making nations, which together with change economies – out of the blue exhausted a large portion of FDI streams (United Nations Conference on Trade and Development, 2011).

The decrease in FDI flows to developed economies used to be a fundamental purpose for a decline in typical world numbers. Europe and North America saw a decrease in inflows at - 27 per cent and - 33 per cent individually. FDI to making economies stayed secure at 653 billion US dollars and saw a 2 per cent broaden year-on-year.

Venture streams to Latin America, the Caribbean and making Asia climbed barely. FDI stayed level for Africa (United Nations Conference on Trade and Development, 2017). Despite the decrease, the United States obtained the lion's share of international FDI at 311 billion US dollars accompanied through China that noticed document inflows at 144 billion US dollars. In figure 12 we can see the top 10 countries that received the most FDI in 2017.

Figure 12: Countries with most FDI in 2017, (in US dollars billion)

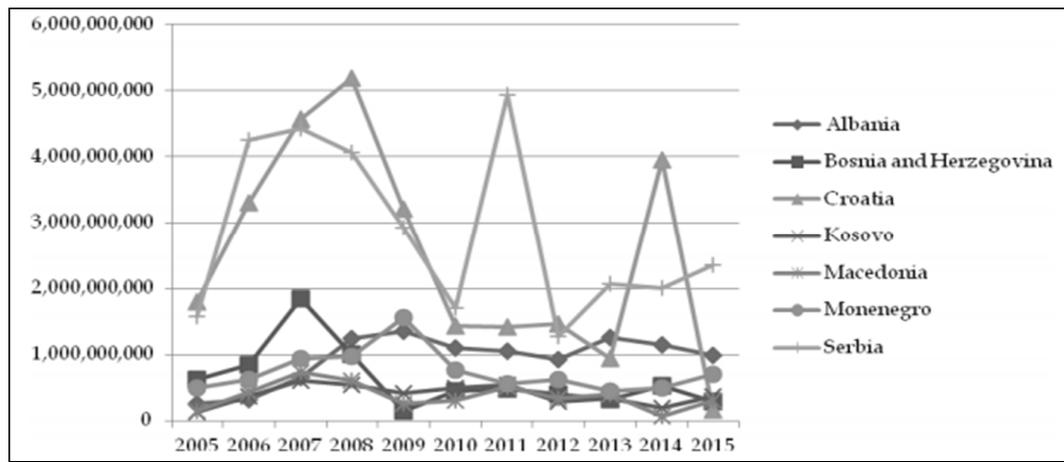


Source: United Nations Conference on Trade and Development (2017).

2.5 Foreign investments in Balkan

After the economic isolation that the Western Balkan experienced until the end of 1990s, countries liberalized their trade flows and turned to direct investment attraction policies. These policies implied via the Washington consensus needed to result in accelerated economic increase and significant increases in FDI to the entire region. Figure 13 presents the aggregate earnings from FDIs.

Figure 13: Foreign direct investment in the Western Balkans in the period 2005 -2015 (in US dollars)



Source: World Bank Group (2017).

As we can see in figure 13, the cumulative earnings of FDI are drastically distinctive between the given countries. The common FDI inwards stocks in the length from 2005 till 2015 was best in Serbia (2.867.717.816 US dollars) and the smallest in Macedonia (371.334.169 US dollars). These dissimilarities partly can be defined with the different economic institutions and specific absorptive potential of the countries, political events as well as one of a kind velocity of the privatization processes (World Bank Group, 2017).

FDI moves to Croatia and Serbia especially in 2010, while Albania saw its FDI ascend to in excess of 1 Billion shockingly, making it the second biggest FDI recipient country in the region after Serbia (United Nations Conference on Trade and Development, 2013).

FDI investments are also linked to the recent war in Yugoslavia, where Kosovo is the country which has experienced the most damage from the war. This also means that, because it is a recent state emerging from oppression and war, it has no tradition in institutions and businesses when all other states have been republics even in the time of Yugoslavia. Kosovo has been more oppressed by politics and it was left out from the

decision-making process in the time of Yugoslavia, and all this has continued to affect negatively the climate for foreign businesses.

3 FDI IN KOSOVO

3.1 Foreign investments in Kosovo

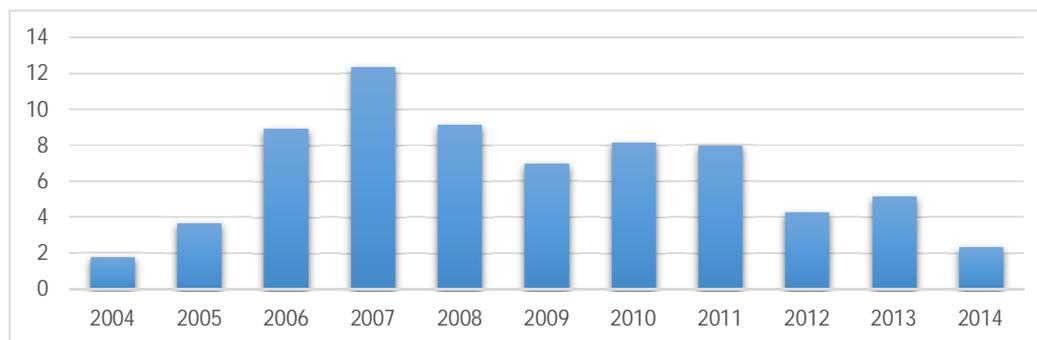
After the war, in the emergency phase of Kosovo's reconstruction, the number of potential businessmen and investors was very large. They saw good opportunities to develop their business immediately after the war, mainly in the supply of construction materials and consumer goods, as well as construction business. Researching potential opportunities for more serious business activities such as FDI was an additional motive (Kosovo's Economy, 2018).

Intensive contacts have been especially with members of the Kosovo Diaspora, which after many years had the opportunity to meet the new political and economic circumstances, and visions regarding the establishment of a partnership with the country's neighbours.

Aside from the banking sector, for example, the Raiffeisen Bank and Procredit, entered the Kosovar showcase toward the start of the progress stage, there are numerous of other foreign organisations operating in a variety of business areas. As indicated by the Business.

Registry information up until this point, there are 3,973 organizations of international and mixed proprietorship that have effectively utilized the chance to put resources into Kosovo. The expansive measure of international organizations working in Kosovo is a strong confirmation of the chances and advantages that the nation offers and furthermore speaks to a base of value items and a fruitful administration giving network (KPMG, 2017).

Figure 14: Foreign investments in Kosovo net inflows (percentage of GDP)



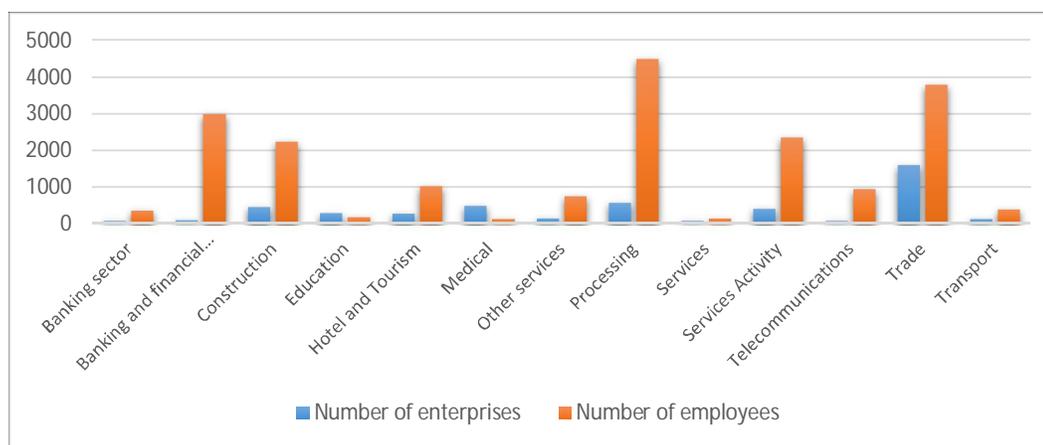
Source: World Bank (2017a).

