Foreign Direct Investments (FDIs)

Case: Ways of Attracting Foreign Investments in Republic of Kosovo

Fisnik Hasani
**Abstract**

The objective of the study is to suggest ways of attracting Foreign Direct Investments (FDIs) in Republic of Kosovo. I will study why FDIs are attracted in Republic of Kosovo and how it will affects the development and survival of SMEs local companies in Republic of Kosovo. The special focus of this study is technology spillovers, know-how and skills. I will analyze that the diversity of FDIs country origins can enable FDIs spillovers by increasing the variety of technologies and management practices brought by foreign companies, to which local companies are exposed and that they can potentially apply. Further, the extent to which local companies can apply these technologies and practices depends upon their absorptive capacity.

The major goal of this study is to identification and attraction of foreign technical know-how/skills. This will contribute to economic development and social expansion of the country, and inspire the private sector contribution to enhance country’s economic development and improvement. FDI promotes the transfer of new technology, know-how and skills between countries, and provides the Kosovo economy to promote its products more widely in international markets.

The study will be carried out in the form of case-study research following a deductive approach, which will allow the researcher to formulate a hypothesis based on existing literature. On the other hand, the analytical approach will be use research analysis as quantitative data will be gathered for measuring the FDIs performance.

The expected results of this study will be of great help for Republic of Kosovo in specific the Ministry of Trade and Industry by increasing its performance by attracting more foreign investors which they invest more in new technology and also by hiring employees which they have more experience working with FDIs in Republic of Kosovo.

In conclusion, with the help and support from the Ministry of Trade and Industry an investigation, report and proposed recommendations will be implemented and followed-up for improving SMEs technology and know-how/skills which they will be offer from the FDIs that operate in Republic of Kosovo territory. The outcome of this study will be a great use first for the SMEs they will be able to transfer better technology and increasing their overall efficiency. However, the SMEs will be benefited as they will be able to serve their customers promptly with faster shipments and capture larger share of the Republic of Kosovo market.

**Key words:**

Foreign direct investment (FDI); small and medium – sized enterprises (SME); technology spillovers; know-how and skills;
Acknowledgement

First of all, I want to take the opportunity to express my thankfulness to Almighty Allah for giving me the strength to complete my master thesis. I also would like to thank the Finnish Government for giving me the opportunity to be a student of this valuable master program.

During this time at Haaga Helia University of Applied Sciences had great challenging yet fulfilling my journey to achieving my goals and also while writing master thesis had great impact on me, I would like to thank also the people who have been contributory in the successful completion of this master thesis. A special thanking goes to my supervisor Prof. Seppo Suominen for his support, encouragement and guidance, for the useful comments, remarks and engagement that he showed to me during my thesis writing.

Especially my appreciation goes to my mother, my wife and my family for their continuing, understanding, encouragement and for their supporting during my entire time at Haaga Helia. I also would like to thanks friends who worked so hard in order for my questionnaires to be answer by FDIs.
# Table of contents

1. Introduction....................................................................................................................... 1
2. Needs and objectives............................................................................................................. 4
3. Research problem and questions...................................................................................... 6
   3.1 The main research problem/question of the study......................................................... 6
   3.2 Sub-questions for answering the main research problem.............................................. 6
4. Methodology and methods.................................................................................................. 7
   4.1 Ontology, epistemology and research approach ......................................................... 7
   4.2 Validity ......................................................................................................................... 9
   4.3 Reliability .................................................................................................................. 11
5. Relevant Theories.............................................................................................................. 14
   5.1 Theory of Foreign Direct Investment............................................................................ 18
   5.2 Location Determinants of FDIs.................................................................................. 20
   5.3 Constant (Learning) and Temporary (Leaning) Spillovers from FDIs......................... 24
   5.4 Types of FDI............................................................................................................... 27
   5.5 Country FDI Stages..................................................................................................... 30
6. General summary of Republic of Kosovo’s economy...................................................... 32
   6.1 Republic of Kosovo as an investment environment...................................................... 38
   6.2 Top reasons why you should invest in Republic of Kosovo......................................... 42
   6.3 Foreign investments in Republic of Kosovo................................................................. 44
   6.4 Economic and other benefits from Foreign Direct Investments (FDI)......................... 46
7. Questionnaire results from Foreign Direct Investments in Republic of Kosovo.............. 50
   7.1 What attract the most Foreign Investor’s to invest in Republic of Kosovo.................. 50
   7.2 Main types of Foreign Direct Investments in Republic of Kosovo.............................. 52
   7.3 Overall assessments of how attractive is Republic of Kosovo investments................. 53
   7.4 The size of the investment of FDIs in Republic of Kosovo.......................................... 53
   7.5 The main weaknesses of Republic of Kosovo.............................................................. 54
   7.6 Special incentives that investors would you like from the Government of Republic of Kosovo to support them................................................................. 56
   7.7 The difficulties that FDIs face while they are in Republic of Kosovo......................... 57
   7.8 The most important actions that Republic of Kosovo government should consider in order to attract foreign investors................................................................. 58
   7.9 Most positive characteristic of Republic of Kosovo................................................... 59
1 Introduction

The objective of the study is to suggest ways of attracting Foreign Direct Investments (FDIs) in Republic of Kosovo. I will study why FDIs are attracted in Republic of Kosovo and how it will affects the growth and survival of SMEs local companies in Republic of Kosovo. The special focus of this study is technology spillovers, know-how and skills. I will analyze that the diversity of FDIs country origins can enable FDIs spillovers by increasing the variety of technologies and management practices brought by foreign companies, to which local companies are exposed and that they can potentially apply. Further, the extent to which local companies can apply these technologies and practices depends upon their absorptive capacity.

