UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER`S THESIS

AN ANALYSIS OF OPPORTUNITIES FOR AND BARRIERS TO FOREIGN DIRECT INVESTMENTS IN KOSOVO

Ljubljana, October 2020

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LIST OF ABBREVIATIONS

AFS – American Farm School
CBK – Central Bank of Kosovo
CEEC – Central Eastern Europe Countries
CEFTA – Central European Free Trade Agreement
CPF - Country Partnerships Framework
EBITDA – Earning Before Interest, Taxes, Depreciation & Amortization
EU - European Union

FDI – Foreign Direct Investment
GDP – Gross Domestic Product
GIZ – Gesellschaft fur Internationale Zusammenarbeit
IADK – Initiative for Agricultural Development in Kosovo
IAMS – Integrated Asset Management System
ICT – Information and Communication Technology
IMF – International Monetary Trade
IPPC – Integrated Prevention and Pollution Control
ISO 14001 – International Organization for Standardization for Environmental Management
ISO 9001 – International Organization for Standartization for Quality Management
KIESA - Kosovo Investment and Enterprise Support Agency
LAB – Laboratory for Business Activity
LED – Local Economic Development
MT – Metric Ton
MTEF – The Medium-Term Expenditure Framework
NDS – National Development Strategy
NIPSAA – National Program Implementation of the Stabilization and Association Agreeement
NLB – Nova Ljubljanska Banka
NPER – National Program for Economic Reform
OECD – Organization for Economic Cooperation and Development
OHSAS ISO 18001 – Occupational Health and Safety Management System
PPP – Public Private Partnerships
SAA – Stabilisation and Association Agreement
SCDA – Supervisory Control and Data Acquisition
SDC – Strategy and Development Consulting
SLSG – Strategy for Local Self Government
TEB – Turk Ekonomi Bankasi
UNCTAD – United Nations Conference for Trade and Development
UNDP – The United Nations Development Programme
USA – United States of America
USAID – United States Agency of International Development
VAT – Value Added Tax
WB – Western Balkan

INTRODUCTION

Foreign direct investment (hereinafter: FDI) is considered an essential act in the host countries`economic development. Capital accumulation, transfer of advanced technology, know-how skills, and other relevant, tangible, and intangible assets that help the host country`s economies integrate into international trade and improve production quality due to competition. Thus, the government tries different incentives to attract FDI and balance the foreign and local businesses`economic performance on value, job creation, export, regional market expansion, transfer of innovation, fair competition, and political independence (UNCTAD, 2003).

Foreign direct investment decides to enter the host country by establishing a completely new enterprise or obtaining the existing one. The most known types of FDI are: horizontal and vertical (Alfaro & Chauvin, 2017). Simultaneously, motives of foreign direct investment in the host country are classified into four groups: resource seeking, efficiency-seeking, market seeking, and strategic asset seeking (UNCTAD, 2004).

The increase of FDI inflows in the developing countries contributes positively to GDP or economic growth that results in job creation. However, FDI decides to enter economies that governments of the host countries provide protection and an outstanding quality institutional environment with strict policies to corruption and other kinds of crimes that would harm and not develop business properly (Estrin, 2017). A research study conducted finds out in one way host countries with strict policies to crime and corruption and efficient legal system pretend to accumulate more FDI inflows and with less exposure to political risk, but in another way, host countries with strict policies disrupt further development of FDI (World Finance, 2011).

Numerous studies specify that foreign direct investment in developed countries, has more impacts on economic growth than in less developed countries, due to higher standards than developed economies provide to FDI in education, innovation, infrastructure, market regulation, health, and financial market. The main factors that attract foreign direct investment in the host country are: planned return on investments, accessibility of the business in the international market, and quality of the institutional environment that are usually dependent on market size and geographical position (OECD, 2002).

Kosovo`s economy gradually is rising, above the average of the Western Balkans countries, its annual growth is estimated at 4%, and income per capita compare in 2000 by US$ 1,088 to 2019 increased by US$ 4,458, but still stands as one of the poorest countries in Europe with higher rates of unemployment (The World Bank, 2020). Economic freedom is prevented by the absence of economic policies that characterize limited accessibility in the regional and international market, political instability, crime and corruption, outage of electricity and higher costs, the very unofficial economy, bribery in every institution, and lack of the rule of law that has caused the rate of employment and well-being of people to remain too low (The Heritage Foundation, 2020).

Foreign direct investment plays a crucial role in Kosovo`s economic growth in improving physical infrastructure, eliminating administrative issues, improving quality, and increasing competitiveness. FDI in Kosovo mostly dominated in real estate and financial sectors. Kosovo in 2018 registered total amount of FDI at 222 mn euros, the lowest amount compared with the countries in the region, such as: Albania at 1,022 mn euros, Bosnia & Herzegovina at 423 mn euros, Montenegro at 443 mn euros, North Macedonia at 667mn euros and Serbia at 3,890 mn euros (Krasniqi, Mehmeti, & Tahiri, 2019).

Located in Southeast Europe, the main export and import countries are from the European Union and CEFTA. A foreign investor should invest in Kosovo due to the majority of the population at a young age and well educated, plentiful supply resources, favorable business environment, and the lowest tax rate in the region. On another side, the most profitable investment sectors are: energy and mining, agriculture, vineyards, construction, textile, tourism, and banking sector (Ministry of European Integration of the Republic of Kosovo, 2017).

This master thesis`s main purpose was to identify the main opportunities and barriers of foreign direct investment in Kosovo. Firstly, by outlining the main definition of FDI and its impacts on economic growth in the host country to evaluate Kosovo`s business environment.

The goal was to examine the main characteristics of FDI in Kosovo, identify opportunities and barriers of doing business in Kosovo to foreign investors, with what the government should improve to encourage FDI.

Several research questions guided the master thesis:

1. How is defined FDI, and how is it related to economic development?
2. What is the general macroeconomic development of Kosovo, and what prospects hold?
3. What are the main characteristics of FDI in Kosovo, and how FDIs were treated before and now?
4. Which foreign countries have invested mostly, and in which sectors? What were their expectations, and what are their prospects?
5. What are the main opportunities and barriers that foreign investors have perceived and experienced in Kosovo? Moreover, what economic development strategies the government has taken to encourage FDI?

METHODOLOGY

The methodology of this master thesis is developed in qualitative research. The theoretical part and analysis of the opportunities and barriers of FDI in Kosovo are based on the existing literature such as: books, scientific journals, official reports, and empirical researches.

Comparison of Kosovo`s FDI among regional countries relies on statistical official databases such as: United Nations Conference for Cooperation and Development, World Bank, International Monetary Fund, World Trade Organization, Central Bank of Kosovo, etc. (hereinafter: UNCTAD, WB, IMF, WTO, CBK).

LIMITATIONS

This master thesis contains few limitations. Firstly, the part of the thesis based on official statistical databases from different institutions and organizations, some of the data of the last year were not available, thus, in some cases comparison of Kosovo with regional countries is made till 2018, but other data obtained from previous years have provided an overview of the current situation and prospects.

Secondly, analyzing the foreign company in Kosovo (Sharrcem Company) relies on the available reports made by the company, not by independent institutions or organizations that would perceive the company from a different perspective. However, it can be compared or linked with part of the analyzed opportunities that Kosovo provides and barriers that foreign investors have faced before and currently.

The thesis comprises three chapters. The first chapter is the main definition of foreign direct investment, what types of FDI decide to enter, what are motives to invest abroad, and how FDI impacts economic development, specifically, what impacts have on employment and wages in the host country. The second chapter is a brief introduction of Kosovo, then a comparison of economic development before and after independence and with countries in the region in terms of GDP, inflation rate, and employment, who are the main partners in international trade, in which place is ranked for doing business and what positive and negative reforms have made in its the quality institutional environment. The third chapter, is an overview of FDI in Kosovo before and after independence and comparison with countries in the region, which foreign countries have invested mostly and in which sectors, what opportunities Kosovo provide to a foreign investor and which sectors are more profitable, what barriers face a foreign investor, what framework legislation Kosovo provide to FDI, a case study (Sharrcem Company), and what are development strategies of Kosovo and expected macroeconomic impacts of FDI.

1 FOREIGN DIRECT INVESTMENT

In this chapter, first is the main definition of foreign direct investment, the types of FDI, what kind of entry mode foreign investor has to decide for investment, and how the theory of transaction cost and the theory of national culture impact entry mode.

The second section describe what are motives and factors that influence foreign investors to invest abroad. In the last section, the impacts of foreign direct investment on economic development in general, how foreign direct investment impacts employment and wages in developing countries, what are benefits by FDI, and threats to FDI in the host country.

1.1 The definition of foreign direct investments

The foreign direct investment seems that it is one of the less understood terms in international economies because of different theories regarding its contribution in less developed countries. Usually, foreign direct investment is figuring out as a long-term investment and an exchange of capital between countries that contribute to the balance of payments, transfers of technology and knowledge, and connects local businesses with international ones (Akyuz, 2015).

Nevertheless, one of the most cited and accepted definition of FDI is according to the Organization for Economic Cooperation and Development (hereinafter: OECD), where foreign direct investment is defined "as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor" (OECD, 2008, p. 17).

The lasting interest is referred to as a deep root investment exchange among the direct investor and the direct investment enterprise. Moreover, the International Monetary Fund (hereinafter: IMF) and OECD defines a direct investor and a direct investment enterprise as follows: "a direct investor may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor" and, "a direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise" (Duce, 2003, p. 3).

Foreign direct investment is classified in the main two types: vertical and horizontal foreign direct investment. Vertical foreign direct investment is defined when the host company and the foreign company operate in different industries. While horizontal foreign direct investment is defined when the host company and the foreign company operate in the same industry (Hecht, Moritz, Noska, & Schaffler, 2016). Another explanation is based on the proximity-concentration hypothesis, where horizontal foreign direct investment is considered an alternative for exports when trade prices are costly. And, vertical foreign direct investment is when geographically the phases of production are divided to examine how the factor prices are set in other countries (Dardati & Saygili, 2019).

Besides, the two main types of foreign direct investment that the investor can choose, further is when the investor has to decide how to enter the foreign country. Firstly, it should enter a foreign country by investing from the beginning (known as greenfield investment) or cooperating with the existing company (known as acquisition or joint-venture). And secondly, if should enter as a wholly-owned subsidiary or be engaged in a subsidiary with shared ownership (Dikova & Witteloostuijn, 2007).

Even though both strategic decisions are relevant to the foreign investor, an explanation of the foreign investor`s entry mode is also based on the theory of transaction cost and the theory of cultural and national factors. Based on the transaction cost theory, the decision between a wholly-owned subsidiary vs. subsidiary with shared ownership is defined on the quality and quantity of intangible resources. The decision between an acquisition or greenfield investment, the entry mode is defined based on the existing resources and the need for the new ones. The theory of cultural and national factors mentions that the entry mode is defined based on the sociocultural differences between the home and the foreign country. As higher are the differences, foreign investors will be more attractive to invest in greenfield investment than in acquisition. The decision regarding as wholly-owned ownership or subsidiary with shared ownership is influenced based on the level of economic development of the host country (Chang & Rosenzweig, 2001).

1.2 Motives and impacts of foreign direct investments

According to the United Nations Conference on Trade and Development (hereinafter: UNCTAD), foreign direct investments are fundamentally motivated by the level of economic development of the host country. Since the latter it makes to rely on the size of the market, knowledge, income per capita, assets that encourage efficient production, trade arrangements, and macroeconomic security (UNCTAD, 2003).

Since one of the essential questions in international business is to know what motives stimulate firms to engage in FDI, the proper framework is by John Dunning (2008). Dunning`s framework divides FDI motives into four groups as follows:

1) Natural resource seekers: investors invest in other countries to receive resources that do not exist or receive existing resources that are at the home country with higher prices. Resources such as from physical ones to intangible assets (Dunning & Lundan, 2008).
2) Market seekers: investors seeking to supply goods or services to new markets abroad (Dunning & Lundan, 2008).

3) Efficiency seekers: investors are influenced by the motive to profit through efficient management in geographically separated productions, and by the economies of scale and scope in different countries (Dunning & Lundan, 2008).
4) Strategic asset seekers: besides three types of FDI, the motive of these investors is to progress the existing assets or to receive new ones that help to gain competitive advantages in the long term (Dunning & Lundan, 2008).

Nevertheless, the foreign direct investment seems that is one of the main objectives for developing countries to attract, because of the positive impact in their economies. FDI is supposed to contribute to positive matters to gross fixed capital, encourage domestic investments, technology, innovation, knowledge, and skills in the host country (Mehic, Silajdzic, & Hodovic, 2013). Particularly, the less developed countries encourage the creation of employment, improvement of domestic markets, and infrastructure (Enderwick, 2005).

Three factors that influence foreign direct investment, and that can lead to job creation or destruction in the host country are:

1) Availability of information and communication technology (hereinafter: ICT): encourages foreign investors to invest in the host country that will produce higher output with lower cost, while, on another side, by using its process innovation in production results in a decline of jobs. For example, in the financial industry, ICT helped to reduce cost, but at the same time, it replaced employees with virtual services (Bakher, 2017).
2) The stability of the economic and political situation: is an essential factor that impacts FDI and employment. As long as the host country doesn`t provide stable economic and political situations, it will relocate FDI to more stable countries and negatively effects employment. For example, the case of Greece, due to its financial crisis decreased the employment rate dramatically (Bakher, 2017).
3) Educated labor: availability of workers that have proper skills to use new technologies, especially in developing countries, will attract more foreign direct investment because of its low-cost educated workforce. And this will lead to the creation of jobs and higher wages (Bakher, 2017).

Thus, to have an impact on those positive matters of FDI mentioned above, the host country should possess advanced technology, a stable economy, investment policy, and human resource capabilities (Pegkas, 2015).

1.2.1 Impact of foreign direct investments on economic development

Based on the UNCTAD (1999), some of the impacts that FDI can have on economic development in the host country are: capital accumulation and investment, the flow of technical knowledge and innovation, improvement of domestic businesses, jobs creation, transfer of skills, and increase of competition (UNCTAD, 1999).

Thus, the role of foreign direct investment for developing countries on economic growth is important as much as it`s for developed countries. Nevertheless, according to the neoclassical theory, FDI has an impact only at the level of income, and the growth remains the same in the long-term. As long as technology does not progress, and population growth remain unchanged. Both factors are referred to as exogenous. While, some of the endogenous growth models specify that FDI, generally, brings: jobs, capital technology, access to foreign markets, management, and other kinds of soft knowledge (Makki & Somwaru, 2004).

Agrawal & Khan (2010) analyzed how those impacts of FDI affected economic growth in China and India. The results reconfirmed the positive impacts of FDI on economic growth. Basically, the results tell that an increase of 1 percent of FDI will increase the gross domestic product of China by 0.07 percent and of India by 0.02 percent; this happens because China is more attractive for FDI as encompasses a larger market size, access to export, policy incentives, favorable micro, and macro-economic environment, while, India provides managerial skills, an open system of work and legal system (Agrawal & Khan, 2010).

Nevertheless, the impact of FDI on economic growth is not the same in every country; it depends on some key factors such as: GDP per capita, education progress, domestic investment ratio, policy trade, political situation, and level of financial development. As long as the less developed countries have a technology gap, lack of human resources, and improvement of infrastructure, we can compromise that FDI has a more positive impact on economic growth in the developed countries (Li & Liu, 2005).

An analysis of the impact of foreign direct investment in the developed countries made by Vo and Noy (2009) find out that FDI has a strong positive effect on economic growth, even directly or through cooperation with different sectors. Even though those effects vary a lot between countries and economic sectors (Vu & Noy, 2009).

On another hand, an empirical analysis of how foreign direct investment impacts the economic growth of the 44 developing countries made by Herzer (2012) first finds out that FDI, on average, has a negative impact in the long- term on economic growth. And second, he finds out that the different impacts of FDI across the developing countries may be explained based on the level of government intervention on business operation, FDI volatility, and primary export dependence (Herzer, 2012).

Many countries try to attract foreign direct investment by offering special tax incentives. Based on the assumption that technology can be transferred through FDI and enhance economic growth. Contrary to microeconomic literature, in general, macroeconomic literature specifies a positive relationship among FDI and economic growth. An analysis, how economic growth is effect by FDI of chosen countries was examined by Carkovic and Levine (2005); they found out that FDI does not have an independent impact on economic growth. The results contradict the assumption that FDI positively impacts growth (Carkovic & Levine, 2005).

Nevertheless, besides these analyses, there are numerous researches regarding the relation among FDI and economic growth that testify the positive impact of FDI on the host country`s economic growth. Then, to exert a positive relation, the host country must provide professional human resources, political stability, advanced technology, developed financial markets, and trade openness (Almfraji & Almsafir, 2014).

1.2.2 Impact of foreign direct investments on employment and wages

Since the 1980s, the U.S and Europe have to cope with a decline in unskilled worker`s wages and employment, whether that spurred discussion of effects among labor income and international trade and foreign direct investment. At the same time, it`s believed that technological progress and glocalization exert a decline in wages and employment combined with international trade and foreign direct investment. On the other side, businesses continue to argue that foreign direct investment increases wages and employment through increased demand for the production of inputs in their foreign subsidiaries (Zhao, 1998).

Based on the economic theory, three determinants of liberalization that positively affect developing countries` labor productivity are as follows: foreign direct investment, international trade, and transferred technology. The past studies assume that foreign direct investment increase wages in the host country. Since usually, foreign companies provide higher wages to employees than domestic companies in developing countries because of their not connection with labor capacity. While regarding employment, the economic theory assumes that foreign direct investment can affect overall employment in two ways. First, an increase in productivity through foreign investment in the host country directly increases labor demand. Second, the technology of foreign direct investment that may be extremely capital concentrated is supposed to decline the total employment (Banga, 2005).

Usually, transition countries perceive the effect of foreign direct investment on employment for granted, even though their economy is in the developing stage and faces a lack of capabilities, political stability, and integration in international trade, etc. Zdravkovic, Dukic & Martinovic (2017) analyzed the effect of FDI on unemployment in 17 developing countries. They find that even in the long-run foreign direct investment in developing countries does not decline unemployment (Zdravkovic, Dukic, & Martinovic, 2017).

Also, an empirical investigation by Rizvi & Nishat (2009), shows that foreign direct investment in Pakistan, China, and India does not affect employment creation (Rizvi & Nishat, 2009).

Although for governments, the primary key factor that can boost employment opportunities is considered foreign direct investment, UNCTAD (1994, p. 167) describes the positive and negative impact that FDI could have on the labor market, as illustrated in Table 1.

Table 1. Positive and negative impacts of FDI on employment.

	Direct		Indirect	
	Positive	Negative	Positive	Negative
Quantity	Adds net capital and create jobs in expanding industries.	FDI through acquisition may result in rationalization and job losses.	Create jobs through forward and backward linkages and multiplier effects in local economy.	Reliance on imports or displacement of existing firms results in job losses.
Quality	Pays higher wages and has higher productivity.	Introduce practices, e.g. hiring and promotion that are considered undesirable.	Spillover of best practice work organization to domestic firms.	Erodes wage levels as domestic firms try to compete.
Location	Adds new and perhaps new jobs to areas with higher unemployment.	Crowds already congested urban areas and worsens regional imbalances.	Encourages migration of supplier firms to areas with available labor supply.	Displaces local producers, adding to regional unemployment, if foreign affiliates substitute for local production or rely on imports.

Source: UNCTAD (1994, p. 167).

However, the decline of employment and economic growth because of the recent financial crisis has influenced governments to seek proper strategies that foster job creation. Jude & Silaghi (2015) investigated the employment effects of foreign direct investment in Central and Eastern Europe (hereinafter: CEEC), whether they find the key factors that catalyst CEEC`s employment was the reform of economy and institutions. They also examined that in the short run, because of competition and the use of process innovation in production, foreign direct investment has a negative impact on employment. While in the long run, a positive impact is because of the connection with domestic companies and the increase in production. And FDI plays a crucial role in employment for European Countries, but not for non-European Countries (Jude & Silaghi, 2015).

Thus, recent analyses of the impact of FDI on employment and wages have produced different results. However, we can sum up that impact of FDI on the employment of the host country depends on those factors: the type of investment (vertical vs. horizontal), the income gap among home and host country, availability of capabilities, the size of economy and market regulations of the host country, and trade openness (Masso, Varblane, & Vahter, 2007).