In 2010, the assembling segment was the sector with the most significant FDI inflows (23.0 per cent of aggregate FDI). Other essential areas concerning the measure off inflows comprise of the money related field (banking sector/microfinances), which retained 22.1 per cent of the total FDI in Kosovo.

The FDI in the fund's connected segment is for the most part made out of the reinvested profit of budgetary organisations that work in Kosovo. The land part (15 per cent of aggregate FDI) and the development area (15 per cent of total FDI) additionally spoke to essential areas for the participation of FDI in Kosovo during 2010.

EU states are the countries with the highest share of Kosovo’s FDI. Specifically, Germany continues being the country where the majority of the FDI originate from, seconded by Slovenia in terms of FDI participation in Kosovo. A critical offer of FDI in Kosovo additionally originates from Austria and China. As we can see on figure 14 the highest investments in Kosovo was on 2007 in comparison with other years.

Figure 15: Number of foreign enterprises based on sectors and number of employees, 2017



Source: KPMG, 2017

By figure 15 we can see the main sectors where the investors have invested and number of employees that were employed. In processing, banking and financials and trade were the highest number of employees that were employed but the higher investment was on Trade in comparison with other sectors. We can see that on medical and education, Kosovo didn't have investments and this one is one of the most important for Kosovo country.

3.2 Motives for investing in Kosovo

The basic motives for investing in Kosovo are related to the market (48 per cent) and the cheaper manpower (20 per cent). An additional motive is the penetration in new markets

(15 per cent), return to Kosovo (9 per cent) and other motives (8 per cent). Most investors have stated that 89 per cent of their market is about Kosovo, 5 per cent with other Balkan countries, and 5 per cent with other countries.

The aforementioned facts can be justified by the fact that capacity investments has been modest and motivated to meet the demand on the Kosovo market. Conversely, it is to be expected that the most severe invites will necessarily reflect on the regional market due to the size of the Kosovo market. Even from the detailed responses to the open question as to what are the reasons for investing in Kosovo and how the necessary information to invest in Kosovo has been received, it seems that the primary needs were the emergency needs and because "the market is favourable". The challenges identified with the entrance of Kosovo's organisations in a piece of the rural market, caused by Serbia and Bosnia and Herzegovina settle an essential test for Kosovo in drawing in new FDI (Qorraj & Jusufi, 2018).

Unfortunately, these visits and initiatives found Kosovo in an unprecedented situation to respond to this concern: Lack of institutions, lack of legal infrastructure and authorities for information in public administration, significant difficulties in public services, lack of financial system and that time, especially the banks in existence, had an expressive discouraging impact. According to the data from the SOK statement in the post-war period, 318 businesses with foreign capital participation were registered (Statistical Office of Kosovo, 2007).

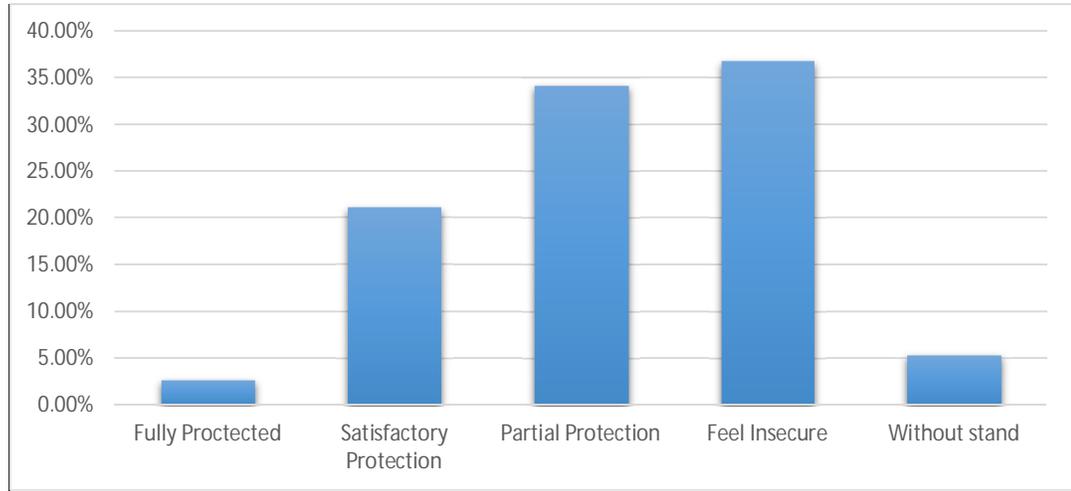
Capitalizing on the positive business environment, enduring macroeconomic circumstance and the open-door policy for various business areas, Kosovo is progressively turning into an appealing spot for investments (Mavraj, 2015). Therefore, the enthusiasm of international financial investors has been expanding in recent years. Kosovo has pulled in over 1 Billion EUR of FDIs in the previous five years. After a best in 2007 with 440 million EUR of FDI this for the most part on account of the strategy of privatization, a slight decrease has been experienced in 2008 and 20 of the overall money related downturn. In 2010 Kosovo had the positive advancement of FDI inflows achieving 311.2 Million EUR (Dervisholli, 2011).

3.3 Problems investors face in Kosovo

Perception on the level of enforcement of the rule of law presents an insecurity for investing in Kosovo. Responses from surveyed companies reflect the view that adequate investor and capital adequacy is not yet secured. In their opinion, Kosovo legislation is not yet sustainable and effective in terms of protecting the interests of investment and business development. Most investors have a feeling of insecurity or partial security (36.80 per cent) as it's shown on figure 16. According to investors, a multitude of obstacles of a general nature have a high impact on the willingness of potential foreign

investors to invest in Kosovo. Regarding this, the level of how much investors surveyed are considered protected by existing legislation testify the following responses:

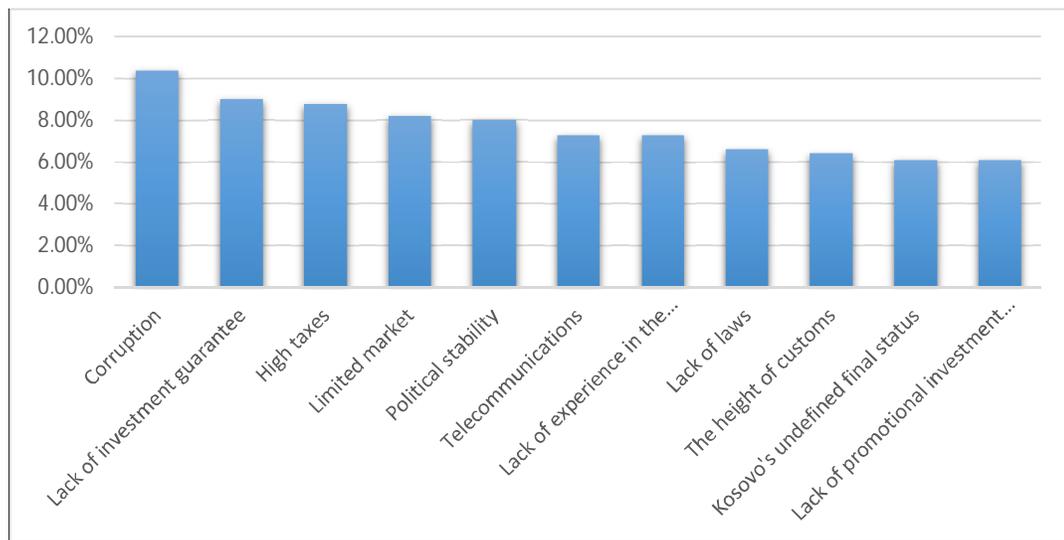
Figure 16: The security of investors in Kosovo, 2017, % of all respondents