In order for Republic of Kosovo to generate employment more than ever needs foreign direct investors to attract them, raise exports and the improvement of living. Hence, a significant supervision rule and plan for investment advertising is the establishment of a good business environment for foreign direct investments. Improvement has been noticeable by implementing laws to improve the business atmosphere and the suggestion of investment services. The creation of the Investment Promotion Agency of Kosovo (IPAK) and the law on foreign direct investments stand a phase in the right path. On the other hand, there is a need for more things to be done in this direction.

The major goal of this study is the identification of and attraction of foreign technical know-how/skills. This will contribute to economic growth and social development of the country, and encourage the private sector contribution to enhance country’s economic growth and development. FDI promotes the transfer of new technology and know-how between countries, and provides the Kosovo economy to promote its products more widely in international markets. Through findings and recommendations I will offer concrete ideas to generate a better business environment for foreign investors in Republic of Kosovo. This study has focused on analyzing the present situation through:

- Foreign Direct Investors in Republic of Kosovo Questionnaires
- Discussions with representatives and agents of the SMEs and executives of applicable government departments
- Examines about SMEs environment examining the Doing Business in Republic of Kosovo Reports in 2016 - 2017
- Investigates of the structure of the FDI operating in Republic of Kosovo
• Considers of the European Union Assistance to Republic of Kosovo related to the rule of law (EU report in Republic of Kosovo based on corruptions)

I will study why FDIs are attracted in Republic of Kosovo and how it will affect the growth of both technology spillovers, know-how and skills. I will analyze how the diversity of FDIs country origins can enable FDIs spillovers by increasing the variety of technologies and management practices brought by foreign companies, to which local companies are exposed and ones that they can potentially utilize. Further, the extent to which domestic firms can utilize these technologies and practices depends upon their absorption capacity.

The major goal of this study is the identification of and attraction of foreign technical know-how/skills. This will contribute to economic growth and social development of the country, and encourage the private sector contribution to enhance country’s economic growth and development. FDI promotes the transfer of new technology and know-how between countries, and provides the Republic of Kosovo the economy to promote its products more widely in international markets.

The expected results of this study will be of great help for government of Republic of Kosovo in specific the Ministry of Trade and Industry by increasing its performance by attracting more foreign investors which would invest more in new technology and also by hiring employees which they have more experience working with FDIs in Republic of Kosovo.

This R&D plan has the following chapters:

**Needs and objectives**
Describes what was the cause for this study and the benefits, it also covers the personal motivation and interests of the researcher.

**Research problem and questions**
The purpose of this chapter is to list the main research question and its sub-questions that lead to scoping the research for an optimal conclusion. Relevant theories: A discussion of the main theories and methodologies that will be used as a basis for study.

**Methodology and methods**
Description of the philosophy of the research and how it will be performed according to Saunders’ et al, 2009 Research Methods for Business Students. Preliminary schedule, an estimate
approach of the necessary days for developing, implementing and performing the final report of this research.

**Potential resources and risks**
Discuss the characteristic risks of my thesis and the required resources needed for the whole project.
2 Needs and Objectives

The major goal of this thesis project is to analyze ways of attracting Foreign Direct Investments (FDIs) in Republic of Kosovo. The major objectives are increasing employment, attracting new technology spillovers, and know-how and skills, increase of the Gross Domestic Products (GDP), the diversity of FDIs country origins can enable FDIs spillovers by increasing the variety of technologies and management practices brought by foreign companies, to which local companies are exposed and that they can potentially apply, contribute to economic development and further, the extent to which local companies can use these technologies and practices depends upon their absorptive capacity.

Main modules of this hypothesis are:

- Conduct a survey through questionnaires with more than 65 foreign companies in Republic of Kosovo
- Interviews with Investment Promotion Agency of Kosovo (IPAK), and other self-governing advisers;
- Make available a thorough analysis of FDI in the country, covering the period 2012-2017;
- Considers of the European Union Assistance to Republic of Kosovo related to the rule of law (EU report in Republic of Kosovo based on corruptions)

The expected results of this study will be of great help for the government of the Republic of Kosovo in specific the Ministry of Trade and Industry by increasing its performance by attracting more foreign investors which they invest more in new technology and also by hiring employees which have more experience working with FDIs in Republic of Kosovo. The current problem with the SMEs in Republic of Kosovo is that they are struggling to adapt new technology as which could increase their performance and be more competitive. In this case SMEs will benefit from the FDIs that operate into Kosovo territory by using their technology, know-how and skills.