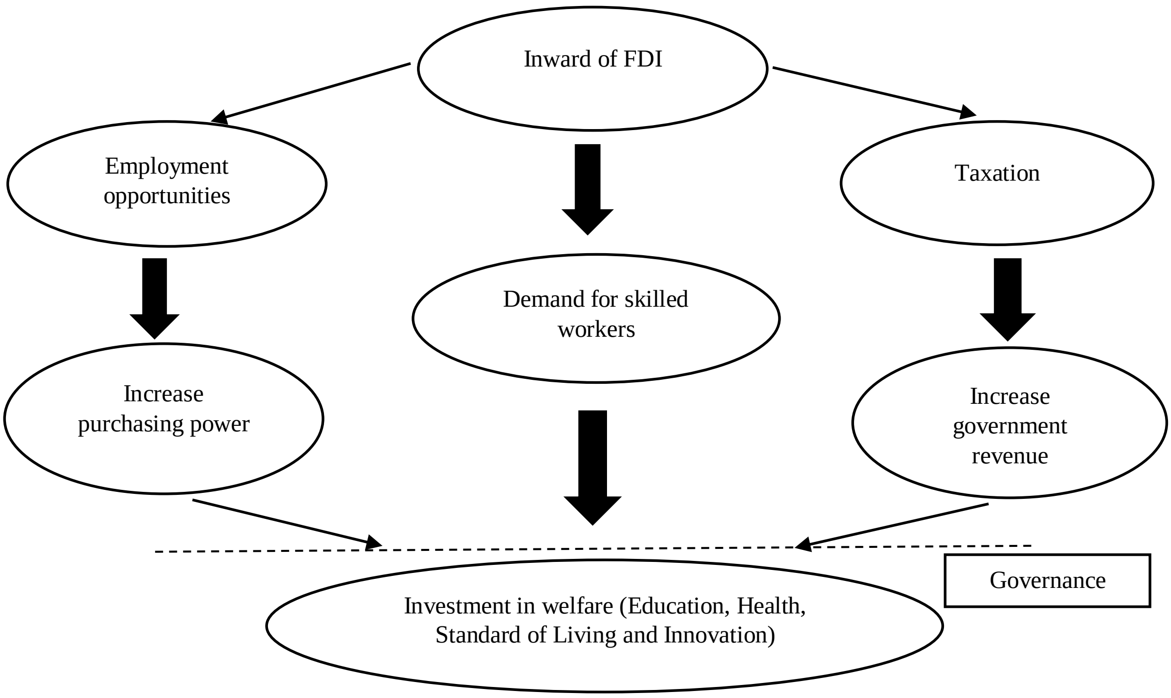
1.2.3 Benefits by foreign direct investments

Transfer of information, skills, technology, an increase of economic process, job creation, access to international trade, improvement of infrastructure and production, and increase of export are a number potential edges of FDI that exert not solely developed countries, also, emerging countries to draw in foreign direct investments (Alfaro, 2016).

This has spurred governments to create favorable investment and supply special taxes and other incentives. For example, Ireland offers foreign investors a company rate of 12.5 percent (Gorg & Greenway, 2004). Even so, these special incentives to draw in FDI may not be effective as long as the host country does not provide a favorable economic science atmosphere. Wang & Wang (2015) find out that, FDI besides the improvement of economic conditions and exports, also contributes significantly to productivity, job creation, and wage (Wang & Wang, 2015).

Moreover, Lehnert, Benmamoun, and Zhao (2013, p. 288) illustrated a range of benefits of FDI that play in the welfare of the host country from the labor market, households to governments (Figure 1).

Figure 1. Benefits of FDI to the host country.



Source: Lehnert, Benmaoun & Zhao (2013, p. 288).

Although, Boly, Coniglio, Prota & Seric (2015) find out that in the emerging countries such as Africa, domestic companies benefit form FDI through cooperation and suggest creating a connection with foreign enterprises (Boly, Coniglio, Prota, & Seric, 2015).

Since the benefits of FDI that could affect domestic companies is through knowledge spillovers. For example, the exchange of information on designing and creating innovative products, exchanging of their trained employees, and mutual R & D projects (Liu & Buck, 2007).

For example, an analysis of Javorcik (2008) states that 24% of local companies in the Czech Republic and 15% of local companies in the Latvian have benefited from knowledge spillovers (Javorcik, 2008).

Nevertheless, besides local companies, local customers can gain from foreign companies since the latter within the upstream sectors will manufacture elements and instrumentation of better quality, which might enforce local companies within downstream sectors to improve productivity (Liang, 2017).

Thus, within the different facet, FDI contributes to extending competition and consumer demand in the host country as competition pushes companies to contend with various qualitative merchandise and services with lower prices (Gugler & Bunner, 2017).

1.2.4 Threats to foreign direct investments

Besides similar benefits of foreign direct investment mentioned above, Dunning (1997) also highlights several adverse effects that the government can cause to FDIs in the host country, such as:

- Offering scarce or unreasonable resources and assets;
- Providing inappropriate management designs and dealing practices to modifiable native business cultures;
- Limiting improvement of local products of low quality and importing products with higher quality;
- Limiting expansion of GDP at 1-3 or above;
- And by inducing economic, social, and cultural instability, and imposing inappropriate principles, for example: for ads, company norms, and labor practices (Dunning, 1997).

Scarcity resources are classified in three ways as follows: absolute scarcity wherewith the excessive population growth resources are limited continouosly and inevitable respectively the use of land and water, relative scarcity where demand is limited and dependent in technological changes in the production process, and political scarcity where the control of resources is by governments that makes access to resources difficult and their allocation unequal (Scoones, Smalley, Hall, & Tsikata, 2014).

For instance, due to excessive population growth, demand for food is estimated to increase 50% by 2030, water demand to increase 25% by 2025, and due to climate issues, is estimated 2/3 of the world to face a water-stressed situation, demand for oil to increase 30% by 2030 that already oil agencies warn the risk of a large supply cramp, and disappearance of rare metals that are important in technology and other sectors (Evans, 2011).

One of the critical factors for a business to be successful across the borders is having well-equipped managers with appropriate knowledge and skills, but most of the recruiters specify that the influence of different cultures and environments makes it more difficult to adapt and apply their skills in the host country. Globalization in markets and industries, technology in communications, and transform of information have done management practices to classify in three groups. First, simple universal a practical management that is appropriate and successful in all kinds of cultures, second, variform universal a change in practice management can be made depending on the culture of the host country, third, functional universal that tends to balance practical management in a different culture (Hoffman & Shipper, 2012).

Baldwin, Gray, Johnson, Proctor, and others (1997) on his research finds out that 71% of the analyzed businesses in Canada bankrupted due to lack of professional management skills, inabilities to forecast future risks to the business, inabilities to improve the quality of products and develop market distribution channels, and lack of financial planning skills (Baldwin, Gray, Johnson, Proctor, & others, 1997)

Some governments to stabilize their economies and protect local businesses impose a strict legitimate system on foreign direct investments by controlling business operation, profit, and resource allocation. Those barriers perceived by FDIs have affected the non-development of businesses and even their departure from the host country. A list of barriers to FDI imposed by governments are as follows: limitation in some sectors and zone investments, initial capital requirements, social environmental responsibility, the requirement of additional investments, limitation in entry decision mode, limitation in import products, impose of higher tax rates, adaptability with culture, norms and policy, limitation in ownership, limitation in access of credit, limitation on the number of foreign employees, limitation in types of shares and bonds, limitation of use of public property, limitation in the nationality of human resources, etc. (UNCTAD, 1996).

On other hand, several studies pointed out that the host country`s political risk is one of the threats that is negatively affecting foreign direct investments (Gomez-Mera & Varela, 2015). Since threats by political risks that might arise in the emerging countries, are linked with state instability, corruption, poor security of copyrights, and imbalance payments, that simultaneously discourage FDI by rising business costs and uncertainty (Desbordes, 2010).

2 ECONOMIC DEVELOPMENT IN KOSOVO

In this chapter, the first part is presented an overview of some key facts of Kosovo as an independent country. In the second part is about economic development after independence, about its GDP, inflation rate, and employment. The third part, its international economic relations, particularly with its strategic partner countries (export and import), and international and regional organizations. The last part is about the quality institutional environment, in which place is ranked for doing business based on World Bank, comparing also with the region and EU average, and its positive and negative reforms of the regulations.

2.1 A brief introduction of the Republic of Kosovo

Kosovo has declared his independence officially on 17th February 2008. Is bordered in the south with North Macedonia, west with Albania, northwest with Montenegro, and east with Serbia. By the majority of the United Nations and European Union countries is recognized as an independent nation, besides some other countries and Serbia that keep on dismissing Kosovo`s autonomy. It is one of the less developed nation on Europe, 29.7 percent of the population live on poverty, and has the youngest population with the highest unemployment rate by 55.3 percent (Kerry, Bourdeaux, Haggenmiller, & others, 2013).

Kosovo has a quite good demographic position and connection with the Middle Europe, Black Sea and Southern Adriatic Sea, which has a favorable climate atmosphere with sweltering summers and cold winters. The main point is that Kosovo provides plenteous normal assets over the ground and underground establishments and human, which ought to be utilized (Dumi, Kiser, & Karakushi, 2012). Moreover, some of the key facts of the Republic of Kosovo such as: capital, area, population, official language, etc. are highlighted in Table 2.

Table 2. An overview of the Republic of Kosovo

Country	**Kosovo**
Region	Southern Europe
Capital	Pristina
Area	10,887 km²
Population	1,795,666
Language	Albanian and Serbian
Exportation	367,500 M €
Importation	3,347,007 M €
Unemployment rate	29.6%
Inflation rate	1.5%
Real GDP growth	3.7%

Source: Kosovo Agency of Statistics (2019).

2.2 Economic development in Kosovo after independence

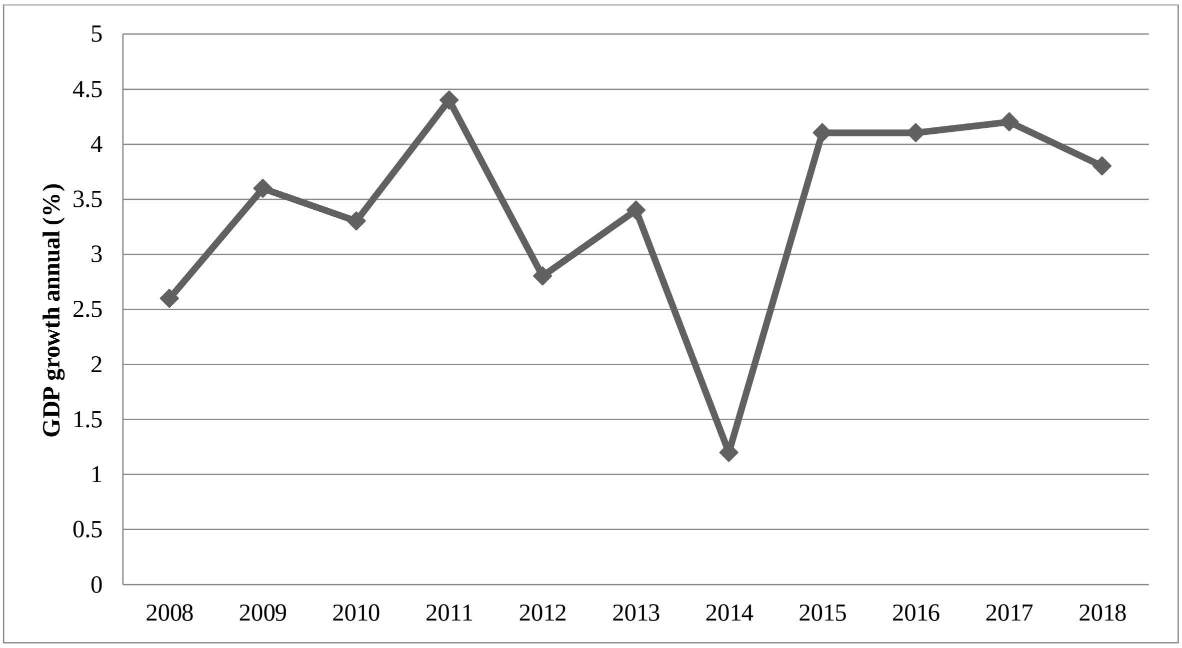
According to a report of country development by the United States Agency of International Development (hereinafter: USAID), Kosovo, in terms of economic development as an independent country, has made relevant progress in price liberalization, exchange of currency, competition, market, and finance regulation (USAID, 2015). In recent years, Kosovo has coordinated and changed its economy dramatically. By having the most youthful populace and well qualified, possessing natural resources, offering a proper business environment, lowest corporate tax in the region, utilizing euro cash, and providing a lawful framework (Mavraj, 2015).

But, on another side still cope with many issues of economic development. It is characterized by insecurity and political instability, low employment rate, lack of infrastructure, and the lowest capita per income in Balkan relying on international interventions and remittances (Vorley & Williams, 2017). As, is the poorest country in the Balkan and ranks in third place as the poorest in Europe, after Moldova and Ukraine (Sen Nag, 2019).

2.2.1 GDP and Inflation Rate

Base on the World Bank (2019), from 2008-2018 the gross domestic product increased by 4.1 percent. Kosovo is perceived as a euroized economy, that its macro-fiscal policies keep on being consistent and insofar as will provide a better business environment will increment further development, particularly in 2019-2021 GDP annual growth rate is forecasted to increase above 4 percent (Figure 2).

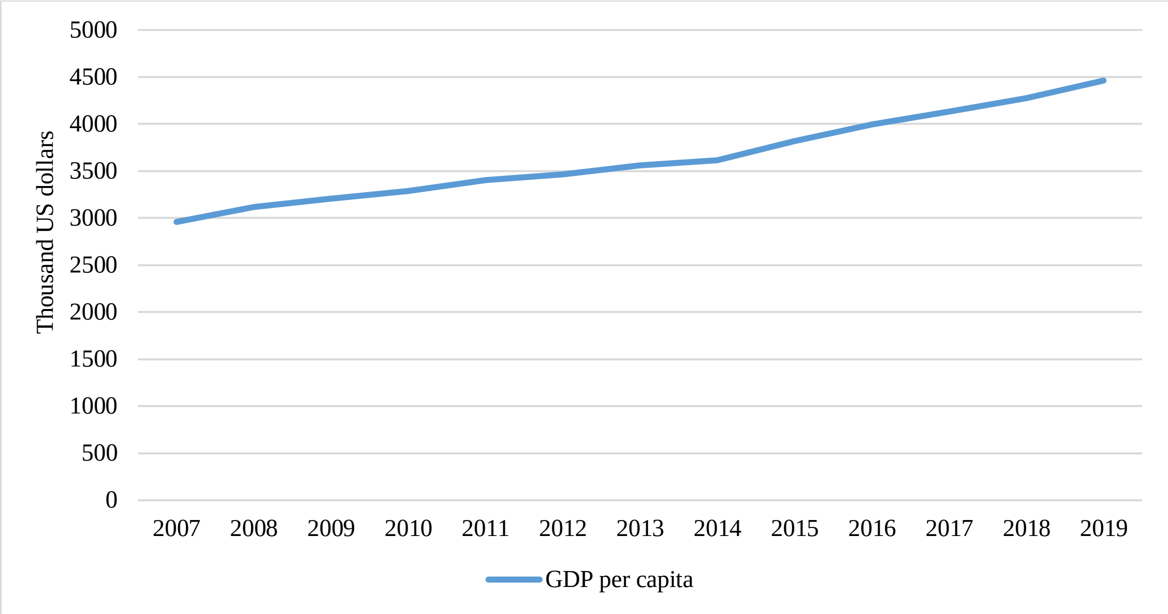
Figure 2. Kosovo`s GDP annual growth rate over 2008-2018, in percentage (%).



Source: The World Bank (2019).

Moreover, according to the World Bank (2020), Kosovo`s GDP per capita since 2007 continuously has grown throughout the years, on 2019 experienced the highest amount by 4,462 US dollars (Figure 3).

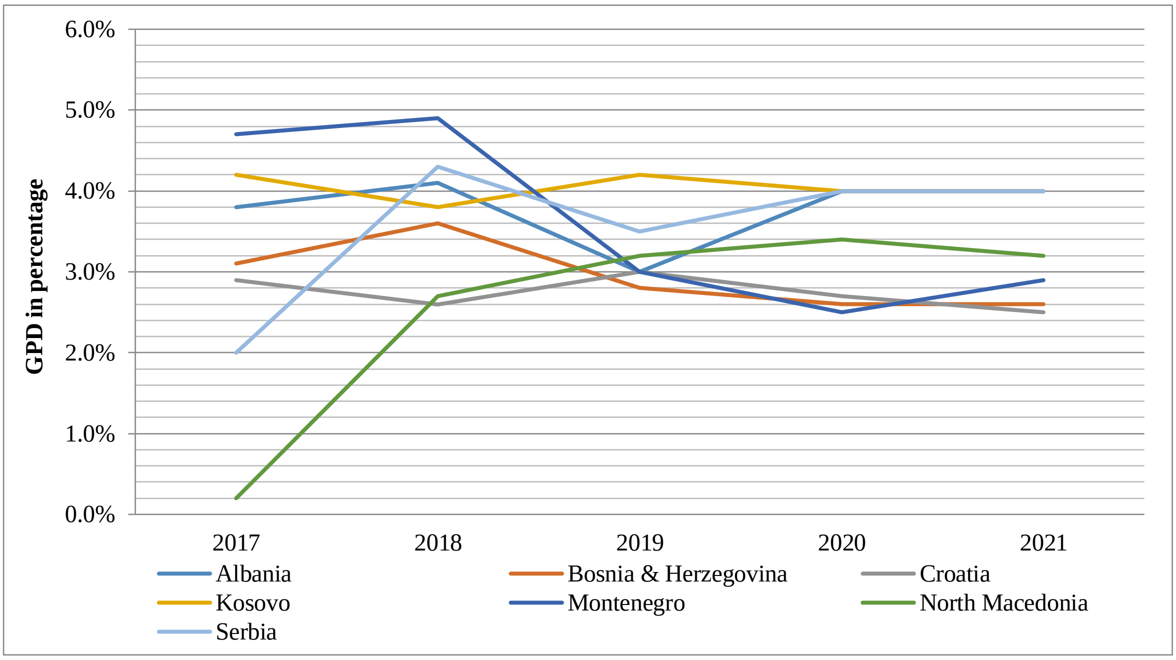
Figure 3. Kosovo`s GDP per capita over 2007-2018, in constant US dollars ($).



Source: The World Bank (2020).

Even compared with the other Western Balkan Countries based on IMF (2019), Kosovo has had one of the highest GDP in the region, particularly in 2019 by 4.2 percent, and in recent years is expected to increase further also (Figure 4).

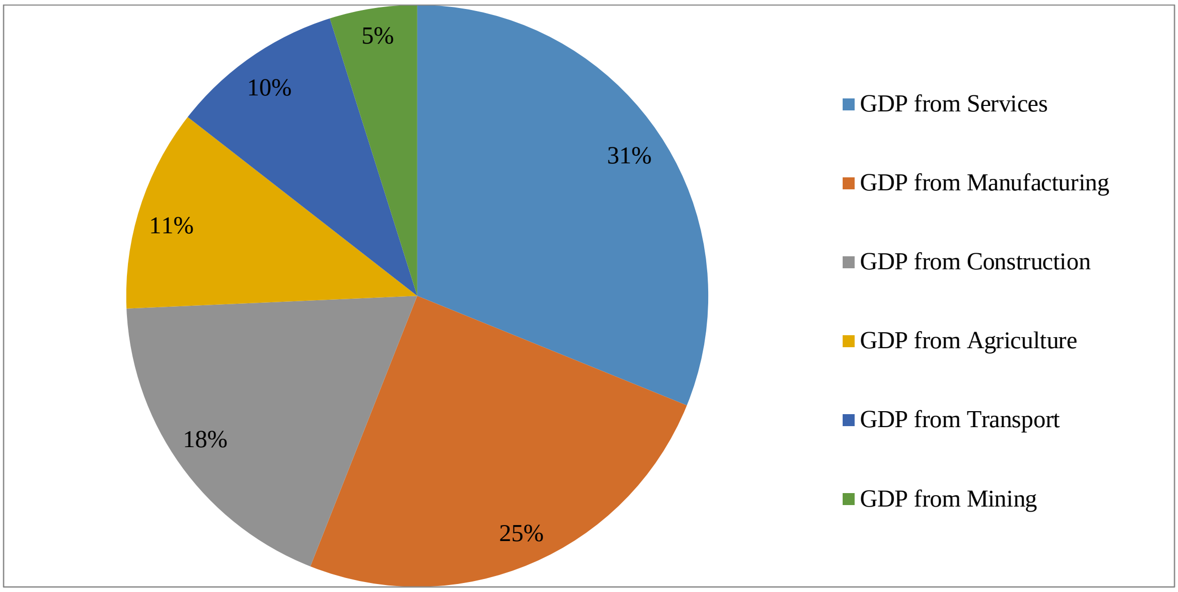
Figure 4. GDP of Western Balkans over 2017-2021, in percentage (%).



Source: IMF (2019).

The main sectors that have contributed on the GDP of Kosovo on 2019 are as follows: sector of services by 31%, sector of manufacturing by 25%, sector of construction by 18%, sector of agriculture by 11%, sector of transport by 10% and sector of mining by 5% (Figure 5).