Source: RIINVEST Institute (2017)

According to the results, these main obstacles have higher intensity in realization of foreign investments in Kosovo, as it is displayed on figure 17. By figure we can see that corruption is the highest one and the lack of investment guarantee, the most important for the investors is that they should have a guarantee where they are investing and low level of corruption but in Kosovo is still higher and it is difficult for investors doing business there.

Figure 17: Obstacles to foreign investment, 2015, , % of all respondents



Source: Kida (2015)

3.4 Investment promotion in Kosovo

To put in place several legal guarantees that are needed to encourage foreign investment, in April 2006 the Government of Kosovo adopted the Law on Foreign Investment (Law No. 02/L-33). According to this law, a foreign investor has the same treatment and rights as a local/domestic investor.

Kosovo Investment Promotion Agency (hereinafter: IPAK) has been created as an executive agency under the Ministry of Trade and Industry administration, regulated by the Law on Foreign Investments in Kosovo. Foreign investments in Kosovo will have direct impact on Kosovo's economic development by reducing unemployment and improving social conditions for Kosovo's citizens.

In many respects, Kosovo is one of the most attractive business places in the region. The biggest potential are mines, energy, agriculture and food processing sectors present good opportunities in attracting private investment.

The Government of the Republic of Kosovo is working to improve the investment climate in Kosovo. Institutions of the Republic of Kosovo have successfully built a stable macroeconomic environment. Kosovo has adopted EURO as a state currency and consequently eliminates the risk of Euro-zones. Moreover, the Government of the Republic of Kosovo conducts a stable and progressive fiscal policy.

IPAK is the essential government Institution supporting international interest in Kosovo. IPAK gives an extensive variety of assistance projects to enable worldwide organizations to accomplish their targets and the Agency is additionally in charge of the advancement of exports (State Portal of Republic of Kosovo, 2018).

The Agency gives support and assistance to outside investors, for example, offering extensive advice and consultancy from experts who consolidate their neighbourhood information with a comprehension of global business support to recognize reasonable property choices to oblige your activity in Kosovo support to acquire every single important endorsement from national and metropolitan experts in Kosovo to empower a quick business start-up furnish acquaintances with possibly appropriate accomplices with whom financial specialists can work together; and reply to different inquiries and concerns (Kosovo International Trade Guide, 2013).

IPAK is the primary Government Establishment carrying outside interest in Kosovo. IPAK was established in 2006. It is another office with modest number of staff and with a deficient spending plan. IPAK's financial plan for 2011 is 322,368 EUR. This sum is from Kosovo Consolidated Budget, while the amount used by worldwide associations, for example, World Bank BETA venture is 307,000 US dollars (Hasani, 2017).

Investor Attracting Activities is that IPAK provides aggregated information to help and advise investors on which sectors they can invest and the risks and benefits they may have. Currently, the Investment Promotion Agency of Kosovo has 12 employees (Dervisholli, 2011).

Reasons to invest (IPAK, 2017):

- VAT is 15 percent, 0 per cent of export tax.
- Tax on personal income varies between 0 -20 per cent.
- 0 per cent VAT or export duty.
- Corporate income tax 20 per cent.

Law on foreign investments (IPAK, 2017):

- Population – young and motivated, 70 per cent under 35 years of age.
- Flexible labour force, low personal income taxes. The mandatory contribution for personal pension is only 10 per cent.
- Euro is official currency.
- Unused natural resources– lignite, steel, zinc, ferronickel and fertile agricultural land.
- Safe banking system.
- Energy and mines.
- The construction of a new thermo-power plant with capacity of 1000 is expected.
- Access to free market of EU and CEFTA.

3.5 Privatization in Kosovo as a source of FDI

In this section will be examined about the privatization procedure in Kosovo and will be dissected three cases reviews that will be about PTK, KEDS, and PIA. Privatization is an elective method for conveying and picking the means for producing riches. Like this, it might be considered as dissemination of political and monetary power over the long haul (Bitzenis, 2009).

The principal motives of privatisation might be outlined in the accompanying (IPAK, 2017):

- The reduction of the state division.
- Improvement of wide share ownership.
- Greater efficiency within privatised 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 regulations and opportunities of private sector markets for capital and other resources.

3.5.1 Post Telecommunication of Kosovo

In 1959 the Steering Council of Yugoslavian PTT Communion decided to inaugurate The Telephone and Telegraph of Kosovo Post with 1115497/1-1959 being the decision number. Starting from the 13th September of 1990, whoever opposed Milosevic's politics, including Albanian and minority employees lost their jobs. In the wartime period in Kosovo, PTK's office supplies were stolen, damaged and some were completely demolished. However, in the post-war period, PTK, KFOR, and UNMIK teams negotiated to assist the return of the initially fired employees to their workplaces with legal terms. Despite the fact that the representatives were empowered to come back to their working environments, postal administrations were unattainable; in the meantime, the Telephony and Telegraphy of Kosovo together with worldwide associations were almost out of utilization. In any case, following six ceaseless long stretches of given endeavours, the Post of Kosovo, the Telecom of Kosovo and VALA as a versatile system administrator were shaped as PTK's three business segments. Kosovo's Telecommunications Regulatory Authority has authorized these business segments (PTK, 2017).

PTK J.S.C. was a conversion of PTK into a joint-stock-company, which happened on 29 June 2005. This joint-stock-company has an investment of 550 million euros for a business plan of 5 years. The missing information on the telephony code has fundamentally flawed the progress of PTK's development when compared with other operators in Kosovo and in other countries (PTK, 2017). PTK became a part of the privatization wave by Kosovo's government.

After the investment of the IPKO Company from Slovenia in the telecommunication field, Kosovo's telecom company, in particular, VALA (mobile phone department) was forced to invest in better services for citizens due to competition from IPKOS. This competition continues today and this is a good indicator that competition in every area increases the quality of service. After a success of IPKO Company and their big gains in the Kosovar market, other investments started in this field, which means that competition is ever increasing and the services I have now been competing in European Union countries (PTK, 2017).

3.5.2 Privatization of distribution and supply network of KEK (KEDS)

The Republic of Kosovo has only one Power Corporation known as KEK i.s.c - Kosovo Energy Corporation. A vertical integration legally takes place in KEK i.s.c from 2005. KEK underwent changes in diverse time periods. For quite some time, ex-Yugoslavia shared its power system with Kosovo. Consequently, Kosovo concentrated on producing energy mostly from coal and from water to a very small extent. The power supply did not only emerge from Kosovo's plants but from other ex-Yugoslavian countries also. Today, the Corporation functions on producing energy and supply with energy, and

making sales and providing customer care. In order to complete these functions, KEK is divided into four main sections (Ministry of Economic Development, 2017):

- mines,
- generation,
- supply,
- distribution.