In conclusion, a report and proposed recommendations will be implemented and followed-up for improving their technology, know-how an skills which will be offered from the FDIs that operate in Republic of Kosovo territory. The outcome of this study will be of great use first for
the SMEs as they will be able to transfer better technology and increasing their overall efficiency.

I am really interested in this project and I am motivated to contribute to my home country since people there are struggling to find a job and live a better life I am also very interested in this project mainly because of its relation to attracting Foreign Direct Investments (FDIs) in Republic of Kosovo, a topic that has always been of great interest for me during my bachelor studies. What I like the most about it is that this will be able to help the Ministry of Trade and Industry to generate employment in Republic of Kosovo.
3 Research’s question and Hypotheses

3.1 The main research problem/question of the study

Q: What are the most significant elements for FDI location in the Republic of Kosovo?

3.2 Sub-questions for answering the main research problem

Sub-question 1: What is the significant elements of the cost aspects on FDI location decision?
Sub-question 2: What is the significant elements of technology spillovers and know-how/skills?
Sub-question 3: What is the significant elements of infrastructure?
Sub-question 4: What are the influences of FDIs on local companies?

According to this, the following hypotheses will be tested:

Hypothesis 1: Cost aspects that play a major role on FDI location decision in the Republic of Kosovo.
Hypothesis 2: Technology and know-how/skills elements.
Hypothesis 3: Infrastructure elements.
Hypothesis 4: To measure the FDIs influences on local companies.
4 Methodology and methods

As mentioned in the previous chapter, the empirical part of this research will be based on Saunders et al, 2009 methodology. Specifically, using the “Research Onion” for a more accurate identification of the methods.

Figure 1. Research Onion

4.1 Ontology, epistemology and research approach

The ontology that will be used for this research is Pragmatism, which according to Saunders et al (2009) “argues that the most important determinant of the epistemology, ontology and axiology you adopt is the research question – one may be more appropriate than the other for answering particular questions. Moreover, if the research question does not suggest unmistakably that either a positivist or interpretivist philosophy is adopted, this confirms the pragmatist’s view that it is perfectly possible to work with variations in your epistemology, ontology and axiology.”
The epistemology in my case will be gathering information and fact through FDIs that operates in Kosovo territory and other relevant information which will help me to improve attraction of foreign direct investors in Kosovo and this will be objective knowledge, whereas Ontology in my case will be knowledge gathering through surveys with FDIs in Kosovo, this will be subjective knowledge.

The philosophy will be going deeper knowledge through questionnaires and interviews with FDIs are located in Kosovo. Following the research onion methodology, this study will be focused in using a deductive approach, which will allow the researcher to set up a hypothesis based on the already existing theory. In this case based on the already existing FDIs performance and effectiveness.

Techniques and procedure: Data collection and data analysis
Since the purpose of a case study is to examine the efficiency of FDIs deeply, case studies include an intensive process of collecting the research data through a number of sources. In case studies, the research data can be collected by using different data collection techniques such as documents, archival data, interviews, direct observation, participant observation and artifacts. In this case study, the research data will be collected through FDIs observations, open-ended questionnaires, the researcher’s journal, documents, archival records and books related to the FDIs' efficiency (Becker et al., 2005; Stake, 2000; Yin, 1998).

The data that will be needed has to be quantitative for measuring how FDIs is performing in Kosovo, this will be collected with the help and authorization and the Ministry of Trade and Industry once the theoretical framework has been established and the quantitative requirements have been scoped down. As the information that will be gathered shall consist of quantitative, a mono method research analysis has to be executed.

As a final point, a critical step for validating this study will consist on selecting the appropriate FDIs for the research that for instance will help to obtain valid data for the research. On the other hand, data interpretation and conclusions will be compared against the theoretical framework and to other case studies from similar cases in other countries.

According to Yin views the goal of case studies as understanding complex social phenomena, and real life events such as organizational and managerial processes. He puts it in a nutshell as follows: “A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and
context are not clearly evident” case study research uses a variety of evidence from different sources, such as documents, artefacts, interviews and observation, and this goes beyond the range of sources of evidence that might be available in historical study. (Yin, R. 2009, 93).

Yin wisely differentiates among single and multiple case studies also Yin reveals how to manner precise and academic repetitions for the purpose of gaining visions into difficult phenomena in order to develop theory (Yin, R. 2009, 94).

Why I chose this research strategy is that the case study is the most flexible of all research designs, allowing me as a researcher to maintain the general features of real life events even through examining experimental happenings. Also the case study clarifies when dealing with a manner or difficult real life activities in more detailed procedure research that will allow me to understand the FDI phenomena at more than a superficial level. Also case study research labels strengths and weaknesses of using this method knowing that hypothetically case is stimulating and data rich. Perhaps if we want that the case study research to be strong and have definite results we should merge various methods for generating data in case study research.