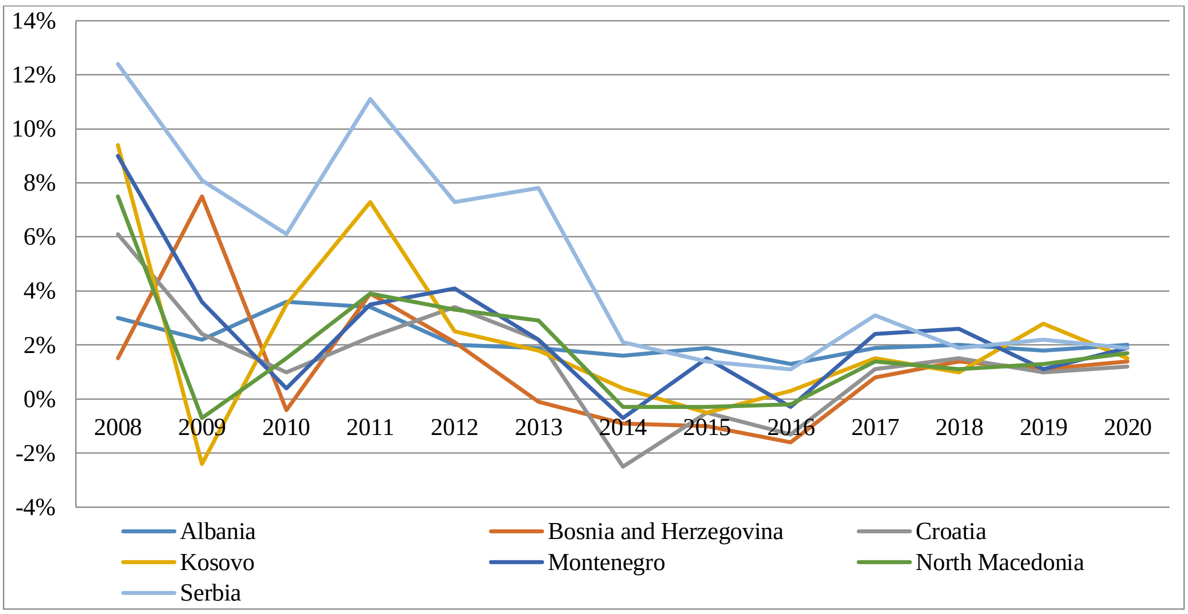
Figure 5. The main sectors in contribution of Kosovo`s GDP on 2019, in percentage (%).



Source: Trading Economics (2020).

Kosovo, during 2019 experienced an increase in inflation rate by 1.7 percent compared with 2018 and it had the highest rate in the region, while, in 2020 is forecasted to experience the lowest rate in the region a deflation by 1.3 percent, respectively, in line with Croatia and Bosnia and Herzegovina. Kosovo`s highest inflation rate from 2008 to 2019 registered by 9.4 percent and deflation of -2.4 percent (Figure 6).

Figure 6. Inflation rate of Western Balkans over 2008-2020, in percentage (%).



Source: IMF (2019).

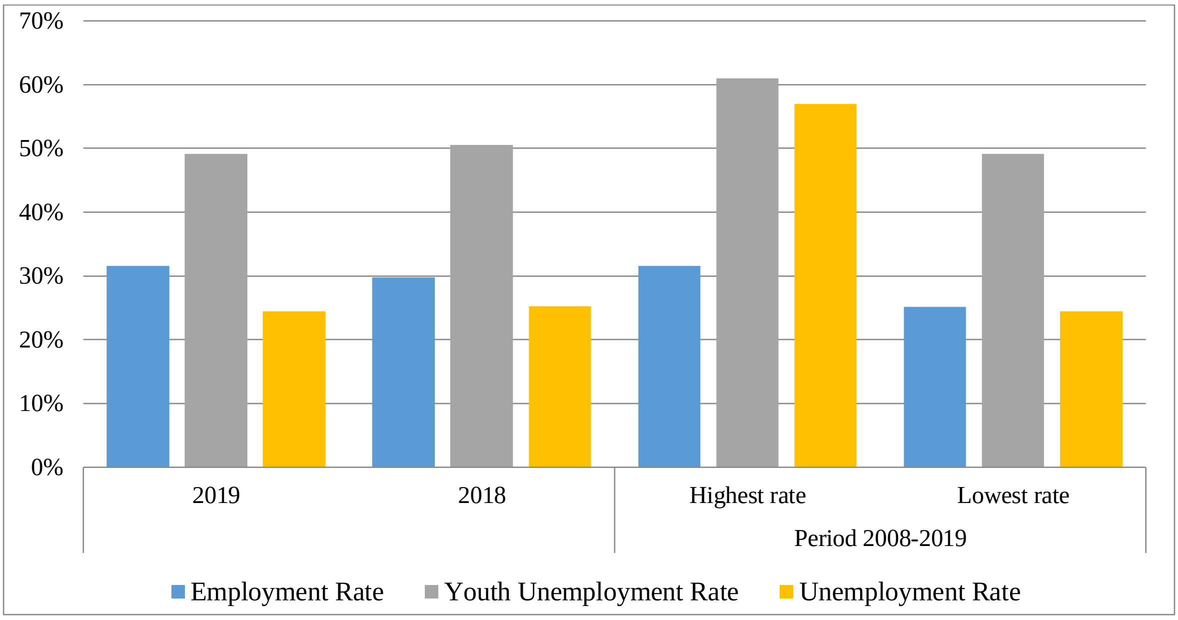
The highest and lowest rates in the Western Balkan Countries, in such a case for Kosovo, happened because of the financial global crisis during 2008 (9.4%) and 2009 (-2.4 %). Except for Albania that managed to have a stable rate even during the crisis (Pula, 2012). However, one of the main roles in the contribution of Kosovo`s GDP`s is remittances or emigrants that live in different countries abroad and send money regularly for their families that live in Kosovo and are crucial for their standard of life. From 2008 to 2016, remittances contributed among 10 – 15% of GDP (Prekazi, 2018).

2.2.2 Employment

Experiencing the fastest economic growth in the region in previous years did not have a considerable impact on creating new jobs. Employment remains one of Kosovo`s critical issues, especially for young people and females (The World Bank, 2019). Even though, Misini & Pantina (2017), on their empirical research finds out that the economic growth, in general, has helped to mitigate the unemployment rate on Kosovo (Misini & Pantina, 2017).

The highest employment rate from the period 2012 – 2019 is 31.6% or specifically in 2019, while compared with 2018 it had progressed only by 1.8%, making a decrease in the unemployment rate by 0.8% or having the lowest unemployment rate by 24.5%, since independence. Nevertheless, having the youngest population in Europe and the region and at the same time the highest youth unemployment rate registered by 61% or a decrease of the unemployment rate of only 1.5% in 2019, makes to figure out that Kosovo still lacks on economic development (Figure 7).

Figure 7. Kosovo`s employment, youth unemployment and unemployment rate over 2008-2019, in percentage (%).



Source: Trading Economics (2020).

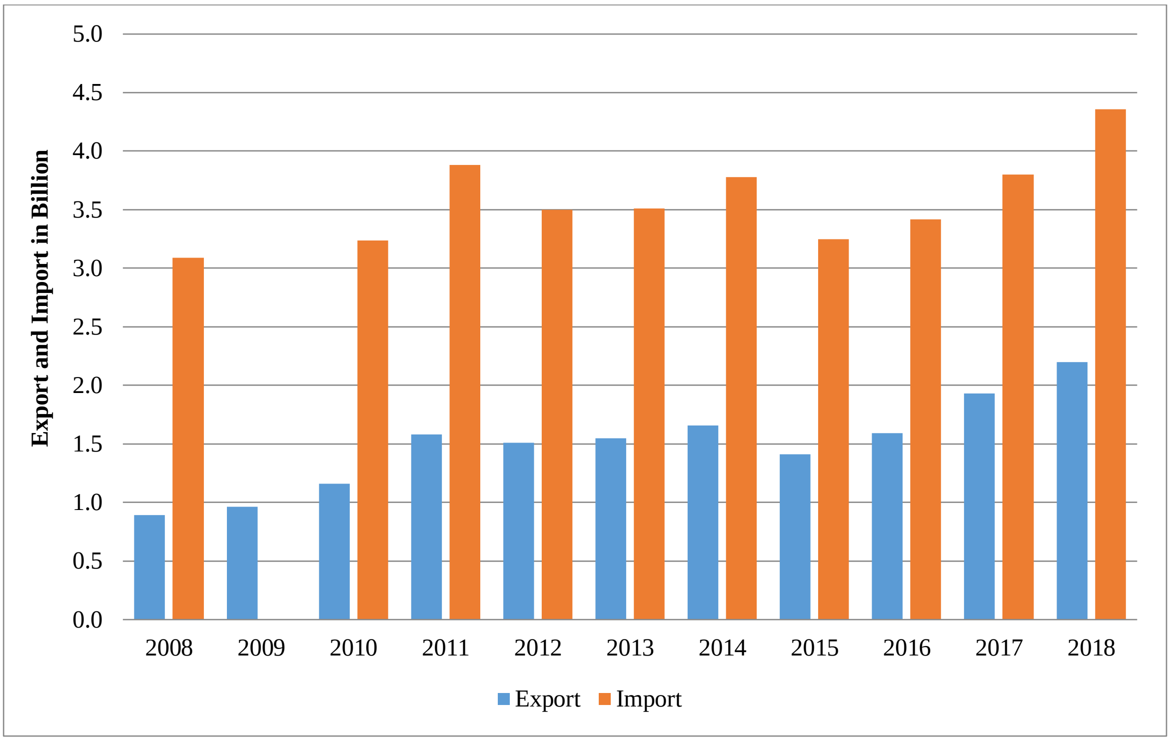
In 2014 – 2015, a thousand people, mainly youth, left Kosovo to emigrate in different EU countries. Besides the lack of job opportunities, also the annual of capita income in the private sector is 3000 € and in the public sector around 4000 € (Bertelsmann Stiftung, 2018).

Blazhevska (2017) on her qualitative empirical research finds out, the reason that young people of Kosovo decide to emigrate is because of the current socio-economic situation and political instability. With the hope that in other countries will find a proper standard of life for them and their families, career advancement, and safeness (Veljanovska-Blazhevska, 2017).

2.3 International trade

Regarding Kosovo`s international economic relations, based on the World Bank (2020), the average growth rate of exports from 2008 – 2018 is 10.31% and for imports is 4.05%. The evolution of export from 2008 is growing relatively faster due to the status of Kosovo now as an independent country, its moderate economic development, and relationships with other countries. In 2015 experienced a decline of amount 25 million compared with 2014, but in 2018, it reversed with an increment of the highest amount experienced by 2.20 billion. While regarding the evolution of imports, Kosovo still stands more as a country of consumption, experiencing each year further increment, especially in 2018 by the amount of 4.36 billion. In the meant time, making the balance of trade negative by -2.16 billion (Figure 8).

Figure 8 . Kosovo`s export and import over 2008-2018, in billion US dollar.



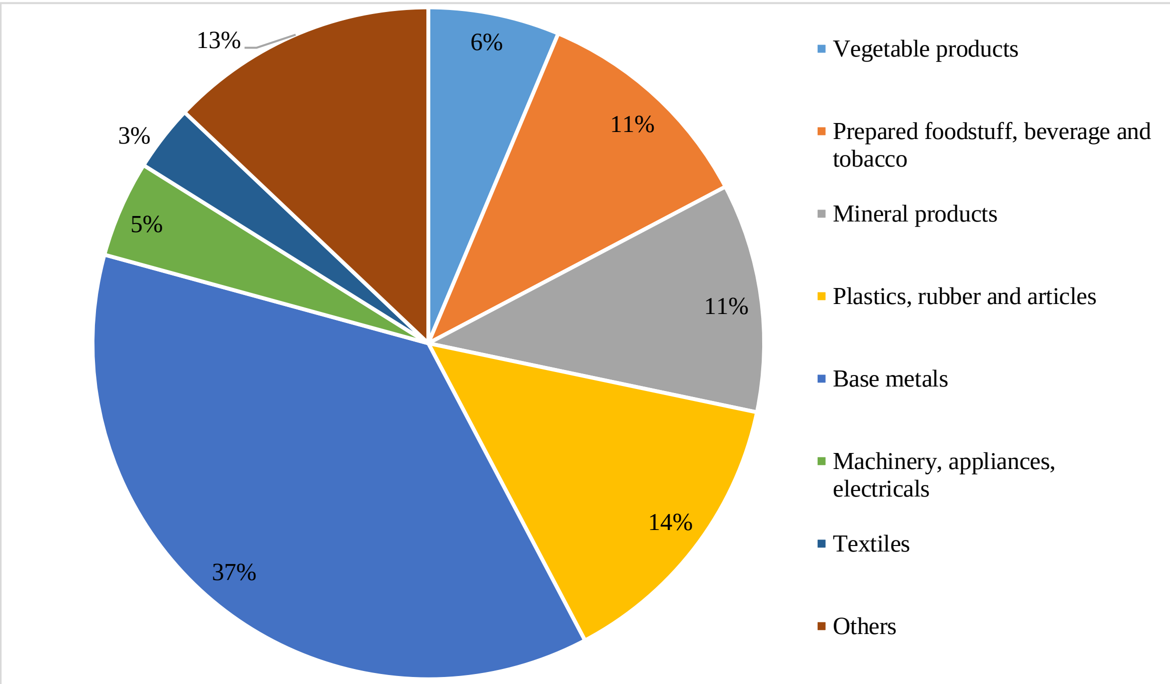
Source: The World Bank (2020).

In light of negative trade balance, Gashi, Hisarciklilar, and Pugh (2017) on their empirical research about Kosovo and EU exchange relations, discovered that the isolation of the country and costs that occur because of distance with the EU countries makes difficult to increase its exports (Gashi, Hisarciklilar, & Pugh, 2017).

Kosovo is part of the Central European Free Trade Agreement (CEFTA) that allows to do free trade with Albania, Montenegro, Bosnia & Hercegovina, Serbia, and Moldova, but, still negative trade balance remains one of the critical macroeconomic issues. Inefficient development trade strategies, undeveloped infrastructure with the EU and region countries, low capita per income, low prices of export, decreased amount of foreign direct investments, higher prices of imported raw materials, and imposed barriers and tariffs with some of the countries in the region due to the political situation are some of the factors that characterize international trade (Jusufi, Mahmutaj, Jusufi, & Jusufi, 2015).

According to the Central Bank of Kosovo (2019), the main products that Kosovo has exported in 2019, are: base metals by 37%, plastics, rubber and articles by 14%, prepared foodstuff, beverage and tobacco by 11%, mineral products by 11%, vegetable products by 6%, machinery, appliances, and electricals by 5%, textiles by 3% and other products by 13% (Figure 9).

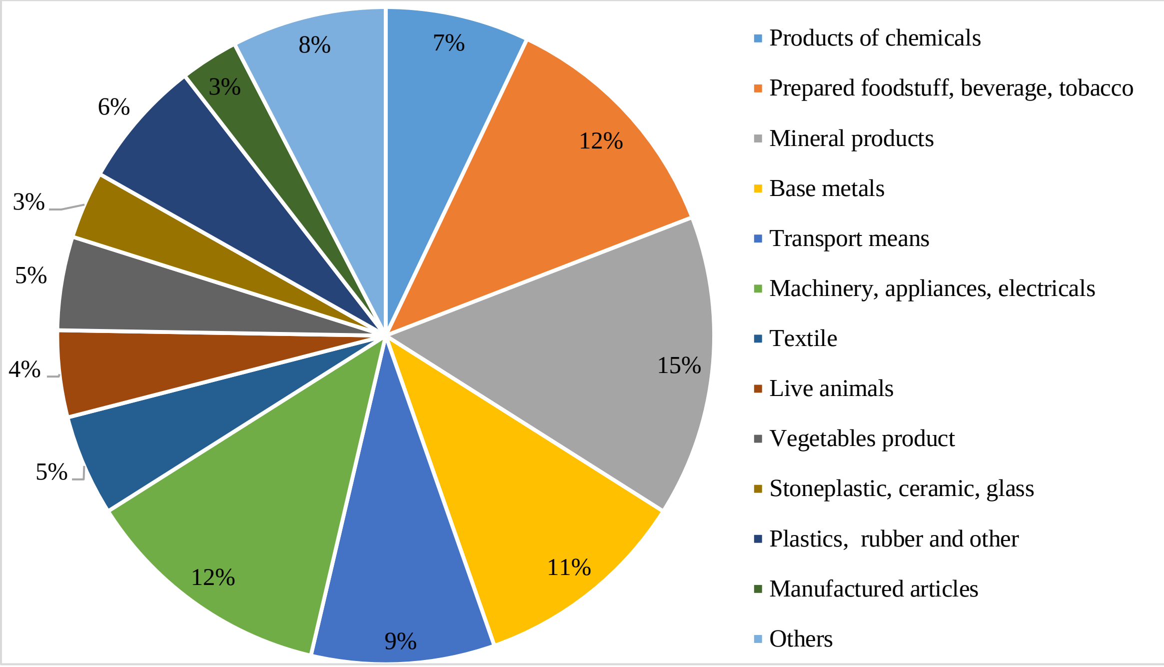
Figure 9. Kosovo`s export by category on 2019, in percentage (%).



Source: CBK (2019).

From imported products, the main are: mineral products by 15%, machinery, appliances, and electrical by 12%, prepared foodstuff, beverage, and tobacco by 12%, base metals by 11%, transport means by 9%, products of chemicals by 7%, plastic, rubber, and other 6%, vegetable product by 5%, live animals by 4%, stone plastics, ceramics and glass by 3%, manufactured articles by 3%, and other exported products by 8 % (Figure 10).

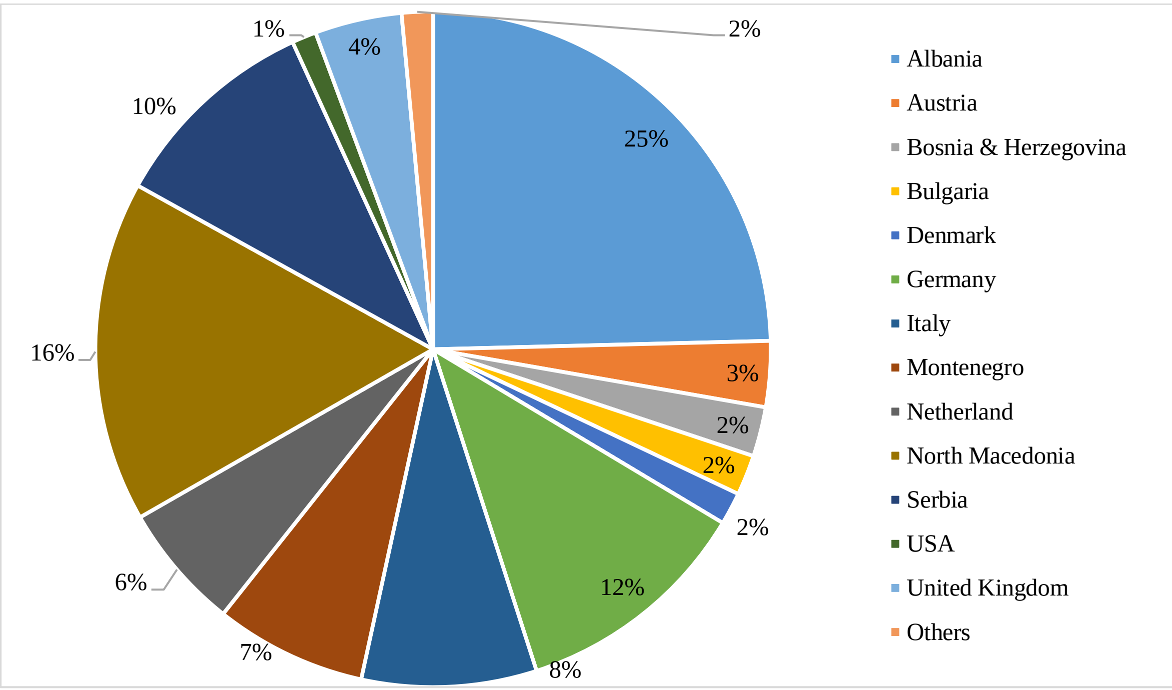
Figure 10. Kosovo`s import by category on 2019, in percentage (%).



Source: CBK (2019).

Due to the increase of exports, the main EU trading partners are: Germany by 11%, Italy by 8%, Netherland by 6%, Bulgaria by 2%, the United Kingdom by 4%, Austria by 3%, and Denmark by 2% and USA and others by 2%. Regarding the countries from CEFTA, Kosovo mainly exports in Albania by 25%, North Macedonia by 16%, Serbia by 10%, Montenegro by 7%, and Bosnia and Herzegovina by 2% (Figure 11).