Distribution sector

After the war, the Electricity Distribution Sector was demolished and outdated and it was not sufficient for the economic development of Kosovo, where citizens and businesses in particular had many electricity problems due to this distribution (Ministry of Economic Development, 2017). This added to the causes for Kosovo to be perceived as an unfavourable place for business because stable power supply is essential for any business activity, especially the sector of manufacturing.

Distribution Sector after Privatization:

The Distribution Sector has been privatized and now it provides more quality service to citizens by adjusting the old and damaged system from the recent war and by transforming into a new and modern system with little loss. Customer care has increased by fixing problems in case of breakdown networking, consumer information, online systems and transparent payments, more specific services to businesses.

3.5.3 Prishtina International Airport

Pristina International Airport is the only airport terminal in the Republic of Kosovo. It started its activity in 1965 (Limak, 2018). At first, it's functioned as a military air terminal, and later it operated as an airport to meet the general population needs.

After the war in Kosovo in 1999, until 2003, the all-inclusive multinational power, KFOR, managed the Pristina International Airport, and after 2003 it got the status of the non-military faculty plane terminal. Subsequent to exchanging from military to regular citizen specialists, the airplane terminal was under the supervision of the province of Iceland, a nation that last year confirmed this air terminal for consistence with security conditions and criteria (Airport Pristina, 2016).

All through this period, the organization put resources into different undertakings more than 50m euros to transform it into a protected airplane terminal for the tasks of the biggest worldwide aircraft and to modernize it to proceed with time and different air terminals in the locale. Frameworks that were underinvestment and deserving of note are as per the following: the return of the runway for 16 million EUR, runway lighting

cost of 6 million EUR, fencing and the street to the edge more than one 1 Million EUR, and numerous other littler ventures (Airport Pristina, 2016).

The key issues related to the privatization of PIA are as follows:

- Enlargement of Pristina Airport capacities
- Increasing the capacity of this airport continuously

Pristina International Airport is purposely vital for Kosovo's economy, and as the primary worldwide plane terminal of the country, it fills in as the crucial entryway of the Republic to whatever is left of the world. PIA is one of the busiest plane terminals in the Balkans, serving 1.2 million explorers and dealing with 14,000 aircraft assignments in 2008. While clearly, Pristina International Airport can work enough concerning open property and operational undertaking, the Government of Kosovo plans to ensure that the Airport fulfils its full financial and utilitarian potential, while meanwhile remaining centred with various plane terminals in the region (Airport Pristina, 2016).

On 7 February 2011, the control of the execution of the understanding between the Government of Kosovo and Limak Kosovo International Airport SH.A. (LKIA) for the exchange of Pristina International Airport - Adem Jashari (ANP-AJ) to LKIA, the French Consortium Limak-Aeroports de Lyon, has begun (Airport Pristina, 2016).

After investing around 100 million in Pristina airport, it certainly has had an impact on Kosovo's economy, firstly the Pristina airport is now more competitive with other countries in the region. Under the leadership of Limak airport now operates 24h (Airport Pristina, 2016). Of course, there has been a great impact on the employment of citizens as the relationship has had a drastic change along with the infrastructure where many other departments are now active and has expanded much where employment has been needed to operate everything in order, where the number of passengers has also increased.

The analysis of this research proves that at the time when these three enterprises were managed by state institutions both before and after the transition they did not have the capable or skilled employees to manage the units of the companies, did not use the resources available efficiently, they did not follow the business rules but political directions, the workers were not well paid and therefore did not fight for the company's best performance, they were not aware of the market economy demands, public utilities in most cases you lack of proper staffing in the right positions, lack of training, lack of managerial skills and experience, obsolete technology, lack of financial resources.

In the democratic world, the privatization system has increased the services of customers to the next level as well as in these three cases in Kosovo by improving the capability and quality of products and services, increasing efficiency and respecting the environment, creating and increasing market competition, decreasing corruption,

securing macroeconomic stability, absorbing foreign investors, increasing competition and collapsing monopoly structures, raising the standard of living for the population, benefiting the government from privatization, and continuing taxes.

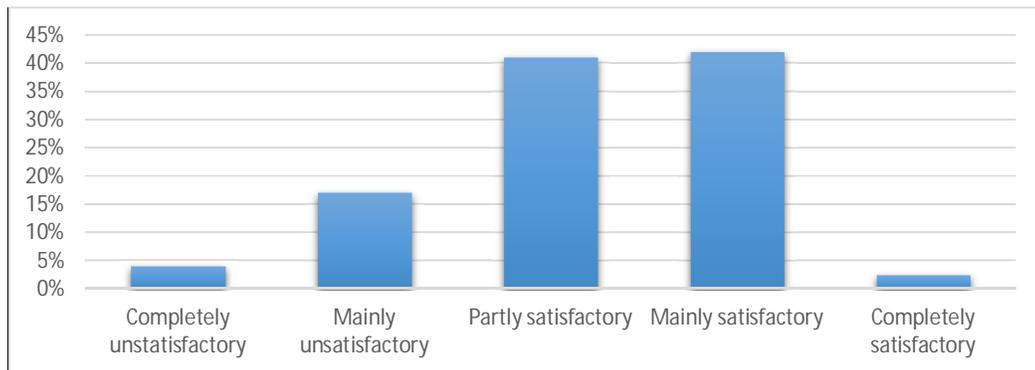
3.6 Potential foreign investors – project investigation and analysis

This part combines the results of studies with international companies that are missing in Kosovo. The respondents include some of the most notable global companies, yet their company names will not be mentioned due to security reasons. The interview with these companies is done in light of their present contact with IPAK. Respondents include these areas: establishment improvement 25 per cent mining, trade and agriculture 17 per cent worker industry, media interchanges 8 per cent (IPAK, 2017).

Based on the figure 18, most of them are invested in infrastructure, these investments have been made to make Kosovo connect with other countries in the region where it has and a strategic advantage which should be perceived as an economy where economic development is going.

Investors come from the following countries: USA 8 per cent, Oman 8 per cent, India 8 per cent, UK 8 per cent, Switzerland 8 per cent, Republic of Korea 8 per cent, Turkey 17 per cent, China 8 per cent, Croatia 17 per cent, Bulgaria 8 per cent (IPAK, 2017).

Figure 18: The assessment of the level and quality of the information regarding business environment, 2017, % of respondents

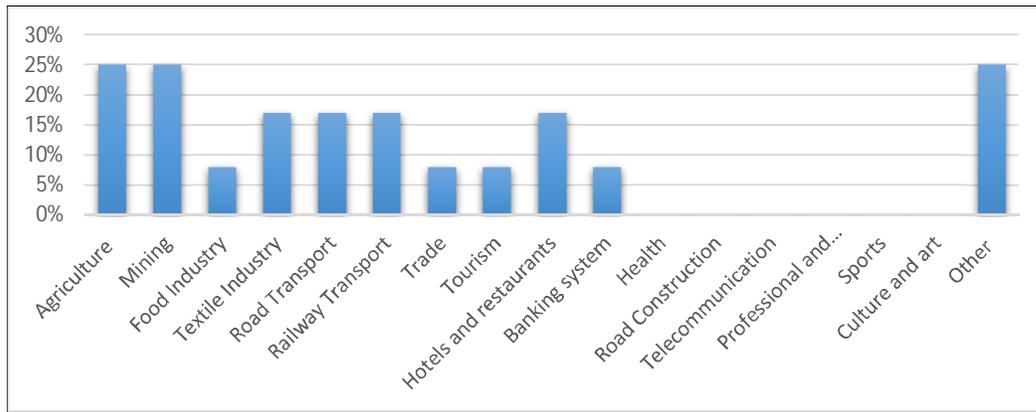


Source: KPMG (2017)

A large portion of the respondents stated that they heard of Kosovo from their peers (42 per cent), partners (33 per cent), web/sites and daily paper (25 per cent), and so on. The choice of television is not ranking at all and here is the issue of how effective is the television campaign “Kosovo – Young Europeans” (KPMG, 2017).