Time Horizon: Cross-Sectional under cross-sectional, a particular topic will be assessed in a particular time. Cross-Sectional research studies are based on observation that needs solutions so that the part of the country or community can enjoy improvement in their life. This study will attempt to determine if the FDI that operate in Kosovo can generate new technology and know-how/skills to SMEs.

I think we could add to the research strategy also action research is typically used to generate fast solution to concrete difficulties. It is mainly a two way process that study a method or a problem and also collaborate with the practitioners and consumers of the method in order to employ improvement.

4.2 Validity

The specific steps in my study regarding validity are: take account of the whole research model and originates whether the effects meet all of the requirements of the methodological research method.

For example, in this case will be randomization of the FDI and suitable care and carefulness shown in the allocation of controls. Internal validity orders how a research strategy is organized
and includes all of the steps of the logical research method. Even if my results are great, disordered and unpredictable plan will negotiation my honesty in the eyes of the applied community.

External validity will process examining the results and questioning whether there are any other possible fundamental relations. Controlling FDIs and randomization will diminish external validity issues but I think no method can be completely successful. This is why the statistical proofs of hypothesis called significant, not complete truth.

Any logical research design only puts forward a possible cause for the studied effect. There is always the chance that another unknown factor contributed to the results and findings. This extraneous causal relationship may become more apparent, as techniques are refined and sharpened.

According to Miles et al. (1994), a number of questions must be answered in order to verify the validity of the research. A selection of them was made and the answers are the following:

1. How context-rich and meaningful (“thick”) are the descriptions?
   The descriptions for this study will be very thick, as FDIs efficiency processes are very robust and need large explanations. Also, as people who are not parts of FDIs will have access to this study, each and every technical process will be defined with a fine detail, in order to make it understandable by everyone.

2. Did triangulation among complementary methods and data sources produce generally converging conclusions?
   As this study will be done using case study, triangulation of data must be performed, especially as the gathered information will be both qualitative and quantitative from FDIs.

3. Are areas of uncertainty identified?
   It is already known that Kosovo is not part of the European Union’s systems and rules apply throughout the region is an uncertainty that has been identified is to what extent the recommendations will be applied.
4. Was negative evidence sought for?
   The purpose of this study is to identify and study the ways of attracting FDIs in Kosovo and this could lead to negative evidence like corruption involved.

5. Are the characteristics of the original sample of persons, settings, processes (etc.) fully described enough to permit adequate comparison with other samples?
   After finalizing the literature review for this study, the universe will be scoped down in order to define a measurable amount of samples to be taken into account.

6. Is the sample theoretically diverse enough to encourage broader applicability?
   The idea of this study is to apply it into SMEs in Kosovo, so the research should allow to be applied in other cases.

7. Do the findings include enough “thick description” for readers to assess the potential transferability, appropriateness for their own settings?
   As it was mentioned in the answer above, the findings will allow the readers to determine if they could be applied in other places.

8. Does the report suggest settings where the findings could fruitfully be tested further?
   The report will describe in detail what must be done and implemented by Kosovo government in order to increase their effectiveness, so it will also work as instructions for testing.

4.3 Reliability

The detailed steps in my study regarding reliability are: any major results must be more than a unique finding and be naturally repeatable. However other researchers should be able to achieve precisely the same research problem, under the same circumstances and produce the same results. This will strengthen the outcomes and make sure that the broader rational community will accept the suggestion. Without this repetition of statistically important results, the research has not achieved all of the requirements of testability.

On the other hand, any research that uses human findings is always going to come under question. Human conclusion can be different wildly among observers, and the same individual may
speed things otherwise depending on time of day and present attitude. This means that such research is harder to repeat and is characteristically less trustworthy.

Removing other possible causal relationships, by using panels and duplicate samples, is the greatest way to confirm that my results stand up to difficult questioning.

As in the above topic, several questions were answered in order to test and verify the study’s reliability: (Miles et al. 1994, pg. 12)

1. Are the research questions clear, and are the features of the study design matching with them?
   The research questions are clear and scoped to what the Republic of Kosovo institution need, and the study design was made according to the research onion methodology, especially focusing on case study research.

2. Is the researcher’s role and status within the site explicitly described?
   The researcher character will be labelled alongside with foreign direct investment (FDIs) and according to the rules for outside researchers.

3. Were data collected across the full range of appropriate settings, times, respondents, and so on suggested by the research questions?
   Data will be collected according to the theoretical framework that will be built with the literature and the research processes set by Saunders, et al 2009 to comply with the research questions and objectives.

4. Were any forms of peer or colleague review in place?
   The study processes and results will be reviewed by Haaga Helia tutor.

Ethical problems of this study it is a good idea to address that I am make certain quality and integrity of my research. I also will ensure that my participants will participate in my study voluntarily and I will avoid harm to my participants and the FDIs, I also can show that my research is independent and impartial. In this case five main ethical values I should stand by, in most cases, consist of: reducing the risk of harm, gaining informed agreement, protecting privacy and confidentiality, avoiding misleading practices, and providing the right to withdraw at any time.
The role of the researcher it is important for to explain my researcher roles, these roles can sort from complete membership of the group being studied as insider to complete stranger as an outsider.