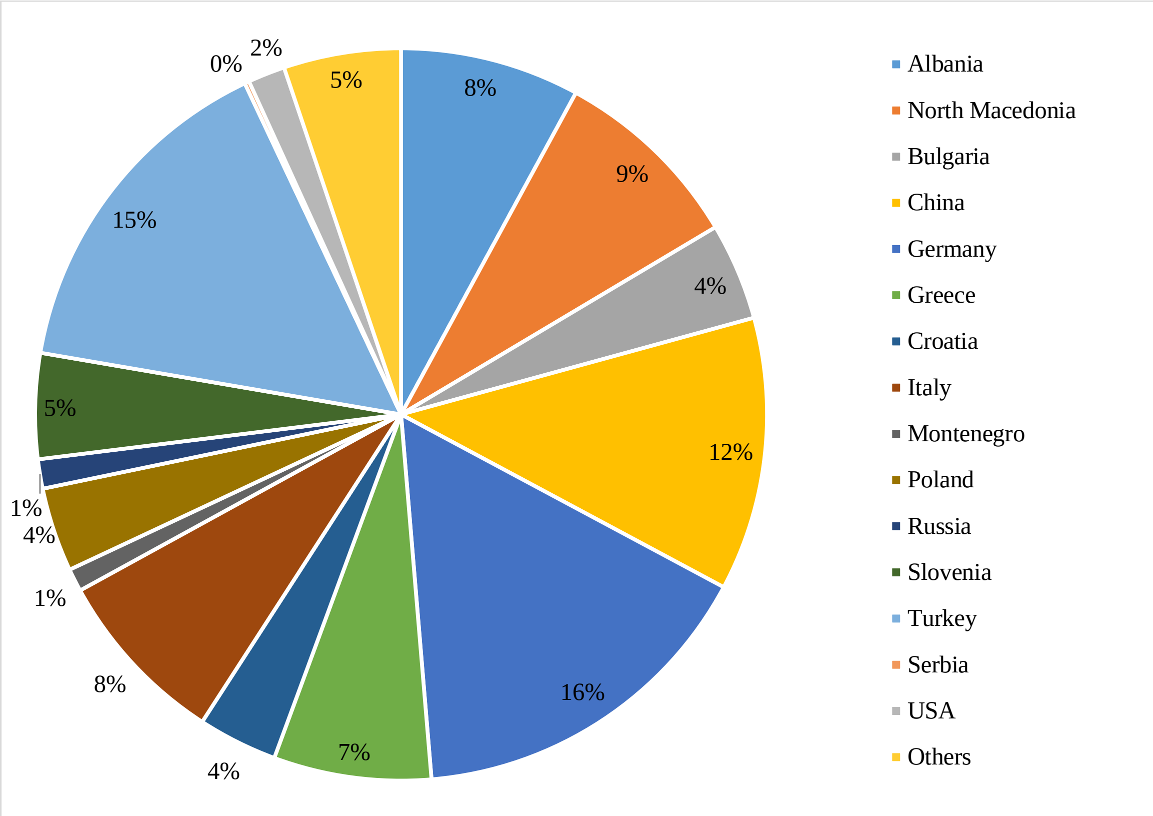
Figure 11. Kosovo`s main exporting partners in 2019, in percent (%).



Source: CBK (2019).

Kosovo`s main import trade partners from the EU are: Germany by 16%, Italy by 8% and Greece by 7%, Slovenia by 5%, Poland by 4%, Croatia by 4%, and Bulgaria by 4%. From other countries are: Turkey by 15%, China by 12%, USA by 2%, Russia by 1%, and others by 5%. From CEFTA countries, most of the imported products are from Albania by 8%, North Macedonia by 9%, and Serbia and Montenegro by 1% (Figure 12).

Figure 12. Kosovo`s main import trading partners in 2019, in percent (%).



Source: CBK (2019).

Vardari (2015) on his empirical research, finds out that exports play an important role in the economic growth of Kosovo, but, along with the inclusion of the intermediate imported products (Vardari, 2015).

Since the independent day, Kosovo is recognized as an independent nation above 100 countries. Even though Kosovo has signed the mutual agreement called Stabilisation and Association Agreement (hereinafter: SAA) with European Union, out of 28 European Countries, only 23 countries have recognized Kosovo as an independent nation besides Spain, Slovakia, Cyprus, Greece, Romania, in the Western Balkan region from Bosnia – Herzegovina, and particularly Serbia that their political and economic relations continue to worsen (Russell, 2019). In light of their unacceptance that Kosovo is an independent nation, initially, Kosovo had put a 10% tariff on items that were made in Bosnia-Herzegovina and Serbia. And lastly, it has put 100% tariff to both countries as Kosovo failed to be part of global associations, for instance, in Interpol because of Serbia`s battles against Kosovo. Based on the tariff actions, the European Union claimed that Kosovo as a member of the

Central European Free Trade Agreement (hereinafter: CEFTA) has abused principles of this agreement (Coffey & Kochis, 2019).

The tariff by 100% to Serbia and Bosnia & Herzegovina helped increase production and consumption of products made in Kosovo. But, on the other hand, resulted in negative effects such as increment in raw material price and the cost of transported products (Havolli & Uka, 2019).

Even though Kosovo is not a member of the European Union and to travel around is necessary to have or request a visa, the European Institutions since independence day, besides the rule of law, also have and continue to strengthen the relationship and give financial support for Kosovo`s economic development (Nezaj, 2015).

Besides the EU that is one of the main partners of Kosovo and has financed till now with over 2.3 billion, the most supportive partner that plays the main role since during the war days for the development of Kosovo and that has very good economic relations are the United States. For instance, every year U.S. President Administration allocates around $52 million to support Kosovo`s economic growth, enforcement of the rule of law, improvement of the business environment, improvement of education, energy, and health sector through organizations such as: United States Agency for International Development and Millennium Challenge Corporation (hereinafter: USAID, MCC). The latter has contributed in the amount of $49 million with the aim to exert economy and investments (Morelli, 2018).

Nevertheless, rebuilding a moderate open market economy by the support of other countries did not have an impact on its international trade, eventhough the main partners for the export and import are from the European Countries and from CEFTA (Jusufi, Mahmutaj & Jusufi & others, 2015).

2.4 Quality of Institutional Environment of Kosovo

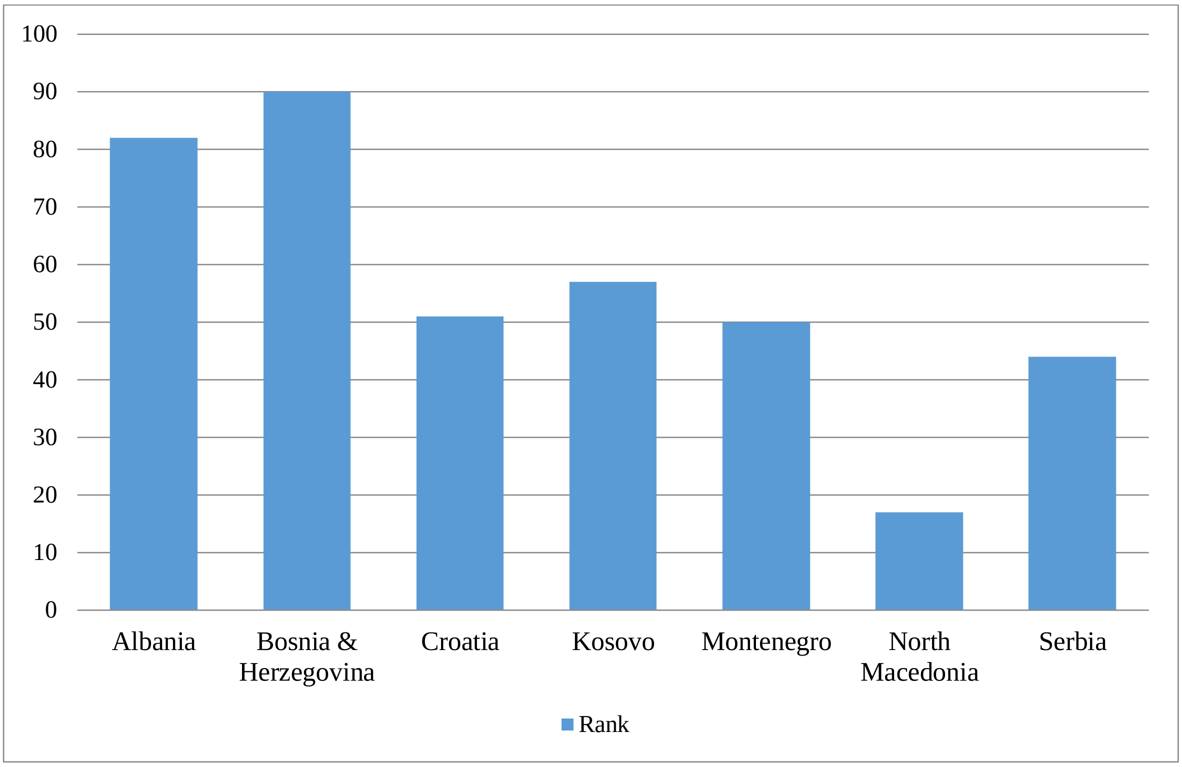
Regulation is considered one of the most effective mechanisms that states use to intervene in economic activities and improve their market economies. In any case, policymakers pretend to use this kind of mechanism in a proper way that will not harm, particularly, resource allocation and product efficiency. Considering this, OECD governments always try to be convenient and change their regulatory condition (Conway, Janod, & Nicoletti, 2005).

Alesina, Ardagna, Nicoletti, and Schiantarelli (2003) on their empirical research, find out that a tight regulation provided by a government has an enormous negative impact on investment (Alesina, Ardagna, Nicoletti, & Schiantarelli, 2003).

Evaluation of the quality of the institutional environment of Kosovo, is based on gathered data by the World Bank (2020), in terms of ease of doing business Kosovo in 2020 ranked on the place of 57th out of 190 countries. Compared with other Western Balkans countries, Kosovo for doing business stands better than Albania that is ranked on the place of 82th and

Bosnia – Herzegovina on the place of 90th, while stands worse than Croatia that is ranked on the place of 51th, Montenegro on the 57th, Serbia on the 44th and North Macedonia that is on the place of 17th ranked globally, and on the 1st place in the region (Figure 13).

Figure 13. Ease of doing business ranking of Western Balkan countries on 2020.



Source: The World Bank (2020).

In 2020 Kosovo made this progress in ranking due to its four positive reforms, the first positive reform is at regulation of dealing with construction permit by scoring 55,3 out of 100 points more than Albania and Bosnia & Herzegovina, since eliminated the prerequisite for approval of construction and inspection of location in order to make easier its procedures. The second is getting electricity as Kosovo`s main problem was to provide supply power, thus they improved with the implement of a Supervisory Control and Data Acquisition (SCDA) that monitors automatically electricity in any case of an outage and that made to score comparable with the EU average and in the region. The third is protecting minority of investors by presenting a necessity for investor endorsement of related party transactions, requiring more transparency on those transactions of annual reports, and making more simpler to sue executives in any case of misapplication, even though has the lowest score in the EU average and in the region. And the last one is enforcing contracts with the aim to make easier legitimate business issues by including a consolidated law on autonomous intervention and that made to score higher than Albania, Bosnia & Herzegovina, and EU average. But, most importantly on 2020 for starting a business Kosovo scored 95.9 out 100 points or ranked at 15th place globally (The World Bank, 2020). Presented overall regulations scores are in Table 3.

Table 3. Comparing Kosovo`s scores regulations with the region and the EU average.

Score Regulation 0 → 100	Kosovo	Croatia	Albania	Bosnia & Herzegovina	EU average
Starting business	95.9	85.3	91.8	60	90.5
Dealing with construction permit	55.3	57.8	52.7	48.6	69
Getting electricity	73.9	86.8	71	79	75.6
Registering property	77.5	77.4	63.4	63.6	75.8
Getting credit	85	50	70	65	72.2
Protecting investors	40	70	46	65	61
Paying taxes	81.9	81.8	65.2	60.4	77.9
Trading across borders	94.2	100	96.3	95.7	87.3
Enforcing contracts	64.7	70.6	53.5	57.8	65.5
Resolving insolvency	63.5	65.5	67.7	68.2	55.7

Source: The World Bank (2020).

After independence, Kosovo started immediately to improve its quality institutional environment as in 2010 was ranked on 113th place out of 183 countries and the only positive reform during that time was made at regulation of paying taxes by cutting the corporate tax rate of 20% to 10% with the aim to attract more investments (The World Bank, 2009). Kosovo provides also other relevant laws to investors such as: The Law on Business Organizations (02/L-123), The Law on Economic Zones (03/L-129), The Law on Arbitration (02/L-75), The Law on Chamber of Commerce (No. 2004/7), The Law on Standardization (Regulation No. 2004/12), The Law on Executive Procedure (No. 3/1-2008), and the Law of the Kosovo Credit Guarantee Fund (No. 5/1-057), but, the main weakness of these laws is execution in practice (Kaçiu & Ejupi, 2017, p. 152).

Furthermore, Kosovo during the years gradually improved all of its regulations, except in 2011, regulation of registering property made more difficult of doing business by increasing the fee for the registration of property transactions (The World Bank, 2010). However, in 2014 ranked on 86th and made three positive reforms, firstly, at starting a business (ranked on 100th) by creating a one-stop shop for incorporation, secondly, at dealing with construction permit (ranked on 136th) by eliminating the prerequisite for approval of main construction project, eliminating technical fees and reducing permit fees for construction from the municipality (The World Bank, 2013). In 2018, made positive reforms on regulations of further improvement of starting a business (ranked on 10th), getting credit (ranked on 12th) by establishing special law in order to facilitate procedures and secure investors for their liabilities that resulted also in the improvement of resolving of insolvency ranked on 49th (The World Bank, 2018). In 2019, positively reformed regulation of paying taxes (ranked on 44th) by permitting to request a refund of VAT and do not report any expense above 500 euro. And, with the aim to increase the exports, Kosovo reformed positively the regulation of trading across borders (ranked on 51th) by facilitating customs clearance, and, that resulted on rank of 44th place of ease of doing business (The World Bank, 2019). The overall results are presented in Table 4.

Table 4. Ranking and positive and negative regulations of Kosovo over 2010-2019.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ease of doing business	113	119	117	98	86	75	66	60	40	44
REFORMS										
Starting business	164	163	168	126	100	42	47	13	10	13
Dealing with construction permit	176	173	171	144	136	135	136	129	122	100
Getting electricity	n/a	n/a	n/a	116	121	112	124	114	106	113
Registering property	68	65	73	76	58	34	32	33	34	37
Getting credit	43	32	24	23	28	23	28	20	12	12
Protecting investors	172	173	174	100	98	62	57	63	89	95
Paying taxes	50	41	46	44	43	63	67	43	45	44
Trading across borders	132	130	131	124	121	118	48	51	48	51
Enforcing contracts	157	155	157	138	138	138	71	44	49	50
Resolving insolvency	n/a	n/a	31	87	83	164	163	163	49	50

Source: The World Bank (2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

In light of the negative reform on the regulation of registering property, the goverment has created the Kosovo Investment and Enterprise Support Agency (hereinafter: KIESA), that facilitate from registration procedure till the end of the implement of the investment. For example, registration of the business in Kosovo takes 3 days, offers the lowest corporate tax rate in the region by 10%, a standard value tax added (VAT) by 18 %, and 0% tax on imports of some materials, capital, and pharmaceutical merchandise (Pula, Loxha, & Elshani, 2017). But, Sahiti and Lawton-Smith (2017) on the analysis of 600 companies find out the main challenges that foreign investors face are the following: no fair competition, corruption, lack of rule of law, lack of financial and human resources (Sahiti & Lawton-Smith, 2017). Even based on the report of the European Commission (2019), Kosovo has made progress with its introduced business strategic laws and reforms by developing an open market economy, but still lacks on having a formal economy, a proper legal system, transparency, and enforcement of rule of law (European Commission, 2019).

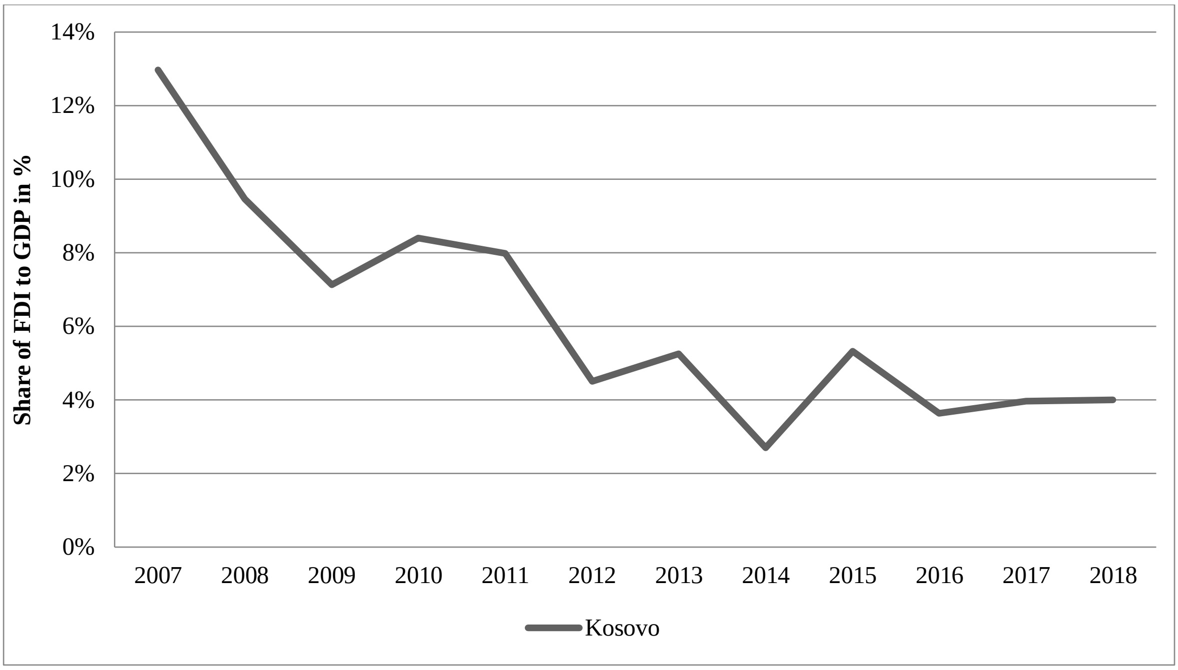
3 FOREIGN DIRECT INVESTMENT IN KOSOVO

In this chapter, the first part is the overview of FDI in Kosovo, the second part is opportunities and barriers of foreign investors, the third part is framework legislation toward FDI, a case study (foreign company), and the last part macroeconomic impacts of FDI in Kosovo and government`s economic development strategies.

3.1 Overview of FDI in Kosovo

According to the World Bank (2019), the share of foreign direct investments on the GDP of Kosovo in 2008 was at 9.47%, the highest experienced rate since independence. Meanwhile, this rate gradually has declined throughout the years compared with the level of the amount of foreign direct investment in Kosovo. In 2018 share of FDI is at 4% (Figure 14).

Figure 14. Share of FDI in GDP of Kosovo over 2008-2018, in percent (%).

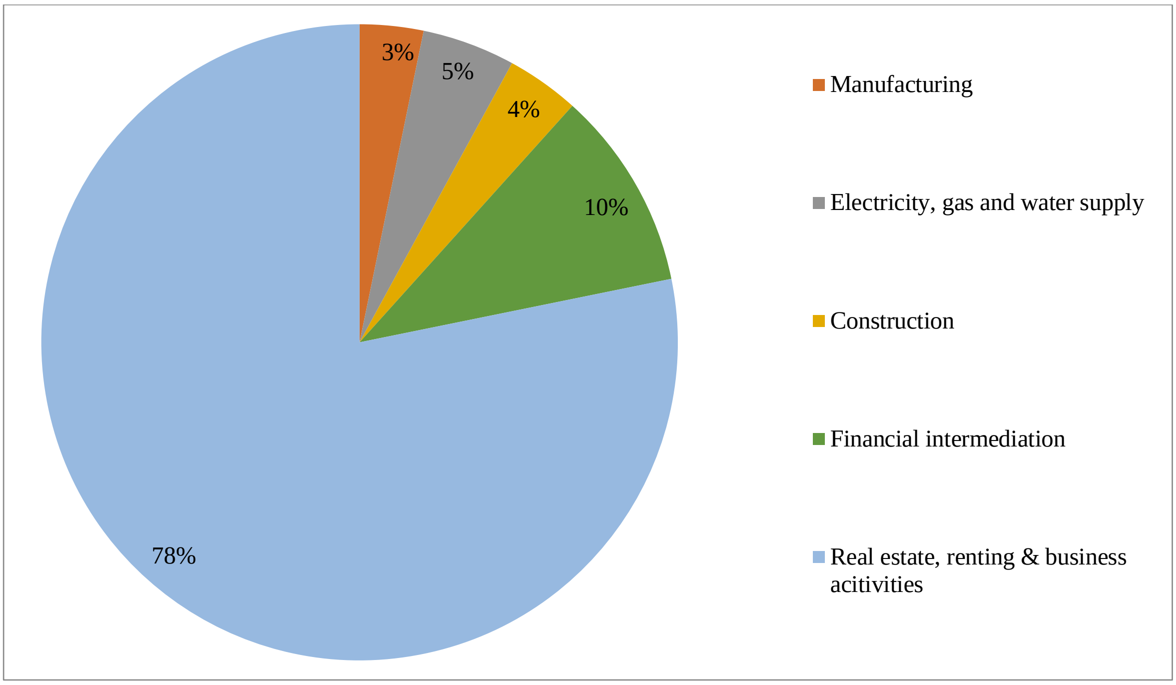


Source: The World Bank (2019).

One of the factors that is discouraging foreign investment in Kosovo or the rate of foreign investment to remain low is the charge of Value Added Tax rate. Mustafa, Fejza & Konxheli (2017) on their empirical research, find out that Kosovo`s VAT rate increased from 15% to 16% negatively is impacting or decreasing the rate of foreign investment (Mustafa, Fejza, & Konexheli, 2017).

The main sectors that foreign investors have invested on 2019 are: real estate, renting and business activities by 76%, financial intermediation by 10%, electricity, gas and water supply by 5%, construction by 4%, and manufacturing by 3% (Figure 15).