In figure 19 we can see where the country see most important to invest and it is shown that in agriculture and mining in more important to invest in comparison with other sectors.

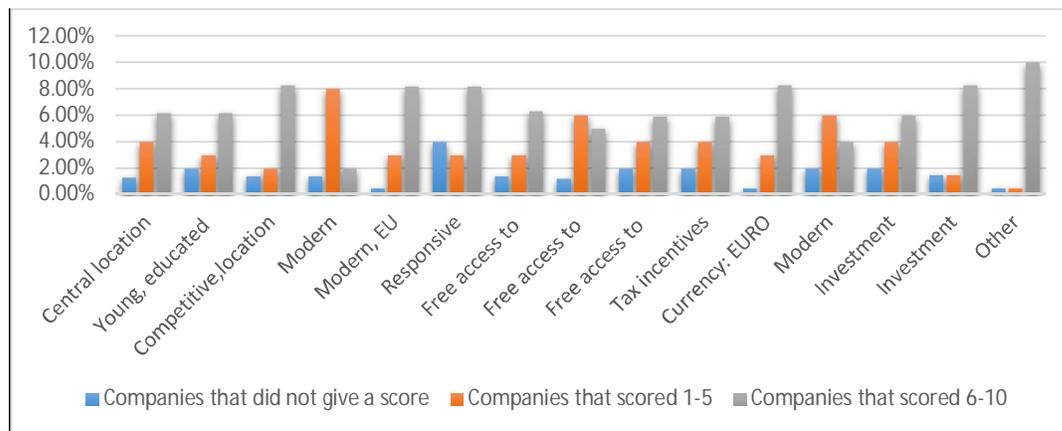
Figure 19: Some of the most important areas to invest in according to the future investors, 2016, % of respondents



Source: KPMG (2016)

Based on figure 20 respondents said that areas of the most interest in Kosovo are: great investment openings, focused, minimal effort and very much talented work compel, current EU-perfect enactment, responsive saving money framework, cash EURO, venture motivating forces, and so forth. In comparison with agriculture, mining and others, health, road construction, telecommunication, sports and culture and art doesn't have to much interest to invest and based on statistics are the lowest one.

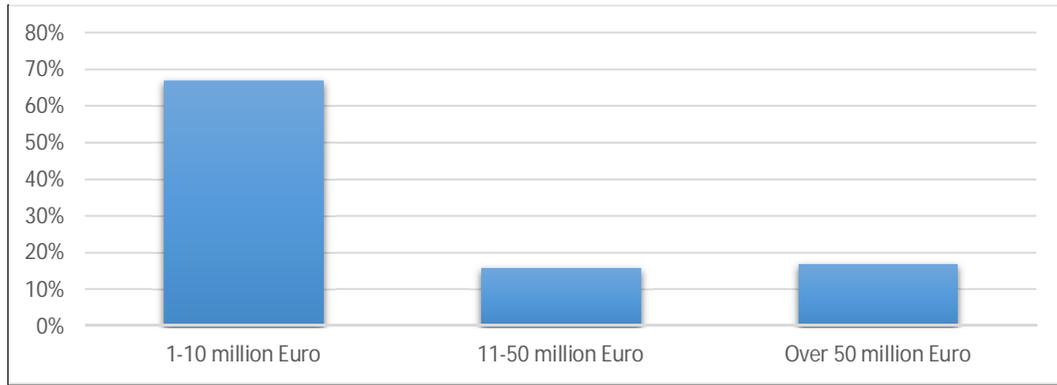
Figure 20: Which is your area of most interest for investment, 2016?% of all respondents choosing a specific category



Source: KPMG (2016)

Based on figure 21 more than 60 per cent of respondents addressed that the proportion of the investment they are considering is 1-10 Million EUR, while 16 per cent declare - 11-50 Million EUR and 17 per cent - over 50 Million EUR (KPMG, 2016).

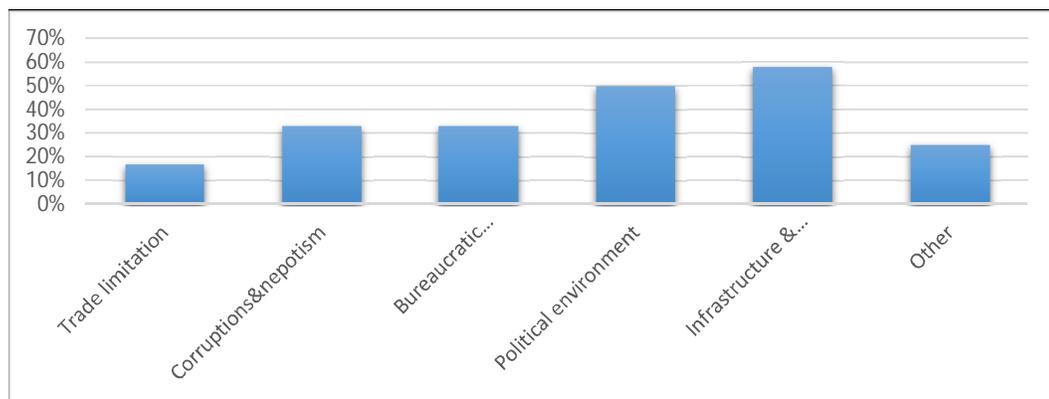
Figure 21: The size of the investment that foreign companies are considering to invest, % of all respondents



Source: KPMG (2016)

The respondent companies said that the principle purposes behind the hesitance to put resources in Kosovo are: infrastructure and physical conditions (58 per cent) trailed by political condition (50 per cent), corruptions and nepotism (33 per cent), bureaucratic procedures (33 per cent), and so on as it is shown on figure 22 (KPMG, 2016).

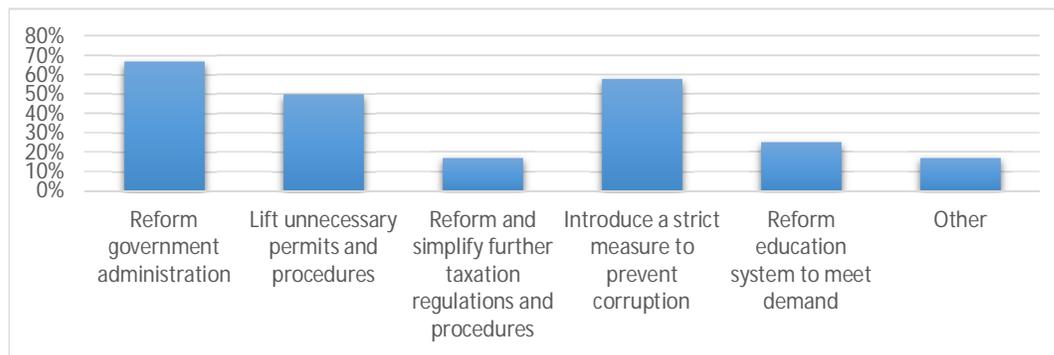
Figure 22: Main reasons for the reluctance to invest, % of all respondents



Source: KIESA (2013)

As it is displayed on figure 23, over 60 per cent of respondent companies expressed their wish to from the Legislature of Kosovo to change government organisation taken after by 58 per cent to acquaint a strict measure with averting corruption; half to lift pointless licenses and methods, and so forth.