Even though there are numerous advantages of being an insider researcher, there are also difficulties associated with being an insider. For example, in my case can be larger familiarity which it can lead to a loss of objectivity. Unintentionally making wrong assumptions about the research process based on the researches prior knowledge can be considered a bias. As an insider researchers may also be challenged with role duality. They frequently struggle to equilibrium their insider role and the researcher role.
5 Relevant theories

For the purpose of this study, several theory documents and publications will be used, as performance and efficiency has been previously studied ways of attracting FDIs in Republic of Kosovo from different countries.

First of all, the research framework and methodology will be grounded on Saunders’ et al. 2009, Research Methods for Business Students, which will set the foundations for this study. Based on it, the research method for the study has also been selected and will be adapted accordingly to fulfill the required outcomes.

On the other hand, most of the theory that will be reviewed has been published by The Ministry of Trade and Industry in Kosovo, The World Bank and United Nations the researcher will have access to these documents that has previously published, which will be of great importance for the success of this research.

The theory that will initially be reviewed consists on the following:
In the economic model for development and growth, labor force and increase in capital stock will contribute to higher economic development. As a result, the movement of FDIs by increasing the local investment stock, will speed up the development of the host country economy. As we know from previous economy theory that FDI is also understood to transfer to the domestic country great benefits, such as transfer of new technology, ease of access to foreign markets and managerial know-how and skills opportunities. Opportunities of these additional benefits are part of the motivation why governments in poor and emerging countries try to offer special incentives to attract FDIs particularly (Tuluce and Dogan, 2014 2-3).
Since multinational corporations (MNCs) are a significant foundation of international investment and technology, their investment in a host country it can ease the transfer of new technical and business know-how and skills, this will have productivity advances and attractiveness among local companies in special small and medium enterprises (SMEs). Most of the time these special effects will progress through practice demonstration and distribution, or during the course of linkages between foreign and local companies becoming their customers or suppliers, or during the transfer of experienced workers from foreign to local companies. The entry of foreign direct investors possibly will increase competition which will force local companies to reproduce and modernize their technology (Aldaba and Aldaba, 2010 3-4).

Foreign direct investments (FDIs) can improve local companies’ expansion through connections between foreign partners and local SMEs. These relations can take several methods, including backward, forward or horizontal. Backward relations happens when foreign partners get goods or services from local companies, and forward relations happens when foreign partners sell goods or services to local companies. Horizontal relations happens when their comprise interactions between foreign partners and local companies involved in opponent or balancing actions (United Nations, 2011 12-13).

The potential for valuable relations between foreign direct investment (FDI) and small and medium enterprises (SMEs) will always be influenced by on many aspects, operational activities, foreign sector and their role in the international network. In this case particular host country can invest in undeveloped infrastructure and human capital in order to advance situations for both at the same time local entrepreneurs and foreign direct investors. The connections between FDIs to SMEs, enabled by government strategies, can contribute to each of these phases by offering preliminary training and mentoring, increasing and progression of SMEs dealer and provided that foreign market supports and networks for in a foreign country sales (Rifat and Fatlum, Pristina 2013, 14).

Expansion of small and medium enterprises (SMEs) situation for decreasing unemployment, the significance of expansion of small and medium enterprises, comes in fact that they are an important factor of countries economic growth and these are the cause of significant help to generate employment, economic drive and effectiveness. As principle of separating these enterprises in those small and medium enterprises mostly arrangements with volume production, the size of total income, number of workforces etc. Small and medium enterprises benefits are because they are flexible, on the other hand they also can withdraw anytime as they face difficulties with important financial tools (Vjollca, S 2015, 159).
SMEs are businesses which make up almost in most countries 91% of economic growth in the EU area and are considered as one of the basic sectors in the creation of a sustainable economic budget. Henceforth, for each country we can say that is dynamic to inspire and support the growth of SMEs sector, creating as many as possible administrative facilities and services doing business in the country. SMEs, capture a significant place in the economy for a particular a country. Impact of those in development, employment generations and social expansion is to be evaluated (Vjollca, S 2015, 160).

According to Verheuge European Union (EU), SMEs play an important economic role. The same time they are considered as a major source of entrepreneurial creativity, innovation as well as employment generation. Or as the commissioner enterprises and industry Günter Verheuge would say: "Micro, small and medium enterprises (SMEs) are the engine of European economy. They are an essential element of jobs, create entrepreneurial spirit and bring innovation in the EU and thus they are important for boosting competitiveness and employment" (Vjollca, S 2015, 161).

According to Sytrime the attention of foreign investors has been growing gradually through latest years. Republic of Kosovo has attracted FDIs to invest in Kosovo more than 1 Billion Euro in the past several years. After reaching the highest point in 2007 with 440 Euro Million of foreign investors this largely as a result of the procedure of privatization, a minor decline has been seen in following years 2008 and 2009, this mostly due to the impact of the global financial crises. From 2010 and after Kosovo had managed to have positive growth of foreign investor’s inflows reaching 311.2 Million Euro (Sytrime 2011, 17).