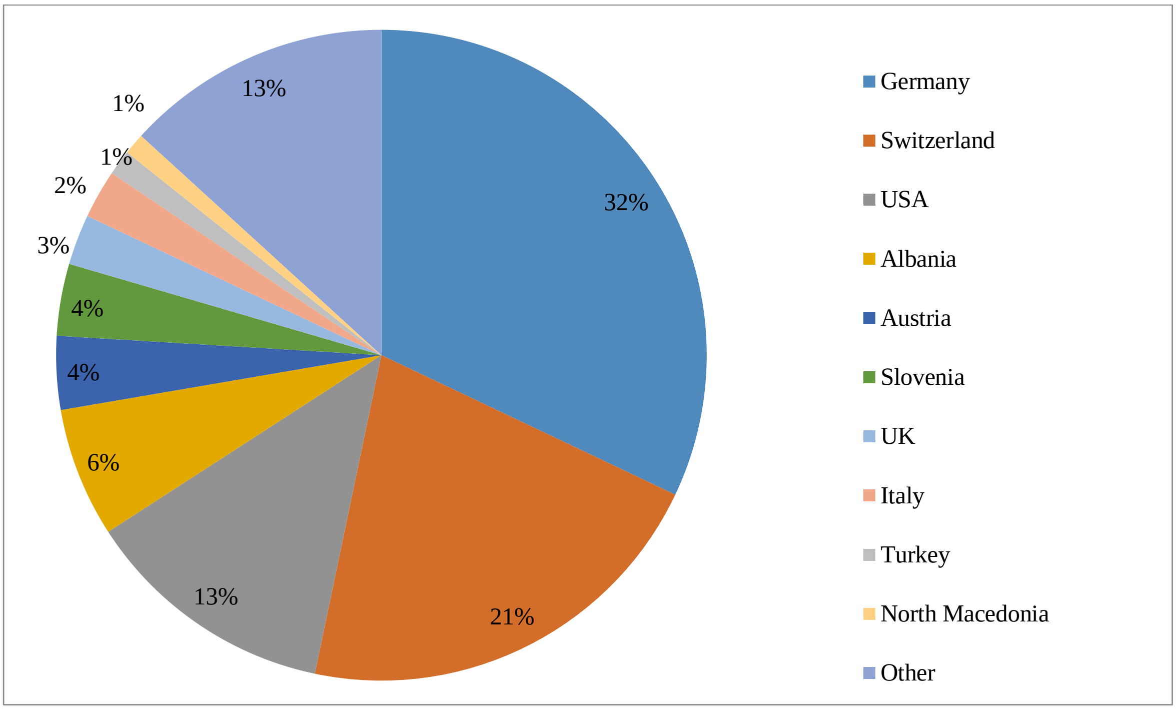
Figure 15. The main investment sectors by foreign investors in Kosovo on 2019, in percent.



Source: CBK (2019).

The countries that invested mostly in Kosovo are: Germany by 32% and Switzerland by 21%, followed by the USA by 13%, Albania by 6%, Austria by 4%, Slovenia by 4%, the United Kingdom by 3%, Italy by 2%, Turkey by 1%, North Macedonia by 1%, and other countries by 13% (Figure 16).

Figure 16. The main foreign investment countries in Kosovo on 2019, in percent.



Source: CBK (2019).

Since, Kosovo has progressively gathered diaspora populace in Switzerland and Germany, is the main reason why are the countries that have invested mostly and reliably in Kosovo (Memishi, 2017).

The largest foreign companies that have invested in Kosovo by country of origin and by sector are presented in Table 5.

Table 5. The top 20 foreign companies by country of origin and by sector in Kosovo.

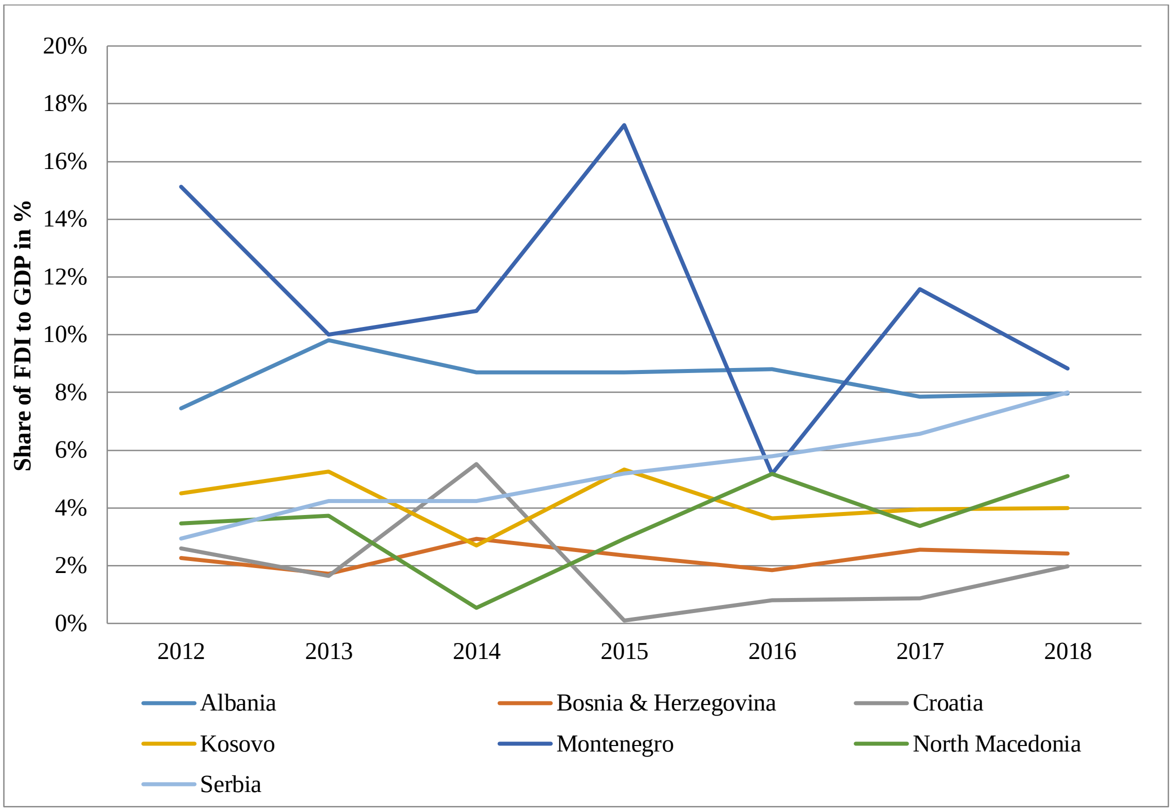
The top 20 foreign companies in Kosovo		
Company	Country of origin	Sector
1. Raiffesen Bank	Austria	Financial
2. Pro Credit Bank	Germany	Financial
3. Kasabank/Nova Ljubljanska Banka	Slovenia	Financial
4. Telecom Slovenia & IPKO Net	Slovenia	Telecommunication
5. Insurance Company " Sigal"	Albania	Insurance
6. Insurance Company " Insig"	Albania	Insurance
7. IMR- Alferon	Great Britain	Mining
8. Llamkos	India	Metal Processing
9. Haro Trade and Consulting L.T.U Xella	Austria	Construction
10. KosovaPlast	Macedonia	Construction
11. Rofix	Austria	Construction
12. SharrCem	Greece	Production of cement
13. Silcapor/Grand/Hotel	Kosovo/Macedonia	Construction/Hotel
14. Renova	Macedonia	Construction
15. M & Sillosi -Xërxë	Switzerland/Macedonia	Food industry
16. Rahoveci Vinery	USA	Food industry
17. Newco Trofta Istog	Belgium	Food industry
18. "LUKO"	Luxemburg	Food industry
19. "Semenarna" Kosovë	Slovenia	Agriculture
20. Ballkan Belt	Turkey	Leather and rubber

Source: International Business Publications USA (2019, p. 136).

Hasan (2017) on his survey, finds out that the main reasons that attract foreign companies to invest in Kosovo are as follows: wide opportunities in different sectors, euro currency, reliable banking system, young generation with know-how skills, legal framework comparable with European standards and agencies that support and encourage investments. Regarding obstacles, foreign investors pointed out: crime and corruption, bureaucracy system, absence of easement of administrative procedures, and a higher rate of unemployment, the latter related to crime due to negative impacts that could affect them (Hasani, 2017).

Comparing the share of FDI to GDP with other Western Balkan countries over the period of 2012 – 2018, Kosovo has higher than Bosnia & Herzegovina and Croatia, and, lower than Montenegro, Serbia, Albania, and North Macedonia. Thus, there is a discrepancy among the ranking in terms of ease of doing business and the share of FDI in those countries, since in one side Western Balkan countries rank on a high level of doing business, but, in other side, the share of foreign investment remains low (Figure 17).

Figure 17. Share of FDI to GDP of Western Balkans over 2012-2018, in percent (%).



Source: The World Bank (2019).

Osmani (2015) on his research, finds out that the low foreign investment rate is due to lower economic development results of Western Balkan countries, particularly for Kosovo, Bosnia & Herzegovina, and North Macedonia that is followed up also with a high rate of unemployment and poverty, political instability, and lack of security (Osmani, 2015).

Moreover, Islami & Mulolli (2016) on their empirical research, finds out that the main factors that encourage FDI in Western Balkan countries are not the capacity of the economy, but, the trade openness and a proper legitimate investment (Islami & Mulolli, 2016).

3.2 Opportunities for FDI in Kosovo

Xhemajli & Kalac (2015) listed some of the opportunities that foreign investor could benefit by investing in Kosovo, as follows:

- Is treated as an attractive area for investment,
- Has the most youthful populace in the European Union, with an average age of 25 years old and well educated,
- Use the euro as an official currency,
- Trade openness with the European Union, USA, and CEFTA,
- Tax rate of profit 0% - 10%,
- Pension contribution of profit 5%,
- Value Added Tax 16% and corporate tax rate 10%,
- Part of the international organization e.g. IMF and WB,
- A stable financial system (Xhemajli & Kalac, 2015).

The geography position of Kosovo remains attractive for investments due to its location in the center of Balkan and its developed infrastructure related to the European Countries over the air, railway, road, and three seaports, with:

1) Thessaloniki, Greece: 329 km,
2) Durres, Albania: 262 km,
3) Trivet, Montenegro: 299 km (Rama, 2017).

The distance location between Pristina and other capitals of Western Balkan countries is presented in the Table 6.

Table 6. The distance location between Prishtina and other capitals of Western Balkans countries, in kilometers (km).

Country, Capital	Distance location in kilometers (km)
Albania, Tirana	256
Bosnia & Herzegovina, Sarajevo	390
Croatia, Zagreb	741
Macedonia, Skopje	86
Montenegro, Podgorica	321
Serbia, Belgrade	355

Source: KIESA (2020).

The government of Kosovo shares 4.3% of GDP to education. To improve the standard of life, education is considered vital for employment to young people of Kosovo, inside or out of the country. The interest to register in the public or private universities is higher, currently is an estimated enrollment of 120,000 students (Friedrich Ebert Stiftung, 2019).

Gradually improvement of education in Kosovo was due to strategic developed programs by the government, implemented programs as follows:

- Kosovo Education Strategic Plan 2011-2016,
- Strategy for Development of Higher Education in Kosovo 2005-2015,
- Strategy for Improvement of Professional Practice in Kosovo 2013-2016,
- Strategy and Action Plan for Career Guidance & Counselling 2013-2016,
- New Kosovo Curriculum Framework KCF,
- National Qualification Framework,
- Kosovo Strategy for Youth, Culture and Sport 2013-2017 (European Training Foundation, 2014, p. 17).

Information and Technology Communication (hereinafter: ICT) is one of the main priority of Kosovo Education Strategic Plan 2017 – 2021, since is predicted 76.6% of the population are ICK users, comparable with developed countries (Ministry of Education, Science and Technology, 2016).

Hoti, Susuri, Hamiti & Hoti (2019) on their survey, finds out that 48.1% of answerer posse professional ICT skills at a higher level, 40.1% at medium level, and 10.2% at a low level, furthermore, for educational and professional advancement 48.6% of answerer use ICT, 26.2% occasionally, 14% only for that, and 9% more or less (Hoti, Susuri, Hamiti, & Hoti, 2019).

Kosovo started to use the euro as official currency since 1999, including Montenegro are the only countries that use the euro currency on their economies compared with other Western Balkans countries (Table 7).

Table 7. Official currency in Western Balkan countries.

Country	Date of Adoption	Official Currency
Albania	1992	Lek
Bosnia & Herzegovina	1997	Convertible marka
Croatia	1993	Kruna
Macedonia	1995	Macedonia denar
Montenegro	1998	Euro
Kosovo	1999	Euro
Serbia	1992	Dinar

Source: Uvalic & Daviddi (2004, p. 292).

Foreign investors can also benefit from a mutual agreement that's Kosovo has with regional and other countries, such as: CEFTA (Albania, Bosnia & Herzegovina, Montenegro, Moldova, North Macedonia, and Serbia), Stabilization and Association Agreement (European Countries), Generalized System of Preference Program (USA, Japan, and Norway), and due to Free Trade Agreement with Turkey (Bajrami & Krasniqi, 2019).

The Value Added Tax rate of Kosovo is 18% equivalent with North Macedonia, comparing with other countries in the region Bosnia & Herzegovina has the lowest rate 17%, and, the highest rate has Croatia 25%. Kosovo and Bosnia & Herzegovina have a revenue tax rate, corporate tax rate, and personal income tax rate 10%, while Montenegro has the lowest tax rates 9%, and the highest rates has Croatia of revenue tax rate, and corporate tax rate 18%, and personal income tax rate 36% (Figure 18).

Figure 18. VAT, corporate tax, personal income tax and revenue tax rate of Western Balkan countries, in percent (%).

Source: PwC (2020).

Financial stability in Kosovo is considered from foreign investors one of the main reliable sectors that attracts them to invest. Out of 10 commercial banks in Kosovo, 8 of them are foreign banks that operate in control and regulations of the Central Bank of Kosovo, as follows: NLB, Bank for Business, Procredit Bank, TEB Bank, Raiffeisen Bank, Turkiye Cumhuriyeti Zirat Bankasi, Turkiye IS Bankasi, Komercialna Banka Ad Beograd. That offers banking products and services of the first trend of innovation (Livoreka & Asllanaj, 2018). According to the Central Bank of Kosovo, the financial sector on 2019 is characterized well-capitalized and liquid. Increment of annual assets registered by 10.6 % or contributed in total of 4.30 billion EUR, and loans by 10.5% contributed in total of 2.94 billion EUR (CBK, 2019).

Nevertheless, the Institute for Free Market Economy (2019) identified several sectors in Kosovo, that foreign investors may result in profitable. Sectors as follows: energy and mining, information and communications technology (ICT), agriculture and farming, construction, tourism, and textile industry (IFME, 2019).

3.2.1 Energy and Mining

Kosovo is ranked globally in fifth place with an amount of 14.7 billion tons of coal, particularly with lignite that use to produce electricity. Kosovo, Dukagjini, and Drenica are the key basins that lignite can be found. Mining of Mirash, Bardh, and Sibovc located in the municipality of Obilic is highly lignite-resourced. Kosovo produces electricity with a price of 0.62/GJ, lower than Bulgaria, Montenegro, and Serbia (Rizvanolli, 2019). Moreover, Kosovo has great potential to produce electricity through renewable energy sources such as: wind, solar energy, and wood biomass (Sahiti, 2012).

Is estimated that Kosovo also is highly resourced with metal of lead and zinc 59 billion tons, nickel 13 million tons, magnesium 4.1 million tons, and bauxite 2.7 million tons (Table 8).

Table 8. Minings of Kosovo that are highly resource with lead, zinc, nickel, magnesium, and bauxite, in billion tons.

Name of mining	Metal	Quantity (tons)
Trepca	Lead and Zinc	59 billion
Ferronikel	Nickel	13 million
Strezov and Golesh	Magnesium	4.1 million
Kline	Bauxite	2.7 million

Source: Ministry of Economic and Development (2019).

3.2.2 Information and communications technology (ICT)

Kosovo lead with the ICT sector in the Eastern European countries, is estimated 93% of the population has access to the internet and having the youngest population each year 350 students graduate in ICT, even 78% of existing ICT companies export their services (ECIKS, 2020).

Support for the development of new and existing ICT businesses through funds, instructions, tutoring, loans, logistics, international cooperation, etc., is provided by several institutions, such as: The Business Advisory Center, Business Support Center Kosovo, Genesis Technology Center, Kosovo Association of Information and Communication Technology, Innovation Center Kosovo, Innovation Lab Kosovo (OECD, 2013, p. 37).

The ICT sector is one of the main sectors that the government of Kosovo is focused to improve and support by creating special laws and different funds for businesses to create new jobs and transform the economy through digitalization. Laws that support the ICT sector are developed based on EU legislation, as follows: Law no. 04/L-109 on electronic communications, Law no. 04/L-094 on the information society services, which include e-Commerce law, e-Signatures law, e-Payments law, e-Electronic contracts, Law on copyright and related rights, Law on Amending and Supplementing the Law no.04/L-065 on Copyright and Related Rights, Law on the Protection of Personal Data, Law on Prevention and Fight of the Cyber Crime (PwC, 2018, p. 93).

3.2.3 Agriculture and Farming

Kosovo`s temperature is a type of continental climate that throughout the winter is among -20°C and throughout the summer +35°C, providing great potential to produce a wide variety of fruits, vegetables, vineyards and herbs, where, out of 10,908 km^2 total land area, 53% is allowed to use for agriculture (Daci, 2014). Specifically, 38% for grassland, 33% for cultivable land, 24% for farmland, 1.6% for fruits, and 3% for vegetables (IFC, 2018).

Particularly, fruits, vegetables, oil, soft and alcoholic drinks are the most exported products in CEFTA and European Countries (Ministry of Agriculture, Forestry, and Rural Development, 2018). The share of the total export of agriculture products on 2019 is estimated at 17% (CBK, 2019).

The most lucrative agricultural zones to produce with low cost and high quality are considered: Dukagjini for horticulture, Fushë Kosova for potato and cereal, and Mountains for nuts, berries, and medical herbs. Currently are an estimated 83,000 livestock farms, characterized for the production of eggs, milk, cattle, sheep and goats, and pigs. On another side, to alleviate the financial issues for agriculture and farming sector government in cooperation with commercial banks and USAID has created the Agriculture Credit Guarantee Fund with 20.1 million EUR. Several international donors support this sector, such as: European Union, USAID, GIZ, SDC, World Bank, etc. (EFSE, 2014).

For instance, USAID through its program Tetra Tech New Opportunities in Agriculture supports new and existing farms with funds, to find the market, to increase the standard of product quality, to initialize technology and agriculture knowledge, and to increase export (CNFA, 2020).

3.2.4 Construction and Real Estate Activities

Construction and real estate are one of the most attractive sectors for domestic and foreign investors, each year 8000 new enterprises are established (Gashi, 2017). Due to the privatization process in Kosovo, several investment opportunities are in restaurants, hotels, agricultural lands, construction of highways, bridges, buildings, etc. (Hajrizi & Hasani, 2013).

Approximately, 60,000 flats are predicted to be the demand for the next 5 years combined with roads, colleges, eating places. The Government of Kosovo is focused to build highways with countries in the regions, for instance, to connect with the seaport of Durres in Albania, the next target of the government is to build a highway with Merdarë-Kukës-Durrës (Elsie, 2011).

Furthermore, the two biggest construction projects are: the highway to connect with Skopje in Macedonia is estimated to cost 750 million EUR, and the construction of a new thermal power plant named “Kosova e Re” that will cost around 1 billion to 1.5 billion EUR, where mainly the potential constructions companies are from foreign countries (The World Bank Group, 2017).

3.2.5 Tourism

Mountains, lakes, rivers, wellness centers, traditional culture, sports events are some of the essential reasons that attract foreign visitors and investors for tourism activities in Kosovo (KPMG, 2017).

According to the Kosovo Agency of Statistics (2019), Prishtina, Gjakova, Prizeren, Peja, Ferizaj, and Gjilan are the most frequent cities, is estimated 192,761 foreign visitors on 2018 mainly from USA and European Countries have visited Kosovo (KAS, 2019).

The most lucrative zones for foreign investors are considered:

- Natural resources: Rugova Valley, the Gadima caves, Mirusha canyon, National Park “Bjeshket e Nemuna”, Dragash Park, Sharr Mountains, Pishat e Decanit, Ravani Park, Radoniqi Lake, etc.,
- Wellness and healing centers: Peja spa and Kllokot spa,
- Sports activities: Brezovica Ski and Ski resort,
- Archaeological zones of Illyrian and Roman epochs in Siparunt, Dresnik, Rakosh, etc.,
- Museums in Peja and Gjakova,
- Film festivals: Dokufest film festival in Prizeren,
- Cultural heritage: traditional foods and clothes (UNDP, 2015, p. 92).

Also, 20,000 hectares of the Sharr Mountains bordered with Albania and North Macedonia, Kosovo is offering for privatization (KIESA, 2020).

3.2.6 Textile Industry

The textile industry in Kosovo is characterized by production of footwear, production of clothes, and production of leather products. The majority of businesses is a type of micro-businesses, mostly located in Prizeren, Gjakova, and Prishtina. Most of the products are exported in Germany, Italy, Albania, Bosnia & Herzegovina, and Serbia. Currently, 182 existing businesses are involved in this sector with well-educated workforce and average salary €230 the most economical in Western Balkan, further companies of leather products have the highest profit about €963,000, followed by producers of footwear €406,000, and producers of clothes €53,000 (Ministry of Trade and Industry, 2014).