Figure 23: Main incentives required by foreign that government of Kosovo should consider, % of all respondents



Source: Hasani (2017)

3.7 General overview of business environment in Kosovo

In Kosovo business conditions gives in excess of a couple of relative preferences that are essential for a prosperous private division and furthermore to draw in FDI in the enterprises for exchange, for example: The duty approach is straightforward and has low rates, and work showcase rigidities are low, while in the meantime compensation are much prudent than the district. This forehand, when contrasted with the region, is basic for pulling in outside financial specialists, in more detail we can see on table 6 the business environment in Kosovo:

Table 6: Business environment in Kosovo – overview

Strengths	Challenges
<ul style="list-style-type: none"> – Low labour cost – Euro, official currency – Open access to markets of EU,US,CEFTA – Low taxation – Strategic location and developing infrastructure – Banking System 	<ul style="list-style-type: none"> – Not stable economy – Political problems – Visa regime – Hesitation for co-operation from neighbouring neighbours' – External competition – Delays in recognizing the state of Kosovo from all EU members

Source: Own work.

According to Investment Promotion Agency, reasons why to invest in Kosovo are:

Youngest population in Europe with an average of 25 years old, Kosovo has the youngest population in Europe. In Kosovo, the official language is Albanian and Serbian, and English and German are widely used.

Thus, the number of English-speaking Kosovars is far over the local normal. Around 25 per cent of Kosovars live in the European Union: for the most part in the German-speaking nations. Their linkages with Kosovo, including business, are continuous. The outcome is by and large the most multilingual society in the Balkans (Overview, 2018).

The school system and the high education have been changed in the last years emphasizing the significance of economic development, and in this way making the basic precondition for the progression of learning-based society out of the young population. Any outsider who has visited Kosovo will notice the unique dynamic and enterprising spirit of Kosovars.

Availability of skilled and cost-effective labour: The proportion of monthly cost of energy is slightly over 250 Euro. Besides, paying worker contribution in Kosovo is free of excessive social commitments, dissimilar to those in the countries of the investors. The principal obligations are those for single annuity sparing records, which are covered 5 per cent by the management (the company) and 5 per cent by the employee him/herself... In addition, the Kosovar Government and the global network in Kosovo have set up professional preparing programs, which advantage specialists and businesses, offering along these lines an exceptionally very much talented work power to potential investors (Trading Economics, 2018b).

EURO as the official currency: In Kosovo, the Euro is the official currency, thereby reducing money and exchange rate risk. The EURO became the official currency used in Kosovo from January 1st 2002, this way eliminating the currency and exchange rate risk. Specifically, the euro gave Kosovo an essential favourable position over its rivals in the region by making it more appealing to outside investment and by bringing monetary and macroeconomic strength that numerous nations in the area need. Also, it empowered Kosovo to offer the limited exchange costs in the area. (US Embassy in Kosovo, 2017).

Open access to markets of EU, US and CEFTA: Kosovo receives the three most valuable benefits from trade liberalisation, a better investment environment, namely improved export opportunities and stable relations with its neighbours. Besides the bilateral free trade agreements signed with Albania, Bosnia and Herzegovina, Croatia and Macedonia, Kosovo also signed the Central European Free Trade Agreement (CEFTA) in December 2006. As a part of CEFTA, Kosovar exporters enjoy duty-free access to the regional market comprising over 25 million customers (GAP, 2011).

Low taxes Kosovo has a simple and straightforward tax system. International Accounting Standards apply:

Tax burden is low (Republic of Kosovo, 2017):

- Personal earning tax is 0-10 per cent.

- VAT 16 per cent.
- Mandatory contributions for employees in 5 per cent of gross salaries.
- Corporate income tax 10 per cent.

Key area and creating foundation Kosovo: Are geographically situated in the middle of the Balkans. Kosovo's capital city Pristina is one hour driving time to any neighbouring country. Continuous structure ventures incorporate present-day highway to Albania, Serbia and Macedonia (GIZ, 2017). Also, Kosovo has railroad links with Serbia, Macedonia and further to the Greek Port of Thessaloniki.

Sound banking system - The banking sector was changed and based on absolutely new establishments. Every single monetary foundation in Kosovo is private, and furthermore every one of them has stayed consistent in spite of the money related emergencies. The Banking and Payments Authority of Kosovo (BKP), established in November 1999, is an autonomous body which goes about as a Central Bank of Kosovo and effectively controls the heating and protection segments (Central Banking Authority of Kosovo, 2017). Three out of Banks in Kosovo are remote banks, including the: Pro Credit Bank, established upon the activity of a few overseeing International Financial Institutions. Raiffeisen Bank of Austria and KassaBank (neighborhood bank procured by Ljubljanska Banka of Slovenia), and furthermore NLB Bank. All banks and insurance agencies are private (Central Banking Authority of Kosovo, 2017).

Also, in 2015 the interest rate in the banks of Kosovo decreased. Kosovo is well endowed with natural resources and agricultural land. The segment of farming, development, sustenance and wood preparing, IT, material, car parts, energy, and mining offer the most open doors for outside speculators (Central Banking Authority of Kosovo, 2017). Kosovo offers various speculation openings crosswise over various monetary areas, including direct ventures and venture inside the privatization procedure. A further and energizing plausibility, having at the top of the priority list the young, multilingual and skilled population, is outsourcing. A few organizations have outsourced their IT capacities or bolster focuses of Kosovo (Central Banking Authority of Kosovo, 2007).

The World Bank has established supportive strategies for Kosovo since 2000, while it is not yet possible to provide regular funds on behalf of development loans through the International Bank for Reconstruction and Development (hereinafter: IBRD), the International Development Association (hereinafter: IDA), the International Financial Corporation (hereinafter: IFC) and other institutions that operate within the framework of the WB, for which the latter cannot fully realize its capacity to assist the Kosovar economy. In addition, the WB has two sources of financial support for Kosovo that can be used in its post-war circumstances (World Bank Group, 2017):

- The post-conflict fund, from which 2 million US dollars is allocated to Kosovo.

- The sector of the IBRD's net worth of 60 million US dollars. These funds are dedicated to supporting Kosovo's reconstruction.

In its action plan in Kosovo, the WB reveals its programs in the development of small grants for various subjects to help develop their activities. In spite of the great assets invested by the WB for Kosovo, little has been noticed in the development of the economy and the creation of new jobs. The WB also contributed by supporting budget consolidation of Kosovo. A 5 million US dollars economic grant was committed for the creation of a functional budget management system and the establishment of a lending bank (Konxheli & Sahiti, 2012). The program for reconstruction of various farms in Kosovo amounted to 25 million US dollars, of which the World Bank secured a 10 million US dollars grant and the Netherlands 1.8 million US dollars (World Bank Group, 2017).

In addition to the education and health financing project, it also paid great importance to energy stabilization where the World Bank budget is worth 2.5 million US dollars, while the emergency road project is worth 5 million US dollars (Konxheli & Sahiti, 2012).