Figure 5.1 Foreign Direct investment by the main economic sectors, in percentage
The perception of investment contains a wide variety of human accomplishments. In this particular feature, in general expressions investment it means guarantee of funds in: real estate, value money and shares, manufacturing and service projects, studies and research and development, technological expansion, achieving technological procedures, generating new products, the taking over of new markets and education of staff. So investments in the full sense of the word means the basic precondition to accomplish improvement goals (Rifat, & Fatlum, Pristina 2013, 4).

Most of the European Union countries carry on to be the key source of foreign direct investors in Republic of Kosovo. Different from the year 2011, where the majority of FDI was from the United Kingdom (20.3 % of total FDI ) as we can see from the chart below, in next 2012 Turkey represents the country of origin majority of FDI in Kosovo with (28.3 % of total FDI ). We can see also increase of FDI from Switzerland from 2011 to 2012 it double their percentages with 18.9 % participation, also the rest of other countries is shown in the chart that has increase their participation from previous year, only Slovenia it seems that has same percentage from last year (Vjollca, S 2015, 159).

<table>
<thead>
<tr>
<th>Countries</th>
<th>Export (000) €</th>
<th>Participation in total %</th>
<th>Import (000) €</th>
<th>Participation in total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>71.351</td>
<td>25.8</td>
<td>213.469</td>
<td>8.5</td>
</tr>
<tr>
<td>Albania</td>
<td>40.180</td>
<td>14.6</td>
<td>110.528</td>
<td>4.4</td>
</tr>
<tr>
<td>Macedonia</td>
<td>26.376</td>
<td>9.6</td>
<td>287.739</td>
<td>11.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15.133</td>
<td>5.5</td>
<td>22.664</td>
<td>0.9</td>
</tr>
<tr>
<td>Germany</td>
<td>14.995</td>
<td>5.4</td>
<td>304.195</td>
<td>12.1</td>
</tr>
<tr>
<td>Serbia</td>
<td>14.968</td>
<td>5.4</td>
<td>278.388</td>
<td>11.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>11.380</td>
<td>4.1</td>
<td>199.881</td>
<td>8.0</td>
</tr>
<tr>
<td>Kina</td>
<td>3.266</td>
<td>1.2</td>
<td>159.651</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>276.100</strong></td>
<td><strong>71.6</strong></td>
<td><strong>2.507.609</strong></td>
<td><strong>62.9</strong></td>
</tr>
</tbody>
</table>

Source: Central Bank of the Republic of Kosovo (CBK), Monthly Statistics Bulletin

Figure 5.2 Structure of foreign direct investors by key countries, in percentage
Countries in the chart above are: Turkey, Germany, Switzerland, Great Britain, USA, Slovenia, Bulgaria, and Albania.

Source: Central Bank of the Republic of Kosovo (CBK), Monthly Statistics Bulletin

These theoretical propositions suggest that unless the replacement effect dominates the magnification effect very much, FDI will indirectly improve technical efficiency through R&D activities. In this case they use panel data of FDI by Taiwan’s SMEs to test the proposition. The major empirical findings were:

1. FDI not only directly improves technical efficiencies, but also indirectly enhances technical efficiencies through complementing R&D activities.
2. R&D expenditures significantly improve firms’ technical efficiencies.
3. For those Taiwan’s SMEs investing in mainland China, FDI and R&D are more likely to be a substitutive strategy; however, FDI still indirectly amplifies technical efficiency through R&D activities.
4. Currently, it is more efficient for Taiwan’s SMEs to focus on the globalization of production than on market globalization (Yang, and Jin-Li, 2013, 178).

5.1 Theory of Foreign Direct Investment

Foreign direct investment (FDI) is well understood as a characteristic that oblige economic development. Numerous governments from developed and growing countries consider that
FDI know how to help them get throughout stagnation and also keep away from the scarcity ambush. A diversity of hypothesis has been developed from the time when 1960s to give explanation about the FDI concept. These hypotheses announce a number of determinants that might give details about foreign direct investment flows, involving the micro (e.g., organizational aspects) and macro (e.g., resource allocation) measurement. The micro measurement consist of factors built-in to the corporation itself, such as cost reduction, economies of scale and ownership advantages while the macro measurement takes into the consideration market precise causes such as barriers to entry, availability of resources, country risk, market size and political stability (Susana. Assunção, Rosa. Forte, and Aurora A. C. Teixeira. 2011, 2).

According to the Hymer (1976) proves that investment in a foreign country engage high costs and risks intrinsic to the disadvantage faced by multinational since they are foreign investors. These take in the expenditure of obtain appropriate information due to cultural and foreign language difference and the expenditure of with a reduction of positive behavior by the governments of host countries. The international corporation as a result have ownership advantages (e.g., copyrights, innovative goods, know-how and skills, and so forth) to counterbalance the disadvantages (Dunning, 1993, 29-32).