The demand for footwear is higher, with a population of 1.8 million consumption is at 3.2 pairs per person, higher than Turkey at 2.0, Serbia at 1.71, Bosnia & Herzegovina at 1.5, and Albania at 1.33 pairs per person, and quality is considered to be higher than in China (UNDP, 2014)

Thus, three reasons that foreign investors could take full advantages to invest in the textile industry are: 1) the lowest costs in the Western Balkan and well-educated workforce, 2) moderate involvement of technology that could be received by privatization procedure, 3) higher demand of consumption and access to international trade (Ministry of Foreign Affairs, 2015).

3.3 Barriers of FDI in Kosovo

Kida (2015) on her research, finds out barriers of actual and potential foreign investors in Kosovo, as follows: political instability, crime and corruption, nepotism, lack clarity of tender process, lack of democracy, lack of support by local and regional level, lack monetary of stimulus investment, lack execution of legislation, higher interest rates from banks, and lack of infrastructure followed up with a scarce allocation of electricity, water, and heating (Kida, 2015).

Kosovo since independence has not demonstrated stable political system, disunity between political parties or short-term mandate of government has caused not only discouragement of foreign investment, but also of citizen who get through unemployment and non-fulfillment of fundamental daily things. Particularly, the most expensive is considering the health care system as is estimated 85% of people do not have health insurance due to the inabilities of each government to create a National Health Insurance Fund (Kabashi-Ramaj, 2017).

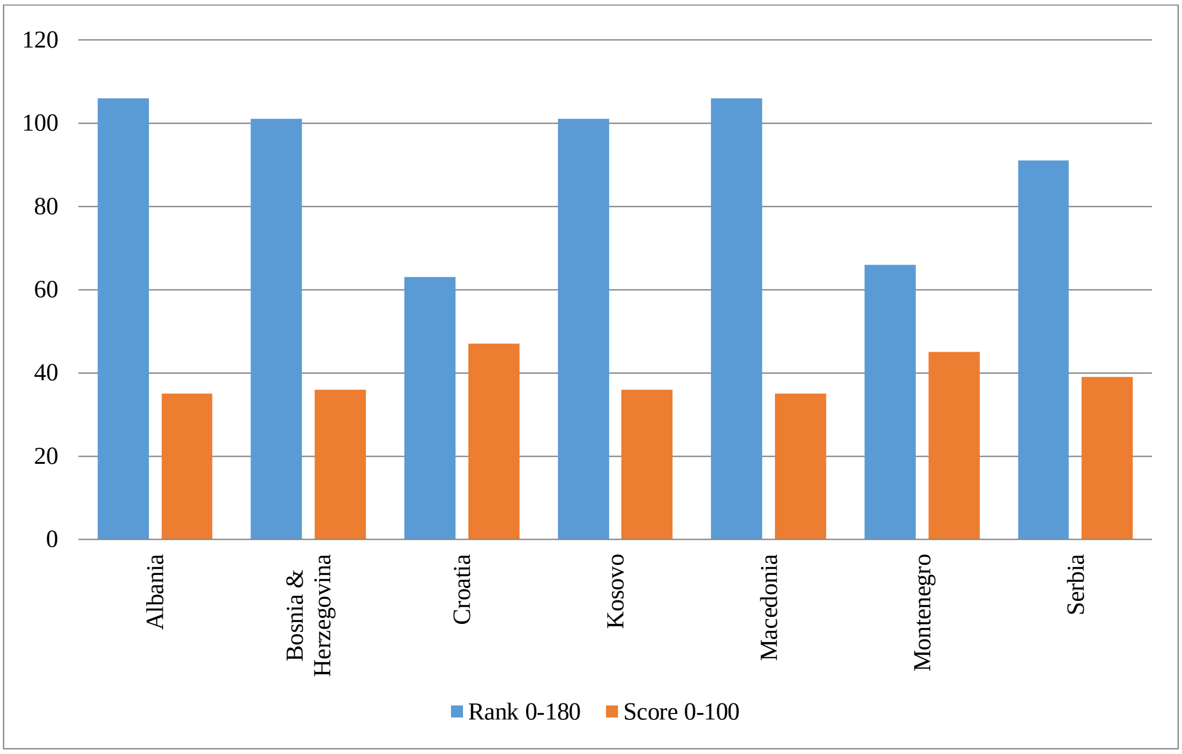
Although, Kosovo still confronts to be integrated into European Union and United Nations as an independent country with fully equal rights, domestically, abuse of political power through informal connections is very commonly practiced in the public and private sector that led in crime and corruption, disbelief in the rule of law and unfair competitiveness among businesses (MSI, 2017).

The presence of crime and corruption has caused a number of problems, ranging from the inability to implement contracts, where companies usually face firstly the non-fulfillment of obligations between the buyer and the bidder, and secondly the non-fulfillment of obligations between the employer and the employee. Then, tax evasion is considered one of the key factors that cause unfair competition, as some competitors do not pay taxes and others are faced to sell at a low price. Also, the non-protection of copyrights and the non-issuance of licenses have made local and foreign investors to not believe in the legal system in Kosovo (Friedrich Ebert Stiftung & Riinvest Institute, 2011).

Institute of Riinvest (2014) on their survey, finds out that from 0 scores to 100 negatively impacting business of foreign investors the main barriers are: higher cost of finance with a score of 84.2, crime and corruption with a score of 82, lack of support by local and regional authorities with a score of 82.3, unfair competition with a score of 80.2, and not efficient legitimate system with a score of 77.8 (Riinvest Institute, 2014).

According to Transparency International (2020), Kosovo in the corruption perceptions index in 2019 ranks in the place of 101th out of 180 countries and from 0 scores meaning highly corrupt to 100 scores meaning very clean, Kosovo`s score is 36 out of 100 (Transparency International, 2020). Comparing with other countries in the region, Kosovo has the same rank and score with Bosnia and Herzegovina and stands better than Albania and Macedonia that resulted with the same rank in 106th and score of 35, while, progress mostly is shown in Croatia with the rank of 63th and score of 47 followed up by Montenegro in the rank of 66th and score of 45, and Serbia in the rank of 91th and score of 39, which stands better than Kosovo (Figure 19).

Figure 19. Rank and score of Western Balkan countries on Corruption Perceptions Index on 2019.

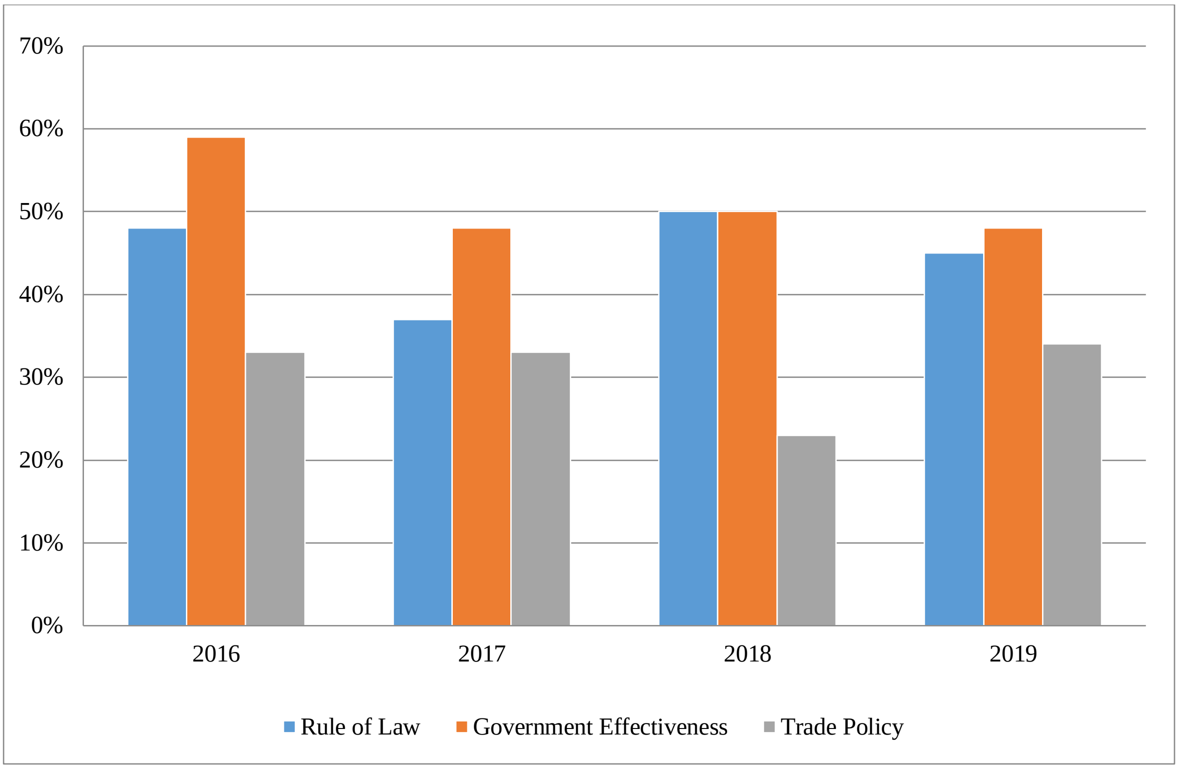


Source: Transparency International (2020).

Kosovo`s laws to fight crime and corruption are created in accordance with EU legislation, but in practice have failed to be efficient. To accelerate tasks bribes, threats, money laundering, nepotism are present almost in every public institution. For example, on July 2016 number of the unsolved criminal cases by courts was estimated at 400,000 as one business case needs 6 months or 1 year to be solved, also 4 out of 10 responders claimed bribery is used regularly to the judges (GAN Integrity, 2019).

Based on scorecards of Millenium Challenge Corporation (2016, 2017, 2018, 2019), meaning 0% is the worst, 50% is the median, and 100% is the best, Kosovo` scorecards for the rule of law from 2016 till 2019 only on 2018 is 50% in other years below, for government effectiveness on 2016 is 59%, but on 2019 declined to 48%, and for trade policy scores are in each year below 50% or the highest is on 2019 by 34% (Figure 20).

Figure 20. Kosovo`s scorecards based on Millenium Challenge Corporations from 2016-2019, in percentage (%).

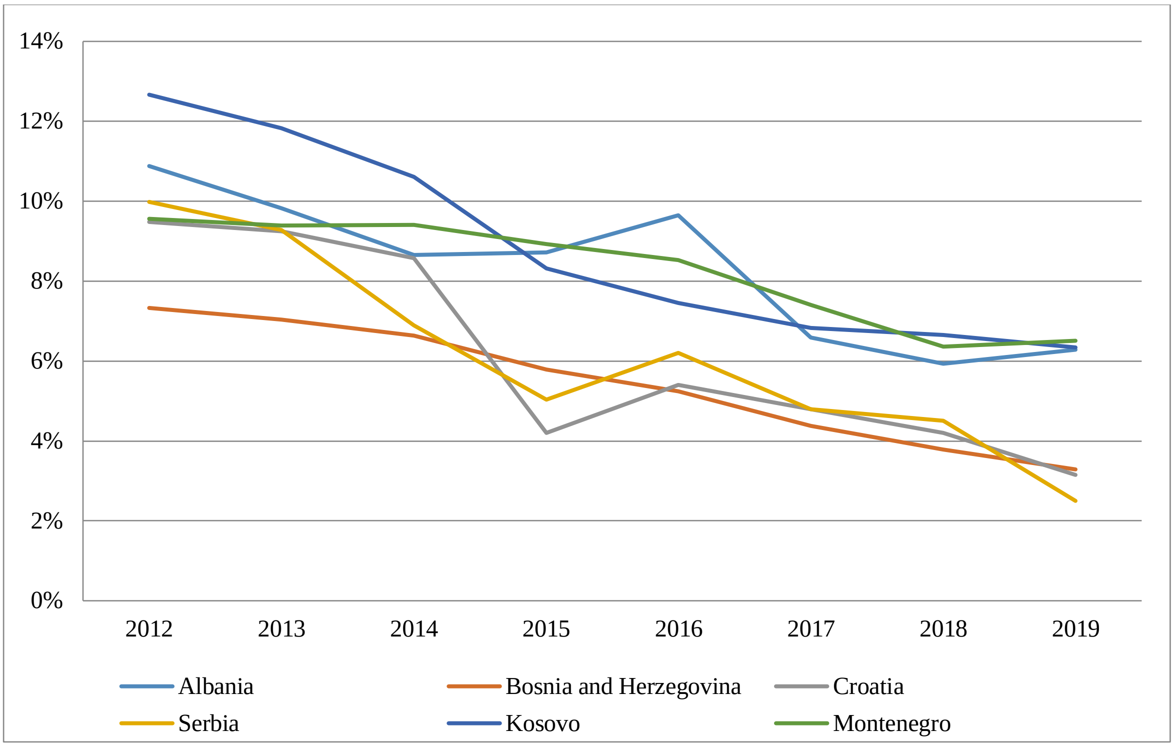


Source: Millenium Challenge Corporation (2016, 2017, 2018, 2019).

The financial sector is considered well-capitalized, but is undiversified. Besides lack of insurance, pensions, leasing and mutual funds, only Kosovo and Albania in the region does not have stock markets. Initial Public Offerings are very uncommon and the credit demand for micro, small and medium businesses is almost inaccessible (The World Bank, 2019). In fact, the banks for small and medium businesses do not offer lease or do not posse it at all, they do not provide also supply through formal equity. The only way to be funded is through the UNDP Supported Diaspora Engagement for Enterprise and Development Fund that currently is not available because of lack of capital (European Investment Bank, 2016).

The highest lending interest rate from banks in Kosovo is registered on 2012 by 12.7%, throughout the years the rate is declined, but comparing with the countries in the region on 2019 Kosovo and Montenegro`s banks provides the highest lending interest rate by 6.4%, then Albania by 6.28%, Bosnia & Herzegovina by 3.28%, Croatia by 3.15% and Serbia by 2.5% (Figure 21).

Figure 21. Lending interest rate of banks in Western Balkan countries in 2012-2019, in percentage (%).



Source: The World Bank (2019).

The present electricity is rated to be very old, inappropriate, and frequent interruptions. Most of the citizens use firewood and coal for heating, but this converted to air pollution, health problems, and skepticism of local and foreign businesses for further investments (The World Bank, 2020). Based on the business survey made by the World Bank (2020), from 271 businesses in Kosovo, 60% of them have experience frequent electricity interruptions (The World Bank, 2020).

Experience of frequent electricity interruptions negatively harms businesses in the reduction of productivity and profit, occur of additional expenses due to damage of equipment, the decline of demand consequently also reduce the number of employees, loss of data that are stored in computers, etc. (Foster Fuels, 2018)

According to the Institute for Development Policy (2019), economic costs caused by air pollution in Kosovo are predicted to be from €37 to €158 million per year (INDEP, 2019). Consequently, causing water damage. Quality of water is balanced, but, misused and limited natural resources have caused Kosovo to have the lowest level of water in the region. Climate changes might impact visibly people and economic growth as is predicted years to come with dry summers. Kosovo provides per person 1,600 m^3 renewable water resources that are 16% of the regional level, and Ibër river is currently water-stressed and in the next 20 years is estimated all the rivers (The World Bank, 2018).

3.4 Public policy towards FDI in Kosovo

Starting from Prime Minister`s Office, Ministry of Trade, and Industry, Ministry of Finance and Ministry of Economic Development, Kosovo`s government provides the same public policy to foreign investors as to the domestic ones. Only for production and sale of military items foreign investors can posse 49% of property, otherwise, applicable laws are:

- "Foreign investors may transfer property rights, including permits, to other legally qualified persons in the same manner and to the same extent as domestic investors;
- Foreign investors have the same right to purchase residential and non-residential property to the same extent as domestic entities;
- Foreign investors with less than majority stake in an investment are protected as domestic minority shareholders in accordance with applicable law;
- Foreign investments are subject to the same tax obligations as domestic businesses;
- Foreign investors may establish subsidiary enterprises, branches, and representative offices in the same manner and to the same extent as domestic businesses" (U.S. Department of State, 2017, p. 5).

To act a lawful way, each business must register to the Business Registration Agency at the Ministry of Trade and Industry in one of those classifications: individual business, general partnership, limited partnership, limited liability company, joint-stock company, a foreign company, socially owned enterprise, publicly owned enterprise, agricultural cooperative and other type of businesses defined by Kosovo Trust Agency (Ministry of European Integration, 2017).

To eliminate tax evasion and simplify tax regulations, the tax regime to foreign investors is similarly applicable to domestic investors through the Value Added Tax Rate, Corporate Tax Rate, and Personal Tax Rate (Table 9).

Table 9. The tax policy towards foreign direct investments in Kosovo.

Value Added Tax Rate (VAT)	Corporate Tax Rate	Personal Tax Rate
Each business with turnover 50,000 € has to register for VAT. The fix tax rate for all the items is 16% and 0% for all items committed for export.	Is paid in each three months based on annum turnover. Above 50,000 € turnover the tax rate is 10%	Is defined based on salary: 0% up to 960 € per annum, 4% from 960 to 3000 € per annum, 8% from 3001 to 5400 € per annum, 10% above 5400 € per annum.

Source: State Portal (2020).

In the other side, Constitution of the Republic of Kosovo for foreign investors contains:

- Law No. 04/L-220 on Foreign Investment,

- Law no. 05/L-079 on Strategic Investments,
- Law no. 04/L-045 on Public-Private-Partnership (Invest in SEE, 2018).

3.4.1 The Law no. 04/L-220 on Foreign Investment

The Law no. 04/L-220 defines: “The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness and in strict and accordance with the accepted international standards and practice” (UNCTAD, 2014, p. 3).

Under this law are defined terms of business organization, foreign investor and foreign investment: “Business organization established in Kosovo can be considered a foreign investment organization if at least 10% of its capital amount is directly or indirectly by a foreign investor”, “Foreign investor is a foreign person that has made an investment in the Republic of Kosovo”, and, “Foreign investment is considered to be any asset owned or otherwise lawfully held by foreign person in the Republic of Kosovo for the purpose of conducting lawful commercial activities” (Elmazaj & Nallbani, 2019, p. 87).

The law defines the size of businesses only based on the number of employees which is in the same definition as of EU legislation, but not based also on turnover (Table 10).

Table 10. Regulations size of micro, small and medium businesses in Kosovo.

Size of Business	EU Legislation	Kosovo Legislation
Micro	< 10 employees, < 2 mn EUR turnover	< 10 employees
Small	< 50 employees, < 10 mn EUR turnover	< 50 employees
Medium	< 250 employees, < 50 mn EUR turnover	< 250 employees

Source: Sahiti (2019, p.37).

3.4.2 The Law no. 05/L-079 on Strategic Investments

The Law no. 05/L-079 defines: “This law aims to stimulate, attract and create conditions for implementation of strategic investments in the Republic of Kosovo, as well as to establish administrative procedures and criteria for evaluation, selection, implementation and monitoring of strategic projects, as well as determining the procedures for granting the use of the property of the Republic of Kosovo, for the purpose of implementation of strategic investments projects" (Official Gazette of the Republic of Kosova, 2017, p.15).

To benefit under this law a foreign investor firstly must successfully implement 60% of the project, secondly invest the minimum amount that is defined by sector, and lastly fulfill the number of employees that are described below (Table 11).

Table 11. Requirements of Law on Strategic Investments based in amount and number of employees to foreign investor.

Sectors	Amount (€)	Number of Employees
Energy, Mining, Transport	30 mn	80
Tourism	20 mn	60
Industrial Technology	40 mn	60
Agriculture	10 mn	50
Telecommunication	30 mn	60
Health, Water, Waste	10 mn	30
Food Industry, Sports	5 mn	30
Education	5 mn	20

Source: GAP Institute (2016, p.7).

3.4.3 The Law no. 04/L-045 on Public-Private-Partnerships

The Law no. 04/L-045 defines: "The purpose of this law is to establish the legal framework for Public-Private-Partnerships, including procedures for the award of a Public-Private-Partnership, the content and structure of a Public-Private-Partnership Agreement and the institutional framework responsible for the management and development of Public-Private-Partnerships in the Republic of Kosovo" (Official Gazette of the Republic of Kosovo, 2011, p.1).

Agreements under PPP law can be contracting partnerships that are referred on public contracts and the private partner is liable for all the activities of the project, and, institutional partnerships that can be created by Public Authority with criteria that the private partner of a bought public company can be part of executives or provisions (Fazliu & Isufi, 2017).

3.5 Case study - Sharrcem Company

Sharrcem company is established in 1936 and is the only company that produces and supplies cement in Kosovo, cement products such as: hydraulic binder sharrmall (MC5), cement 52.5, cement 42.5, and cement 32.5 (Sharrcem, 2019).

In that year the production capacity was estimated 4,415 tons per year, and, due to the privatization process, Sharrcem in 2010 was obtained by Titan Group company from Greece that throughout the years has improved and developed its business process with advanced technology that resulted to remain the leading supplier of cement in Kosovo (Table 12).

Table 12. History of Sharrcem company throughout the years.