Table 7: Kosovo's ranking in Doing Business 2011

Country	Macedonia	Montenegro	Albania	Croatia	Serbia	Bosnia	Kosovo
Overall rank	38	66	82	84	89	110	119
Starting business	5	51	45	56	83	160	163
Construction permits	136	161	170	132	176	139	173
Registering property	69	116	72	110	100	103	65
Protecting investor	20	28	15	132	74	93	173
Paying taxes	33	139	149	42	138	127	41
Trading borders	66	34	75	98	74	71	130
Enforcing contracts	54	135	89	47	94	124	155
Closing business	116	47	183	89	86	73	31

Source: World Bank and International Finance Corporation (2010).

Kosovo has more problems in making business start-up because it is needed to replace the tax number previously which is needful with a fiscal number as it is shown in table 7. Likewise, it takes more time for requires the assessment organization initially to investigate the business premises (Bunjaku, 2015). The figure shows five indicators that need instant improvement. They are, Protecting Investors, enforcing contracts, starting a business, trading across borders and managing with construction permits.

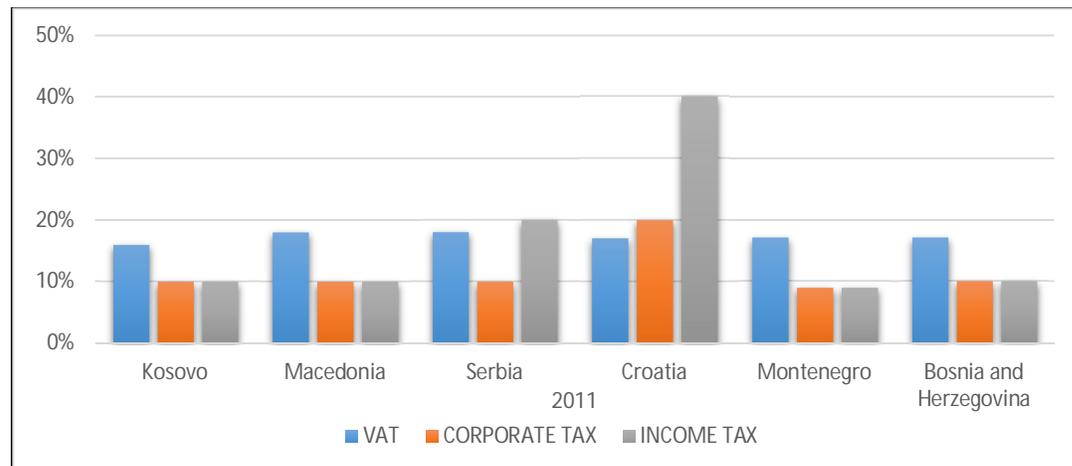
3.7.1 Tax Structure

The Kosovo’s tax policy is oriented towards uncomplicated regulations that ensure broad tax basis and prevent tax avoidance. Taxes vary based on type of business and annual turnover (Republic of Kosovo, 2017).

The tax administration applies three main tax regimes as it is shown on figure 24:

- Personal Income Tax.
- Corporate Tax.
- Value added Tax.

Figure 24: Comparison of tax system in the region



Source: Gashi (2011).

3.8 Infrastructure

3.8.1 Legislation

In order for the economy to function on the basis of free market, currently in the commercial sector in Kosovo nine regulations were adopted based on *Kosovo Economic Reform Program (ERP) (2017)*:

- Business organization.
- Contracts for selling goods.
- Foreign investments.
- Rules of security and supervision.
- Basic labour law.
- Payment transaction.
- Establishment of office for guarantees.
- Standards for financial reports.
- Guarantees.

The other regulations expected to be adopted include:

- Mortgages.
- Bankruptcies.
- Competition protection.
- Intellectual properties.

3.8.2 Transport

Kosovo has a proper road infrastructure which meets the standard of various business activities. The road network comprises 630km of main roads (Pantina & Namani, 2008). In charge of the highway and regional roads is the Service of Transport and Interchanges and District. With the development of motorway with Albania, Kosovo will be a vital point associating Western Europe with the Adriatic Ocean.

3.8.3 Air

Kosovo has a single airport, the Airport of Pristina "Adem Jashari", which is one of the busiest airports in the region. The airplane terminal offers flights to the most imperative European focuses additionally in America (PIA, 2017).

As well as other transport as well as air transport and passenger transport in addition it makes the transport of goods (cargo) of different purposes. Pristina Airport offers a fast, effective and professional transfer of cargo. Airport examines each cargo through radiation - X. Depending on the weight of the load and charge the fees are different (PIA, 2017).

Pristina Airplane terminal gives reasonable conditions to the vehicle of products that require uncommon treatment, having coolers for capacity of merchandise. Pristina airplane terminal after reaching transport goods for company must make its appeal within 24 hours otherwise, they have to pay extra.

3.8.4 Railway

Kosovo have a rail system of 330 km that covers the whole region of Kosovo by interfacing the north and south and east-west (Pantina & Namani, 2008). Railway framework with the exception of traveller transportation for private and authority offers different transportation of merchandise for business purposes, in Kosovo and abroad. Such transport is conveyed by rail, as well as in mix with different sorts of transport. Kosovo Railroads empower the development of private modern rails of the rail line lines to the nation of the client. Kosovo railroads permit the development of private modern rails from the rail line lines to the goal of customers (Trainkos, 2016).

3.9 Trade regime

Kosovo foundations have been a part of strategies and endeavours to exchange progression in the area, especially those started by Stability Pact. In spite of the fact that there is not an equivalent job in this system, Kosovo made its unmistakable duty to regard the obligations of the Memorandum of Understanding on Trade Liberalization and Facilitation, marked by the nations of Eastern Europe in 2001 under the sponsorship of the Stability Pact. A definitive target of this action was the execution of a reciprocal exchange assertion for progression among the nations of the locale (Jusufi, Mahmutaj, Jusufi, & Jusufi, 2015).

As indicated by the Memorandum, the Memorandum on Trade Liberalization and Facilitation were official for all signing parties, with the exception of Kosovo which case just states were encouraged to sign exchange progression on the off chance that they consider this as supportive. Be that as it may, Kosovo has been dynamic in this procedure, by marking Trade progression with Albania first, and later with Macedonia, Bosnia and Herzegovina and Croatia (Jusufi, Mahmutaj, Jusufi, & Jusufi, 2015). The whole process of negotiations ended with the expansion of CEFTA agreement with Southeast European countries in 2006, thus converting the bilateral agreements in a single Trade liberalization. Kosovo became an equal member with full rights.

Although Kosovo as part of CEFTA agreement has certain responsibilities, there are many positive aspects of this process. One of these benefits is the free flow of goods and services. The goal of CEFTA is the creation of rules and mechanisms by which they governed trade outside the region. These rules have been harmonised with the principles of EU and World Trade Organization. Experience acquired in the business with the area will make Kosovo competitive products to the EU market and beyond (Jusufi, Mahmutaj, Jusufi, & Jusufi, 2015).

Also, Kosovo in this process will shape the institutions and policies that are by the requirements of the World Trade Organization. Another objective of CEFTA is to make an appealing territorial market, which will create new open doors for nearby

organisations or outside financial specialists (Ministry of Economic Development, 2015). This dimension is particularly crucial for Kosovo, as FDI is of paramount importance for improving the competitive position of Kosovo industry in foreign markets.