According to the Vernon investigate the theory of product life cycle, he came up that companies decide to invest straightforwardly in a given place as an option to exporting, as long as goods travel along with the curve of their life cycle (growth, maturity and decline), and to the point that as they decline they have smaller number of needs in terms of know how/skill and transferring new technology. In the growth stage, corporation invest in new developed countries where marketplace are rising and local production can be occupied, whereas in the maturity and decline stages manufacture is transfer to developing countries in as much as markets turn out to be saturated and goods are smaller amount of innovative, thus producing pressure to decrease costs (Vernon, R. 1966, 195-201).

Measuring efficiency of operations we also emphasize the usefulness of smoothing over time to better analyze the potential dynamic influence of FDI on efficiency. We find that both FDI and time play an important role as influencing efficiency distribution and affecting, to a smaller extent, the production set. This effect of FDI does not seem to vary much over time. By the second-stage nonparametric regression of the conditional efficiencies over FDI and time we identify clearly the effect of time and FDI on conditional efficiency and we determine characteristic efficiency, which represents the ‘Solow residual’, measured by looking to the unexplained part of the conditional efficiencies (Mastromarco, and Simar. 2015, 835).
FDI theories began with reviewing the MNEs’ performance and the location problems remained added as an outcome of economic dynamic forces and concrete observations in the actions piloted among MNEs and host countries. For that reason, we find that an increase trends of FDI concepts is due to the combination of new variables on location, even though the location advantages are hardly point out in the first clarifications concerning the worldwide activity of the corporation.

5.2 Location Determinants of FDIs

The important involvement of foreign direct investment (FDI) to the economic development was empirically verified and represents one of the key inspirations for the government determinations in attracting FDI. Why? The answer to this question is straightforwardly achieved by basically describing FDI as a movement of investment, technology and know/how. Here we have the explanation for the competition to attract FDI in which the economies are involved. In this admiration, every single country can be proactively involved in attracting FDI by determining and improving their location advantages.

Nowadays, speaking about FDI location-driven advantages is somewhat common. FDI entries are examining for locations rich in natural resources or in generated resources, such as better infrastructure, an attractive corporate environment, and skilled employees and so on. The selection of a location is furthermore influenced by the behavior of the companies as concerns its motivation if it is resource seeking, marketplace seeking, competence seeking or tactical asset seeking. A significant role in emphasizing the location advantages in the foreign investors choice making process belongs to Raymond Vernon, in the 1960s, and to John Dunning a decade later. Beginning with the 1990s, the MNEs activity starts to be clarified by obviously taking into account the location concepts and a superior attention is focused to institutional variables (Oana Cristina. Popovici, and Adrian, Cantemir. C lin. 2014, 1-2).

Presently, it is pure clear that the location advantages are at the essential of the investment choice making process, are exposed to eternally change and can be influenced by state rules. In the corporate view, the location features of a country must convert in fixings for the multinational companies (MNC) attractiveness in the long run (Zvirgzde, D., Schiller, D., Javier, R. D. 2013, 221).
According to the Kindleberger suggests the model of market imperfections as a reason for the FDI survival. Kindleberger finds four types of imperfections that generate FDI: imperfections on the goods market, due to product changes and diverse marketing methods; imperfections on the factors market, due to diverse entree to the capital market, the property above technology (copyrights and know/how) and changes relating to decision making know-how; the distortions affected by government involvement (tariff and non-tariff barriers, taxes, price controls and profits, antitrust rules, etc.) and economies of scale as they are influencing to improved production effectiveness. In this way, the author highlights a significant FDI contributing factor for host countries, such as the outcome of the governmental involvement, the product diversity and new technologies (Vasyechko, O. 2012, 118)

According to the Vernon explores the development and the connections from three dissimilar opinions: the demand for the item of consumption, the competitive environment and the location of manufacture. At hand are three phases in the life cycle of a product. In the first phase, the new and innovative product is sold on the internal market. In the second phase, the product is transferred due to standardization and scale economies. In the third phase, the corporate determination choose to have subsidiaries in other countries in order to discover inexpensive inputs and lesser production costs, as its objective is to decrease the expenditures. Even though the scope of the author was not to give emphasis to the location advantages for FDI, the advantages and disadvantages of possible location for foreign investors began to have a better standing at hypothetical level (Oana Cristina. Popovici, and Adrian, Cantemir. Clin. 2014, 8).

According to the Vernon, for attracting FDI specifies various procedures:

- concerning employment, allowing grants or decreasing taxes;
- concerning the tax schemes, adaptable transfer prices and generating a vast network of mutual tax agreements;
- concerning safety, the right of entry to technology and know/how;
- concerning inter jurisdictional battles, the author reflects that the interdependency among economies will remove these resistances.

Dunning takes one of the first tries to expand the location advantages and makes a difference among the supply oriented location theory (specifically in the countries with low costs for manufacture factors) and demand oriented theory (specifically selecting the investment target depending on the location of the markets and the opponents). In this admiration, the existence
of MNCs is clarified throughout four location factors: the presence of raw materials, cheap labor force, unexploited and secure markets and means of transportation costs (Kusluvan. S. 1998, 163-167).