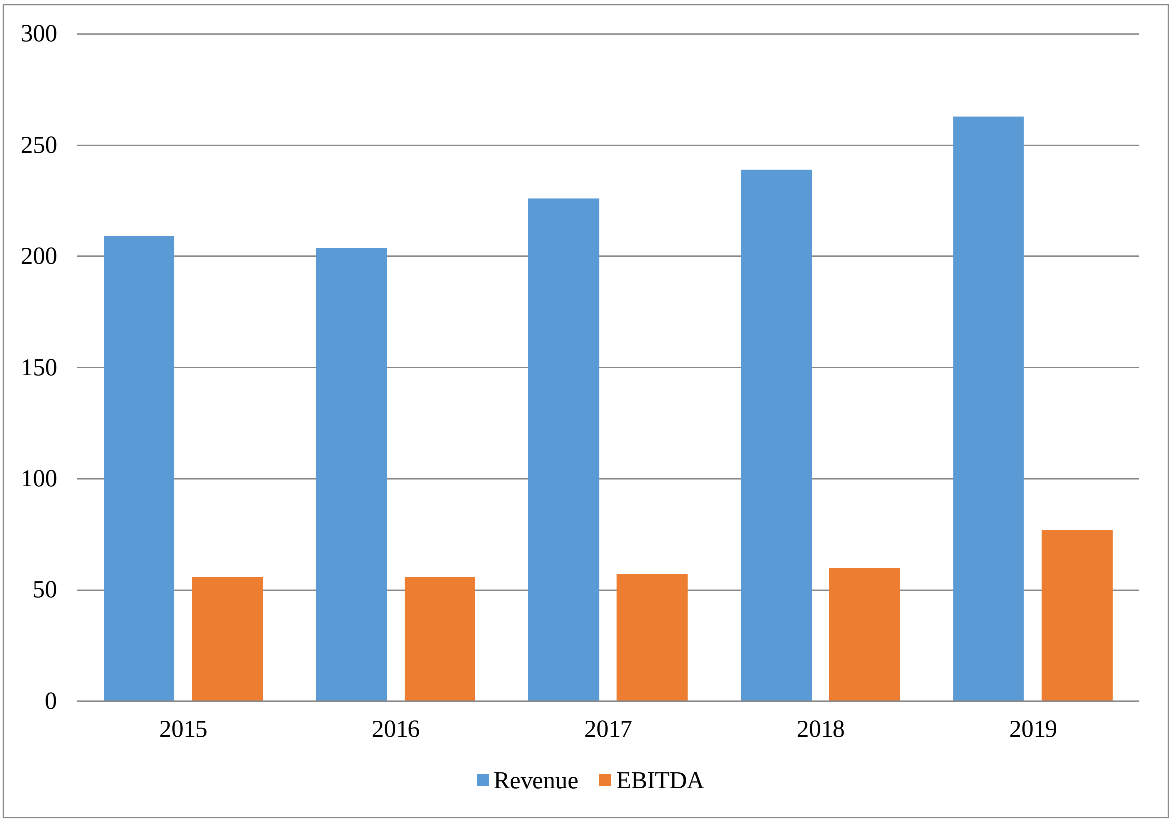
Years	History of Sharrcem
1936	Was established with capacity production of 4,415 tons per year.
1972	Upgrade of company with capacity production of 182,000 tons per year.
1980	Increased capacity production by 525,000 tons per year.
2000	Due to involvment in privatization process, a swiss company Holcim obtained for 10 years.
2010	Titan Group from Greece obtained Sharrcem and started to innovate and transform its production process according to international standards.
2011	Took the lead to establish Kosovo Corporate Social Responsibility Network.
2012/2013	Certified with ISO 9001, ISO 14001, and OHSAS ISO 18001.
2014	The first company that obtained the IPPC permit and created World Business Council project that covers guidelines on Contractors and Traffic Safety.
2015	Established the Laboratory Agro Business where in begining helped to create 18 start-ups.
2016	Obtained the SA 8000 standard certification for social responsibility and accountability.
2017	Was chosen as the best tax payer in Kosovo.
2018	Obtained many awards due to care for employees safety, environment and CSR.

Source: Sharrcem (2018).

Titan Group is a vertically integrated international company established in 1902 that produces cement and other construction materials. Currently, operates in Greece, Brazil, USA, UK, France, Italy, Bulgaria, Serbia, Albania, North Macedonia, Kosovo, Egypt, and Turkey. Kosovo`s amount of cement consumption in 2019 is estimated at 1.4 MT, while, comparing with only countries in the region Bulgaria ranks in the first place by 2.8 MT, Serbia by 2.3 MT, Albania by 1.5 MT, North Macedonia by 0.8 MT, and Montenegro by 0.5 MT (Titan Group, 2020).

In subsidiaries of South-Eastern Europe, Titan Group in 2015 registered total amount of revenue € 206 m and EBITDA € 56 m, the increment continued in the next years also as in 2019 registered total amount of revenue € 263 m and EBITDA € 77 m (Figure 22).

Figure 22. Total revenue and EBITDA of Titan Group in South Eastern Europe subsidiaries in period of 2015-2019, in million EUR.

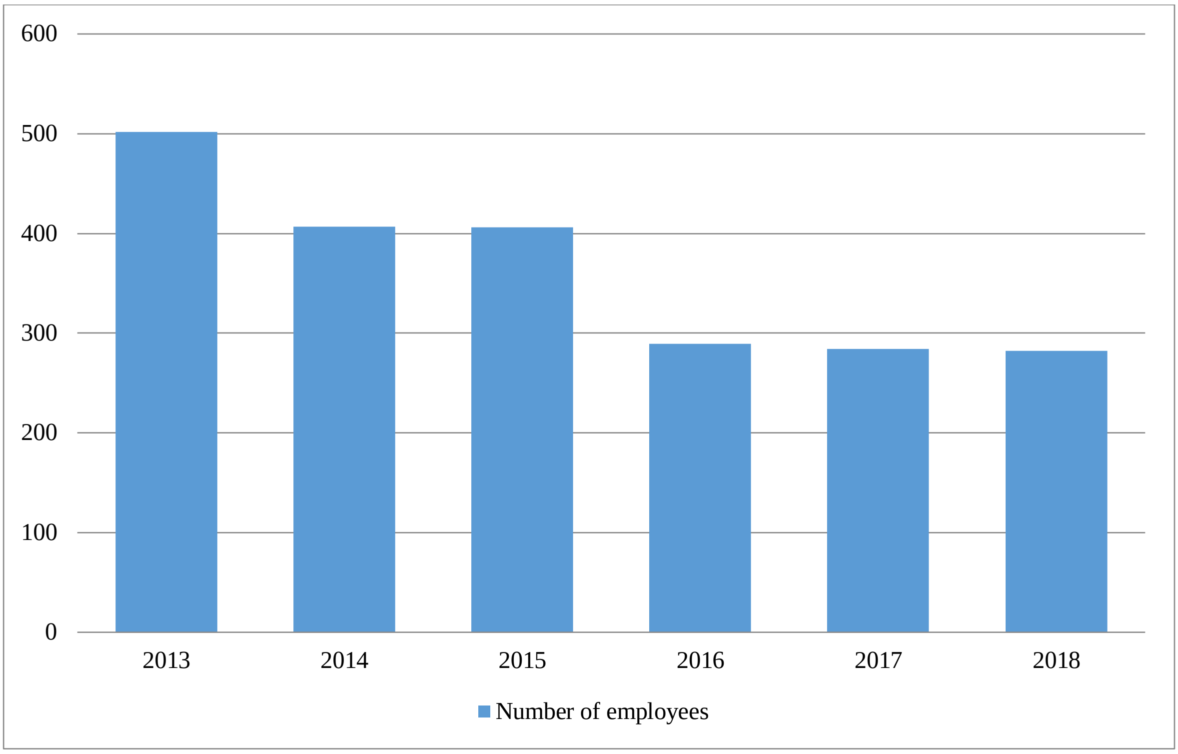


Source: Titan Group (2020).

In 2000, Sharrcem headed by Holcim company operated with 750 employees but the number gradually decreased after 5 years to 650 employees, also, from 2010 when was obtained by Titan Group the number of employees decreased at 285 due to technological investment that the company made, in fact, the decreased number of employees did not cause any conflict among them since 34% of employees mentioned to be very satisfied and 17% fully satisfied due to benefits package Titan Group provides (Institute for Critique and Emancipation, 2017).

Specifically, from 2013 Sharrcem started to operate with 502 employees, then in 2014 the number decreased at 407 employees, in 2015 at 406 employees, in 2016 at 289 employees, in 2017 at 285 employees, and in 2018 operated with the lowest registered number of employees at 282 (Figure 23).

Figure 23. Number of employees of Sharrcem company, period 2013-2018.



Source: Sharrcem – Titan Group Company (2016, 2018).

Although, Titan Group for youth employment, since 1980 has developed different programs to be trained and enriched with know-how skills. A program titled "Youth Matters" is established to contribute in three ways: firstly, by providing free educational programs in the field of Science, Technology, Mathematics and Engineering for the best students, secondly, by helping to achieve their goals through the graduate forum and career days and guidance, and lastly by offering different internships in all subsidiaries to get valuable practical experience (Titan Greece, n.d.).

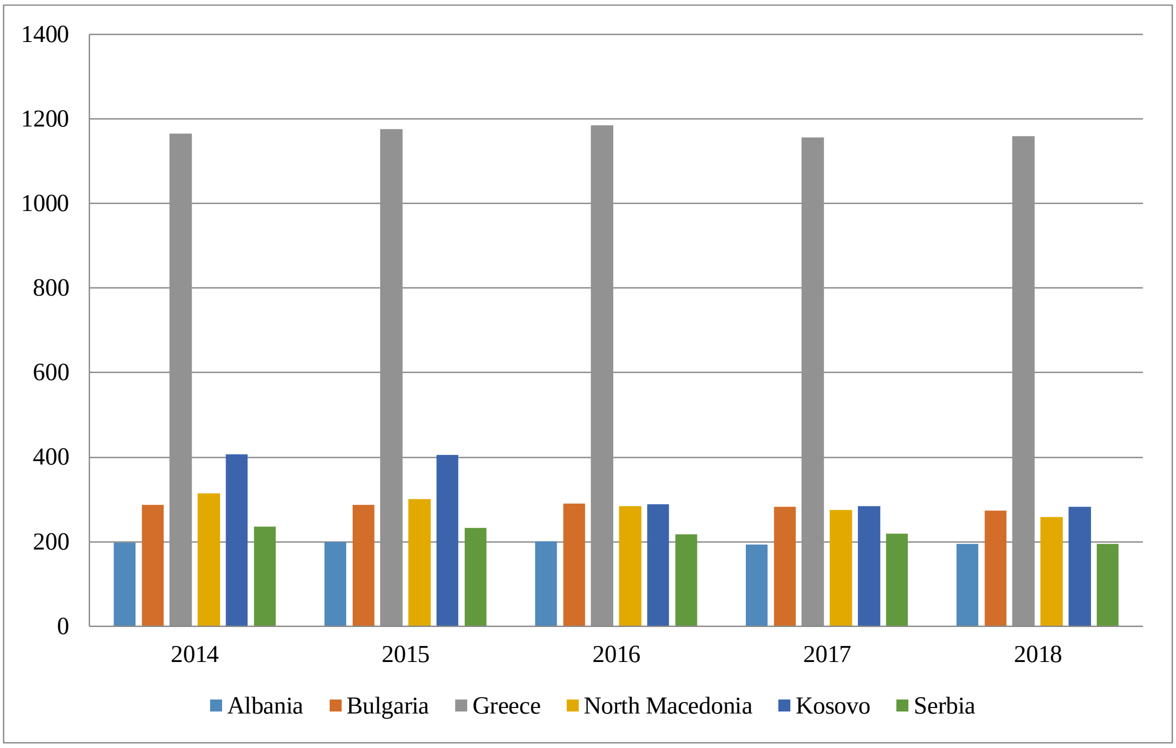
Titan Group throughout the year offered in Greece 110 internships and in its subsidiaries such as: in Kosovo 40 internships, in North Macedonia 166 internships, in Serbia 13 internships, in Albania 5 internships and in Bulgaria 13 internships (Titan Group, 2016).

For instance, to increase employment and improve the well-being of people in Kosovo Sharrcem-Titan Group Company (2017), in the 2014, established Laboratory for Business Activity (hereinafter: LAB), that will help to establish small and medium businesses. Particularly, to establish new start-ups and transform existing ones with advanced technology in the farm sector, that would fulfill current local market needs and substitute import products with local ones. LAB by offering free educational training and financial support has significantly played a positive role in the employment of women in cooperation with the Initiative for Agricultural Development in Kosovo (IADK) – Kosovo and the American Farm School (AFS) – Greece. Is estimated, the LAB has established 78 start-ups and with the grant received by USAID established the other 15 start-ups in the farm sector (Sharrcem-Titan Group Company, 2017).

Vila, Sklavounos, Vergos, Rotsios, and Shabanaj (2020) on their research, find out that 41% of respondents assessed the LAB as excellent, 42% very good, and 17% good, while, regarding the quality of production from the start-ups 90% responded for yes, and 10% for no (Vila, Sklavounos, Vergos, Rotsios, & Shabani, 2020).

Even comparing Kosovo with other subsidiaries in the region, Titan Group besides in the headquarter in Greece that has to contribute on employment mostly from period 2014-2018 with an average number of employees 1171, Kosovo ranks in the second place with an average number of employees 347, then North Macedonia with 294, Bulgaria with 287, Serbia with 227 and Albania 198 (Figure 24).

Figure 24. Number of employees in Greece and South East Europe subsidiaries of Titan Group, period 2014-2018.



Source: Titan Cement Company S.A (2018).

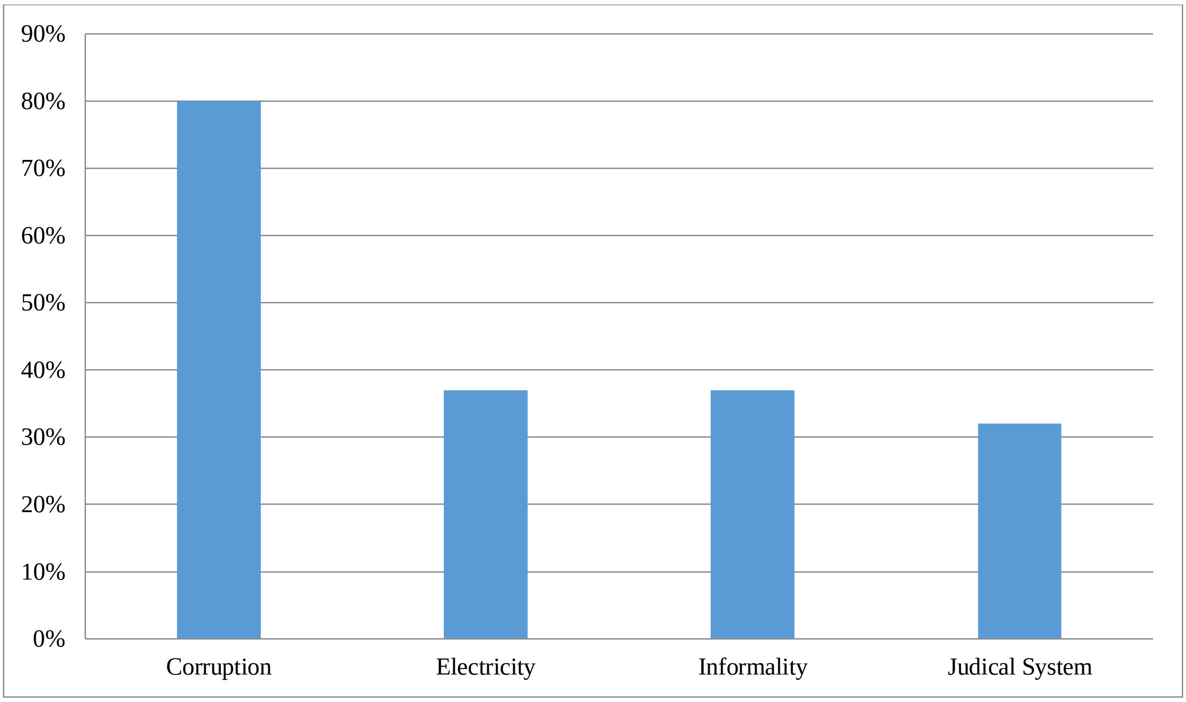
Before privatization, Sharrcem produced clinker in a very traditional way that negatively impacted employees and the environment. Such as: burning process in a temperature of 1450 °C, clinker warehouse packaging, and transport of ordered items. While, Holcim`s first investments were the recovery of the production process by digitalization and investment on the image of a company that takes responsibilities and operates according to the rules and standards of environment and safeness (Matoshi & Veseli, 2018). Further, Sharrcem under the leading of Titan Group has completely digitalized the production process through the Integrated Asset Management System (IAMS), a system that transformed traditional work in an automated way. Starting from orders, payments, preparing financial reports, reducing costs and risks, monitoring correctly employees, etc. (Sharrcem-Titan Group, 2015).

However, there are numerous challenges that manufacture companies of construction materials in Kosovo face daily. Starting from the tough international and local competition with production capacity, certification for quality, and setup of prices, also, absence of any institution or agency that provides certificates of operation in accordance to rules and standards, absence of control of unofficial competition that provides construction materials with low prices and quality, undeveloped infrastructure to export products, imposed higher costs on imported raw material and imposed higher costs in electricity (Kosovo Management Institute, 2017).

Sharrcem is a factory of cement production in Kosovo but the market share of cement consists also with other subsidiaries of Titan Group in the Western Balkan and competitors such as: ANTEA in Albania, Cementarnica USJE AD in North Macedonia, Kosjaric Cement Factory in Serbia, and its main competitor Fushe Kruja Cement Factory in Albania. In Kosovo, the market share of Sharrcem is at 44%, Fushe Kruja Cement Factory at 34%, Cementarnica USJE AD at 23%, and other 1%, while comparing price for instance of cement product 50kg in bags Sharrcem is the most expensive one with price at 5.97 EUR, then Kosjaric Cement Factory at 5.50 EUR, Cementarncia USJE AD at 5.30 EUR, and ANTEA at 5.0 EUR (Democracy for Development Institute, 2013).

Companies in this sector set four major barriers like corruption with 80% due to bribery of officials in each institution, electricity with 37% due to many outages and higher costs, informality with 37% due to unfair competitiveness, and judicial system with 32% due to failure to resolve issues related to barriers above (Figure 25).

Figure 25. The main barriers in construction sector, in percentage (%).

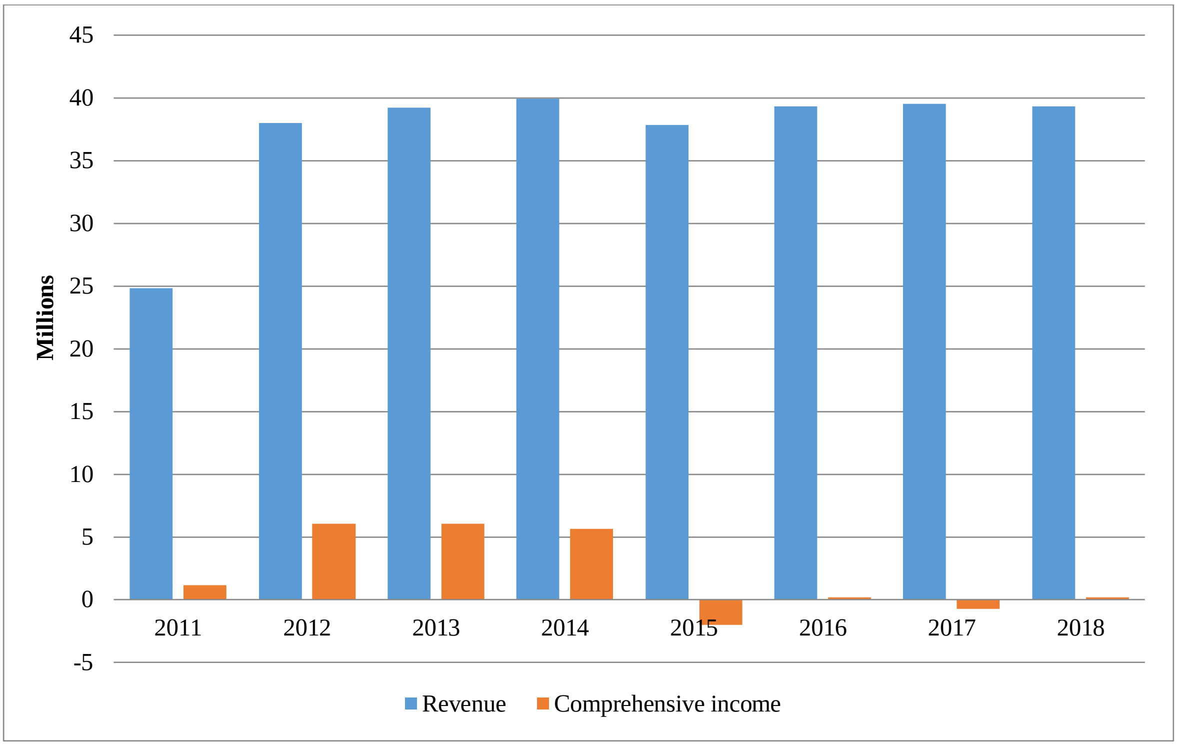


Source: Strategy & Development Consulting (2015).