4 RECOMMENDATIONS

Economic improvement is not enough to handle the challenges that Kosovo faces, alike to high state and high deficit. Though there are regularly foreign investments in Kosovo since the end of the war, they were at a low level up to now.

In Kosovo, the low-level of investments is a result of a combination between considerable procedural obstacles, corruption in the government, lack of energy sustainability and inadequate road infrastructure. Although the government of Kosovo s have invested within areas such as energy, water system, roads, railways, telecommunications etc., there's still a need for further investments, and these measures are needed to help the Kosovo Government's main program.

One of the measures undertaken to increase the FDI in Kosovo is the improvement of Kosovo's physical infrastructure. This consolidates highways, control, railways, and water supplies, communicate correspondences, et cetera. The idea of the structure is an essential FDI determinant. The point of convergence of Kosovo associations should be decisively on lanes and railways which connect Kosovo with the region and Europe. In addition to utilization of current economic zones and business parks should fill in as a model for the authority of the country as an essential errand that impacts the making of positive conditions for business.

A critical condition for financial improvement is political stability.

- Strict implementation of the adopted legislation.
- Strengthening popularity-based procedures.
- Assets for national security.
- Development of resilience are critical components that have a strong effect on investment environment.

Construct a straightforward and responsible arrangement of administration at all levels. Execution of laws and growing the quantity of judges and investigators for 80 per cent are important segments that fundamentally decrease corruption. There is need to emphasize the substance and meritocracy to reduce the level of nepotism.

Reform of public administration. Open organization is the assurance of the Government. An efficient common administration reorganization is required and furthermore expanded and advanced based on meritocracy and skill (enrolment process).

Reform of the education system. Instruction is a motor for development and advancement. The commitment of some expert counsels who will arrange understudies in light of their expert aptitudes could build the quality. Due to appeal there is have to expand the number of understudies up to 300 who finish the entry-level positions in various undertakings.

Increase the capacity building of IPAK. There is the requirement for sufficient human and budgetary resources to help this office function appropriately and effectively, reassuring the advancement of the staff up to 20 members, and funding up to 1 Million EUR until 2015.

CONCLUSION

Kosovo, as a country experiencing transition - moving from a semi-cantered system of economy to a free market economy - is said to be one of the poorest nations in Europe, where practically 10 per cent of its people live below the poverty line (World Bank Group, 2013). Despite on-going positive developments, the high unemployment rate, trade deficit, the solid reliance on remittances, the discrepancy between Kosovo's demand for work and supply of work, present great challenges in Kosovo's economy and overall well-being of the population.

Furthermore, it is vital for Kosovo's legislature to utilize mechanical arrangements as methods for accelerating economic development. The bulk of Kosovo's population, to be specific 53 per cent, is younger than 25, and hypothetically, these youthful people will become future labourers, and add to the nation's economy. Be that as it may, the approach producers have neglected to give conditions to these youngsters to understand their maximum capacity.

Kosovo's legislature has adopted the National Development Strategy, which expresses that after the adjustment and state building stage, the nation needs another improvement procedure which will address difficulties that are preventing the economic development and progress. It is truly and exactly obvious that modern strategies are somewhat important for economic development. All things considered, a conclusion take a gander at the data produced by this examination directed on Kosovo's financial related issues demonstrates that there are estimates that can be actualized to prompt the coveted changes in the path segments with development potential work.

Keeping in mind the end goal to handle the fundamental monetary and social issues that Kosovo is looking throughout recent years, arrangement producers need to, among others:

- Provide support and particular rules and duty administration to help SMEs improvement and export advancement.
- Eliminate legislative barriers to help institutional improvement and business-accommodating conditions.
- Apply tax reductions for organizations that employ a substantial number of individuals.
- Close the Kosovo A power plant because of its adverse effects to the environment and health of the population.
- Establish a powerful program for Trepca Complex.

Regardless of the way that these measures speculatively may sound straightforward they require the will and resilience of policy makers to truly change the lives of Kosovo citizens by participating in activities that bring advancement and success.

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APPENDIX

Appendix: Povzetek (Summary in Slovene language)

Gospodarstvo Kosova se je po ločitvi od Srbije postopoma preoblikovalo iz socialističnega gospodarstva v kapitalistično gospodarstvo. Vendar pa se kljub številnim reformam v delovanju gospodarstva in poslovnega okolja Kosovo še vedno sooča s številnimi izzivi na področju gospodarskega razvoja in razvoja poslovnega okolja, med katerimi je tudi počasno prestrukturiranje posameznih podjetij in panog. Hitrejši gospodarski razvoj naj bi spodbudile številne politike, predvsem pa tudi odpiranje Kosova tujim trgov, še posebej s pomočjo tujih neposrednih investicij.

Cilj magistrske naloge je preučiti vlogo neposrednih tujih investicij (v nadaljevanju NTI) za gospodarski razvoj na Kosovu in preučiti tudi vlogo države pri spodbujanju tujega kapitala, da investira na Kosovo. Vprašanja, ki jih bom poskušala rešiti z raziskavo, so razdeljena na dve širši področji: v prvem delu bom preučila vlogo NTI na splošno, drugi del pa se bo osredotočil na Kosovo. Natančneje bodo obravnavana naslednja raziskovalna vprašanja:

1. Kakšna je vloga NTI za širši gospodarski razvoj?
 - a. Zakaj so neposredne tuje naložbe pomembne za gospodarski razvoj, kako pospešijo gospodarski razvoj?
 - b. Kaj pritegne neposredne tuje naložbe v določeno državo? Kateri so dejavniki privlačnosti lokacije?
 - c. Kateri so ukrepi politike, ki jih države uporabljajo za spodbujanje neposrednih tujih naložb / pritegnitev neposrednih tujih naložb?
2. Kakšna je vloga NTI za razvoj Kosova?
 - a. Katere so glavna značilnosti gospodarskega razvoja Kosova?
 - b. Katere so bile glavna značilnosti neposrednih tujih naložb na Kosovu do danes, kam so investirali in zakaj? Kakšni so bili učinki NTI?
 - c. Kakšne spodbude so bile na voljo vlagateljem? Katere druge politike bi bilo mogoče uporabiti za učinkovitejšo uporabo tujega kapitala za spodbujanje razvoja?

Metodološko raziskava temelji na pregledu literature, pri katerem se opiram predvsem na metode deskripcije, analize in sinteze obstoječe literature. Pregled literature je tako temelj tako za prvi del naloge, v katerem postavljam teoretične temelje in opisujem značilnosti razvoja Kosova, kot tudi drugi del naloge, kjer analiziram vlogo NTI za razvoj Kosova. Glavni viri so različni znanstveni člani in poročila različnih razvojnih

organizacij, od Svetovne banke, UNCTAD, IMF, WTO in številnih drugih, kot tudi virov, ki so jih pripravile različne organizacije s Kosova (Centralna banka Kosova, Statistični urad Kosova, ministrstva in druge).

Glavne ugotovitve naloge kažejo, da so tuje neposredne investicije pomembne za prihodnji razvoj Kosova, vendar pa ima Kosova z vidika privlačnosti za tuje investitorje še številne težave. Kosovo mora predvsem izboljšati poslovno okolje, znižati davke za zagonska podjetja, aktivno reševati številne temeljne infrastrukturne probleme, vključujoč težave s stabilnostjo dobave električne energije. Kosova mora tudi poenostaviti administrativne postopke, predvsem tiste, ki otežujejo ustanavljanje podjetij.