Even though, it`s positive economic growth by 4% Kosovo on 2019 experienced a 5% decline of cement consumption, comparing also with other countries in the region Albania and Bulgaria experienced a 9% increment of cement consumption, and Serbia and Montenegro experienced a 7% increment of cement consumption (Titan Cement International S.A, 2019).

Sharrcem since obtained by Titan Group in 2012 increased revenue by 13,149,002 € and comprehensive income by 4,903,461 € compared to 2011 in the first years of operations, but, throughout the years even though revenue relatively increased in each year Sharrcem experienced comprehensive loss, for example on 2015 registered comprehensive loss by 2,008,057 € and in 2017 by 754,953 €, thus, to compare finance performance in the first years of operations Sharrcem registered in 2011 a total comprehensive income by 1,153,242 € much large than in 2018 by 164,887 € that happened due to decline of demand for cement, cost of sales and other administrative issues (Figure 26).

Figure 26. Revenue and comprehensive loss/income of Sharrcem, period 2011-2018 in million EUR.



Source: Ernst & Young & PwC (2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018).

3.6 Development strategy of Kosovo and expected macroeconomic impacts of FDI

Relying Kosovo`s economic development in foreign direct investments and remittances the Country Partnerships Framework (CPF) 2016 – 2021 developed by the World Bank (2017), aim to stabilize micro and macroeconomic issues and improve well-being of people of

Kosovo with its three strategic goals, as follows: a) stimulate private sector and employment growth through improvement of business conditions, facilitate access to credit, eliminate bureaucratic procedures, eliminate business informality, create new jobs, more inclusion of women in labour market, and provide legal and financial support to businesses, b) strengthening public services delivery and macro-fiscal management through applying quality, accountability, efficiency in each institution, improve health sector, and improve public sector management, c) provide sufficient supply energy and improve environment through intensifying use of natural resources and mining, establishment of funds and grants for clean environment, and efficient management of natural resources (The World Bank Group, 2017).

Security Country Diagnostics report by the World Bank (2017) suggests what executive, macroeconomic, and social approach Kosovo must undertake for stable economic growth and welfare, the decline in import dependency, and improvement of the competitive market. The main priorities are: a) improvement of infrastructure that will enable increase of productivity, trade competitiveness, standard of life and people` prosperity, b) reformulate fiscal, monetary and tax policies that will contribute in economic growth through increase of wages in public and private sector, increase tax rates collection, create national health insurance, provide sufficient allocation of financial resources in education, health, and other sectors that will improve quality of public services, inform each business the competitive policy, increase inspection to operation and profit by businesses, and increase transparency in process of financial and auditing data, c) use of sufficient natural resources through investment in agricultural and mining sectors can spur economic development, but, its necessary that in both sectors first the way of traditional work to be transformed with the most advanced technology, secondly the human resources to possess knowledge with adequate work and digitalization, and lastly the sectors to be legally and financially supported by the institutions (The World Bank, 2017).

Shkodra, Sopi & Pantina (2019) on their empirical research, finds out that foreign direct investment in Kosovo contributed with positive impacts on economic growth, GDP growth per capita and export growth, except on employment that did not contribute at all (Shkodra, Sopi, & Badivuku-Pantina, 2019). Also, Islami, Mulolli & Skenderi (2016), finds out that foreign direct investment over the period of 2005 – 2014 in Kosovo have contributed significantly in macroeconomic indicators such as: GDP growth rate and GDP per capita, while, on trade balance impacted negatively, but, this is due to negative trade balance of Kosovo as import stands larger than export (Islami, Mulolli, & Skenderi, 2016).

Regarding employment, based on the main investment sectors of foreign investors in Kosovo, the Agency of Statistics of Kosovo (2017), provides merged with domestic companies that, real estate activities employed by 0.1%, financial sector by 1.7%, manufacturing by 13.2%, construction by 12.9% and electricity, gas and water supply by 1.8% (Kosovo Agency of Statistics, 2017). Nevertheless, analyzing as an example mining sector in Kosovo even the rate of foreign investment in this sector is low or only 20 foreign companies have invested on this sector, Bucaj (2018) on her empirical research finds, out that FDI in the mining sector contributed positively on economic growth and government should arrange a proper policies that will encourage FDI and creation of new jobs (Bucaj, 2018).

Unfair competitiveness among businesses, lack of developed infrastructure, higher unemployment rate, inefficient legitimate system, and lack of skilled human resources characterized the treatment of FDI in Kosovo. Thus, the Government of Kosovo developed a National Development Strategy for 2016-2021 for improvement of:

1) Market competitiveness: increase funds and alleviate criteria to get credit, encourage FDI by stimulus initiatives, improve quality of production, allow exploration of mining, and reactivate mining of Trepca.
2) Development of infrastructure: sufficient power of supply through lignite and other sources, finish international and regional highways, improve the infrastructure of the agricultural sector, and diffusion of ICT in every sector.
3) Efficient legitimate system: reinforce copyrights, quick responses of judiciary cases, elimination of non-transparency and unfair treatments, simplify license and permit application procedure, and enhance state inspections to public and private enterprises.
4) Human resources: involvement of children in early ages in pre-schools, development of new curricula education system, compliance of skills with a job offer, expand the budget to invest in education and recruit professionals and students that study abroad (Office of the Prime Minister, 2016).

Based on the first report assessment in each strategic objective is shown continuously progress. In market competitiveness increase of funds and access to get credit to support businesses and encourage FDI is in the final stage of the implement, only reactivation of Trepca mining is not been implemented. In the development of infrastructure, progress is shown in the supply of energy and construction of international and regional highways, but ICT still needs to be strengthened. In an efficient legitimate system, elimination of administrative barriers and state inspection of the public and private sector are in the final phase, while, less progress resulted in the judicial system. And in human resources, all the strategic objective is already completed, except, delays for development of new curricula of education. Converting implementation of strategies in the macroeconomic results from 2015 to 2017 GDP grew by 4% driven by private consumption, the increment of export contributed on the share of GDP by 17.9% on 2015 to 19.7% on 2017, labour force participation rate increased by 37.6% on 2015 to 42.8% on 2017, poverty decreased by 30% on 2011 to 17.6% on 2015, except, amount of FDI that declined from 308 € million on 2015 to 220 € million on 2016 (Office of the Prime Minister, 2018).

In other side, the economy of 38 municipalities at the local level cope with many obstacles. The creation of an unsuitable environment for doing business by foreign investors has been caused by a network of a large number of obstacles. Starting from the budget, which depends on the national level and in grants, then, lack of space to do business with a limited number of special economic zones, inadequate human resource development programs, lack of information for foreign investors to do business, limited supply and use of the property as some municipalities do not have the municipal property available, and various legal and administrative issues. Municipalities in collaboration with the government have developed Strategy for Local Economic Development 2019-2013 (LED) that is a continuous strategic document of Strategy for Local Self Government 2016-2026 (SLSG), National Development Strategy 2016-2021 (NDS), National Program for Economic Reform 2015 (NPER), The Medium - Term Expenditure Framework 2018-2020 (MTEF), and The National Program for the Implementation of the Stabilization and Association Agreement 2016 (NPISAA) to implement four strategic objectives defined by municipalities, such as:

1) Increasing budget for municipalities: to increase and create an independent budget for municipalities by the central level, to create a mechanism that would monitor investments in order the benefits to be shared equally among central and local level, and to activate municipal borrowing based on the budgetary performance.
2) Encourage foreign direct investment: offering favorable business environment by the improvement of local infrastructure, public property, and elimination of administrative issues, full activation of economic zones to expand existing and create new business, and increase municipal transparency and liability.
3) Investing in the development of human resources: involvement in educational and training programs, improvement of quality of education, and strengthening connections among labor market and schools.
4) Usage of local natural resources for further economic development: investing in the promotion of cultural and historical heritage, providing financial support for local producers, and improvement of roads, canalization, and water and electricity supply (Ministry of Local Government Administration, 2018).

Further, Economic Reform Programme 2019-2021 highlights sectors that several actions will be taken in this period for economic development, starting in energy and transport by achieving 9% savings of electricity consumption and building new thermal plants that not harm the environment, providing financial support, and new framework policies to manufacturing industries, improvement of the business environment, and elimination of informal economy through the legal system, transforming way of doing business in digitalization through large investment in R&D innovation projects that could boost job creation, and increase the trade cost-effectiveness of international transactions for simplifying border procedures (Ministry of Finance, 2019).

4 DISCUSSION

The foreign direct investment significantly contributes to the economic growth of the host country due to the exchange of tangible and intangible resources and cooperation of local businesses with international ones. To encourage FDI the host country must provide a large market size, favorable business environment, trade openness, advanced technology, skilled labor force, developed infrastructure, efficient legal system, fair competitiveness, and stable political system. Kosovo after independence experienced moderate economic growth, but still need to improve its macroeconomic issues by reducing the higher rate of poverty and the rate of unemployment, increasing capita per income, balancing the rate of production with consumption, and providing a stable political system.

Kosovo provides a range of opportunities that would attract FDIs but at the same time barriers such as: corruption and crime, lack of an efficient legitimate system, political instability, higher lending rates, unfair competitiveness, unfair of resource allocation and lack of financial support have made in the last years the amount of FDIs to decline. The government continuously develop strategies that tend to eliminate each barrier and create a favorable business environment, but, in implementation results have not shown progress, thus, would be more effective to cooperate and develop strategies with international institutions or take the model of developed countries.

CONCLUSION

Foreign direct investment is defined as long term investment and exchange of resources that significantly contribute to the economic growth of the host country. Some of the benefits from FDI are: the creation of employment, integration in the international market, improvement of infrastructure, improvement of the quality, transfer of knowledge and technology, and transfer of other resources. The main types of FDI are horizontal and vertical integration, but, the foreign investor has to decide if should enter by establishing a completely new enterprise or by obtaining an existing one.

The presence of FDI for economic development is crucial for less developed countries as it is for developed ones. But, to benefit from FDI the less developed economies must provide large market size, trade openness, innovation, skilled human resources, stable political system, efficient rule of law, and developed infrastructure with the regional and international countries. For instance, FDI to boost employment to the host country depends on the development of ICT, economic and political stability, and human resource with appropriate knowledge. Even though, several research studies specify that FDI does not increase the rate of employment and wages, on the other side, businesses constantly emphasize that FDI contributes to the increase in employment and wages.

Kosovo declared independence on 2008, the majority of United Nations and European Union countries recognize as independent country except Serbia that their relations due to the war continue to worsen. Generally, Kosovo cope with micro and macroeconomic issues, is one of the less developed and poorest country in Europe after Moldova and Ukraine.

However, Kosovo on 2019 has registered the highest annual growth of GDP by 4.1% compared with other countries in the region and is estimated to increase further in the next years. The main sectors that contribute to GDP are sectors of services, manufacturing, construction, agriculture, transport, and mining. On 2019, registered the highest inflation rate in the region by 2.8%, and the unemployment rate by 24.5%. The main exported and imported products are from European Union and CEFTA countries, Kosovo stands more as a country of consumption with a negative trade balance at -2.16 billion dollars. Kosovo in terms of doing business globally ranked on the place of 57th due to four positive reforms in dealing with construction permits, getting electricity, protecting minority of investors and enforcing contracts. After independence government gradually started to improve its quality of the institutional environment, for instance, cutting the corporate tax rate from 20 % to 10%, offering value added tax rate 18% and for some specific products 0%, creating agencies such as KIESA that facilitate business registration procedures in maximum for three working days, and creating business laws that protect their business operations.

From 2008 share of FDI to GDP of Kosovo by 9.47% declined throughout the years, on 2018 registered 4% even comparing with other Western Balkans countries Kosovo`s share of FDI to GDP is higher than Bosnia & Herzegovina and Croatia, but lower than Montenegro, Serbia, Albania, and North Macedonia. It seems that there is an inconsistency between the ranks of doing business and share of FDI to GDP of Western Balkan countries, mainly, this is due to many issues that they face like crime and corruption, unemployment, bureaucracy, lack of political stability, and poverty. The main foreign investment countries are Germany, Switzerland, the USA, Albania, etc., in sectors of real estate activities, finance, water, oil, and electricity supply, and manufacture.

Opportunities that Kosovo provides to foreign investors are considered: location in the center of Western Balkan and its developed infrastructure by highways, airways, and railways with the region and European countries, the youngest population in Europe with average age 25 years old and well equipped with soft and ICT knowledge, together with Montenegro are the only countries in Balkan that use the euro as an official currency, trade openness with the EU and CEFTA due to different economic agreements, low tax rates, and is part of many international organizations. Further, the most profitable sectors are: energy and mining by ranking in the 5th place in the world with 14.7 billion tons of coal, information and communication technology since 93% of the population has access to the internet, agricultural and farming due to favorable climate conditions a wide variety of fruits, vegetables, and herbs can be produced, construction and real estate due to demand to construct highways and 60,000 flats, tourism due to attractive mountains, traditional culture and privatization of 20,000 hectares, and textile industry due to higher consumption compare with Turkey, Serbia, Bosnia and Herzegovina and Albania and better quality than China.

The main barriers that discourage foreign direct investment in Kosovo are identified: political instability due to short-term governments and its relationship with Serbia, crime and corruption in the public and private sector, lack of financial and administrative support, inefficient legislation due to bribery and to solve a business case takes more than 6 months, together with Montenegro provides the highest lending rate compare to Albania, Serbia, Bosnia & Herzegovina and North Macedonia, and very scarce supply of electricity and water.

Framework legislation to foreign investors is developed with the constitution of Kosovo according to EU legislation. An analyzed foreign company in Kosovo (Sharrcem), since was obtained by Titan Group with transferred technology has changed the production process in a more efficient way, but, in the other side has declined the number of employees. Even comparing its financial performance, Sharrcem has operated much better than after was obtained by Titan Group. Regarding the macroeconomic impacts of FDI in Kosovo, several studies find out that FDI contributes to economic growth, an increase in export, and employment. And, Kosovo`s government continues to develop and implement national and local strategies that pretend to eliminate all barriers in each sector that don`t allow the appropriate business environment and further economic development.

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APPENDICES

Appendix 1. Povzetek (Summary in Slovene language)

Neposredne tuje naložbe (ang. *Foreign direct investment - FDI*) so opredeljene kot dolgoročne naložbe in izmenjava virov, ki pomembno prispevajo k gospodarski rasti države gostiteljice. Prednosti neposrednih tujih naložb so: ustvarjanje delovnih mest, vključevanje na mednarodnih trgih, izboljšanje infrastrukture in kakovosti, prenos znanja in tehnologije ter drugih virov. Glavni vrsti FDI sta horizontalna in vertikalna integracija. Tuji vlagatelj se mora odločiti, ali naj vstopi z ustanovitvijo popolnoma novega podjetja ali s pridobitvijo obstoječega.

Prisotnost FDI za gospodarsko rast je ključnega pomena za manj razvite, kot tudi za razvite. Da bi manj razvite države imele korist od FDI, morajo manj razvita gospodarstva zagotoviti večje velikosti trgov, odprtost trgovanja, inovacije, usposobljene človeških virov, stabilen politični sistem, učinkovito pravno državo in razvito infrastrukturo z regionalnimi in mednarodnimi državami. FDI so za povečanje zaposlovanja v državi gostiteljici odvisne od razvoja informacijsko-komunikacijske tehnologije, gospodarske in politične stabilnosti ter človeških virov z ustreznim znanjem. Čeprav več raziskovalnih študij navaja, da neposredne tuje naložbe ne povečujejo stopnje zaposlenosti in plač; podjetja na drugi strani poudarjajo, da FDI prispeva k povečanju le-teh.

Kosovo je svojo neodvisnost razglasilo leta 2008. Večina držav Združenih narodov in Evropske unije jo priznava kot samostojno; z izjemo Srbije, s katero se odnosi zaradi vojnih razlogov poslabšujejo. Na splošno je Kosovo, ki se spoprijema z mikro in makroekonomskimi vprašanji, ena od manj razvitih in revnejših držav v Evropi po Moldaviji in Ukrajini.

Vendar je Kosovo leta 2019 zabeležilo najvišjo letno rast bruto domačega proizvoda (ang. *Gross domestic product - GDP*) za 4,1% v primerjavi z drugimi državami v regiji ter se ocenjuje nadaljnja rast v naslednjih letih. Glavni sektorji, ki prispevajo GDP-ju so: sektor storitev, predelovalne dejavnosti, gradbeništvo, kmetijstvo, promet in rudarstvo. Leta 2019 je bila najvišja stopnja inflacije v regiji, za 2,8%, stopnja brezposelnosti pa za 24,5%. Glavni izvoženi in uvoženi proizvodi so iz držav Evropske unije in držav CEFTA. Kosovo je država, ki se nagiba potrošnji z negativnim trgovskim saldom za -21.16 milijarde dolarjev. Država se je po svetovnem poslovanju uvrstila na 57. mesto, zaradi uvedbe štirih pozitivnih reformah: obravnave gradbenih dovoljenj, pridobivanje električne energije, zaščita manjšine vlagateljev in izvrševanje pogodb. Po osamosvojitvi je vlada postopoma začela izboljševati kakovost institucionalnega okolja. Kot primer, znižala je stopnjo davka od dohodkov pravnih oseb iz 2% na 10%, ponudila stopnjo davka na dodano vrednosti, in sicer 18 % in za posebne izdelke 0%; ustvarila agencije, kot je KIESA, ki olajšuje postopke registracije podjetij v največ treh delovnih dneh, ter oblikovanje poslovnih zakonov, ki ščitijo poslovanje.

Od leta 2008 se je delež tujih neposrednih naložb na Kosovu v GDP zmanjšal za 9,47% skozi leta. Leta 2018 je bil delež 4%, v primerjavi z ostalimi državami Zahodnega Balkana. Delež FDI v GDP je bil višji kot v Bosni in Hercegovini ter na Hrvaškem; nižji pa od Črne gore, Srbije, Albanije in Severne Makedonije. Zaradi številnih težav, kot so kriminal in korupcija, brezposelnost, birokracije, pomanjkanje politične stabilnosti in revščine; med državami Zahodnega Balkana ni skladnosti med vrstami poslovanja in deležem tujih naložb v GDP. Glavne države tujih naložb so Nemčija, Švica, ZDA, Albanija; predvsem v nepremičninskem in finančnem sektorju, oskrbi z vodo, nafto in električno energijo ter proizvodnjo.

Možnosti, ki jih Kosovo ponuja tujim vlagateljem so: lokacija v središču Zahodnega Balkana in razvita infrastruktura po avtocestah, letalske in avtobusne povezave v regiji in z evropskimi državami, najmlajša populacija v Evropi s povprečno starostjo 25 let ter opremljenost z informacijsko-komunikacijsko tehnologijo. Poleg naštetega je Kosovo skupaj s Črno Goro edina država na Balkanu, ki uporablja valuto evro, kot uradno. Je trgovinsko odprta z EU in CEFTA zaradi različnih gospodarskih sporazumov, ima nizke davčne stopenj ter je del številnih mednarodnih organizacij. Poleg tega so najdonosnejši sektorji: energetika in rudarstvo, ki se uvrščajo na peto mesto na svetu s 14,7 milijardami ton premoga, informacijsko in komunikacijsko tehnologijo; saj ima 93% prebivalstva dostop do interneta. Pomemben sektor je tudi kmetijski zaradi ugodnih podnebnih razmer je možno pridelovanje raznih vrst sadja in zelenjave ter zelišč. Sektor gradbeništva in nepremičnin zaradi povpraševanja po gradnji avtocest in 60.000 stanovanj. Med donosnejšimi sektorji spadata tudi turizem zaradi privlačnih gora, tradicionalne kulture in privatizacije 20.000 hektarjev zemlje ter tekstilna industrija, saj se troši več v primerjavi s Turčijo, Srbijo, Bosno in Hercegovino ter Albanijo ter proizvajajo boljšo kvaliteto od Kitajske.

Ugotovljene glavne ovire, ki odvračajo neposredne tuje naložbe na Kosovo: politična nestabilnost zaradi kratkoročnih vlad in njenimi odnosi s Srbijo, kriminal in korupcija v javnem in zasebnem sektorju, pomanjkanje finančne in upravne podpore, neučinkovita zakonodaja zaradi podkupovanja ter dolgotrajnega reševanja poslovnih sporov, ki trajajo lahko več kot šest mesecev. Skupaj s Črno goro ponuja najvišjo stopnjo posojil v primerjavi z Albanijo, Srbijo in Bosno in Hercegovino ter Severno Makedonijo. Poleg omenjenega je velik problem redka ponudba elektrike in vode.

Okvir zakonodaje za tuje vlagatelje je razvit s kosovsko ustavo v skladu z zakonodajo EU. Analizirano tuje podjetje na Kosovu (Sharrcem), ki ga je skupina Titan pridobila s preneseno tehnologijo, je spremenilo proces produkcije v bolj učinkovitejše. Na drugi strani pa je zmanjšalo število zaposlenih. Iz primerjave finančnih rezultatov je videti bolje poslovanje pred pridobitvijo tuje Titan skupine. Kot ugotavljajo številne študije, neposredne tuje naložbe na Kosovu iz makroekonomskega vidika prispevajo k gospodarski rasti ter povečujejo izvoz in zaposlovanje. Kosovska vlada še naprej razvija in izvaja nacionalne in lokalne strategije, ki odpravljajo ovire v sektorjih, ki ne omogočajo ustreznega poslovnega okolja in nadaljnjega gospodarskega razvoja.