The location advantages are as a result grounded on the generated resources, such as the intellectual capital, the innovative advance systems, institutional and communication infrastructure. Due to the ups and downs in society, “soft” location variables need to be taken into account (Dunning, 2003, 3) or those connected to the life excellence, such as diminishing pollution, violence, bribery/corruption and other insupportable social activities. The FDI contributing factor toward those related to the economic ethics. Dunning claims that location advantages are matter to continuous changes (Oana Cristina. Popovici, and Adrian, Cantemir. C lin. 2014, 3-4).

The most important input of Dunning’s OLI model to the literature was to carry jointly a number of complementary theories, recognizing a set of variables (O - ownership, L - location and I - internalization) with the purpose of form the activities of multinational firms (Dunning and Lundan, 2008, 79-80). The fundamental nature of this move toward the use of these variables to operate, to international production and to the international business of production, therefore this means that the same way logical structure can cover up the three major methods of internationalization (exports, FDI and licensing) (Ietto-Gillies, 2005, 112-121).

The location advantage (L) is mostly due to the dissimilarities between the homebased and the host country as concerns the aspects endowment, the market structure, lawful system, governmental and traditional environment, market entree and so on. The corporations will invest on a foreign country given that the attractions of the foreign market are greater than the ones of the domestic market (Dunning, 1980, 10). In additional exploration, the author put emphasis on the need of permanently adjusting the model to the dynamics of globalization. The foundation of the location advantage is the traditional model of international trade, but the author realizes the location advantage at the macroeconomic level, therefore joining the assets of the foreign country, no matter their basis (the free market or the government) (Oana Cristina. Popovici, and Adrian, Cantemir. C lin. 2014, 9-10).

Government rules that consist of tax breaks, subsidies and easy return of capital (Faeth, 2009) can therefore manipulate the choice between exporting, FDI and licensing. This matter has been observe by a number of authors, such as Bond and Samuelson (1986), Black and Hoyt (1989) and Hubert and Pain (2002) Faeth, I. (2009), who have concluded that financial and fiscal incentives, tariffs and lower corporate tax rates have positive effect on attracting FDI
(Faeth, I. 2009, 172-177). Corruption is an additional and very important factor in companies that decide to choose for a right place Bénassy-Quéré and Cleeve are amongst those authors who declare that low rank of corruption are connected to superior prosperity and contain a significant influence on the institutional excellence of a country, and encourage its expansion (Susana. Assunção, Rosa. Forte, and Aurora A. C. Teixeira. 2011, 10-12).

According to the Botri and Škufli they found out that countries nearby to Western country have a tendency to attract more FDIs (Botri , V.; Škufli , L. 2006, 359-361). The unexpected conclusion was tense by when they used the unemployment rate as a substitute for economic steadiness, for which a pessimistic outcome on FDI was predicted, in view of the fact that high unemployment has a tendency to be connected to poorer economic steadiness (Martins, 2005). The most helpful result establish by the authors may possibly be linked to the reality that the replacement is more used to measure of cheap labor, which in this case does attract more FDIs, than a measuring of economic steadiness, therefore twist the result.

Therefore it might be predicted that low income costs, calculated by salary per worker, have a considerable optimistic result on attracting FDI while this guides to minor production costs (Dunning and Lundan, 2008, 85-86). Opposing to probability, Botri and Škufli found out a negative connection of this determinant with FDI, which the authors believe might give explanation by the sectored allocation of FDIs, while with the services sector being attractive in the South-East European states and earnings being higher in this segment, foreign investors may be prepared to tolerate higher salary (Botri , V.; Škufli , L. 2006, 365-366).

If we take into consideration the level of corruption and political insecurity has a significant influence on a country’s institutional quality, since the corruption is defined as the abuse of power for a person’s own benefit (Cleeve, 2008) which have an effect on the quality of institutions, and political insecurity limits its progress. This is because, when resources are distributed unequally it tends to generate revolt (Sahu, 2008) and to restrict the development of more efficient political and economic institutions, which constrains FDI. Biswas, Mohamed and Sidiropoulos used combined index that include risk factors for foreign investors, such as system of government, corruption, danger of expropriation. However, all these research has found an important positive connection among institutional quality and FDIs. (Susana. Assunção, Rosa. Forte, and Aurora A. C. Teixeira. 2011, 12-13).

At the same time, some empirical lessons (e.g., Asiedu, 2006; Vijayakumar et al., 2010) disagree that the countries which obtain lesser FDI inflows would be further attractive if they put into
operation improvement that free up their economy (Choong and Lam, 2010, 175-176), viewing the significance of an open economy to attracting foreign investors. Therefore a helpful, statistically important result is estimated for the variable ‘openness of the economy’ on FDI (Vijayakumar N. Sridharan, P; Rao, K.C.S., 2010, 1-4).

FDIs are capable of carry new expertise and managerial know-how, and increase production, marketing, transport, and communication networks. Host countries location advantages are one of three hypotheses that Dunning’s (1981) ownership, location and internalization (OLI) model recognize in explaining FDI. The ownership advantage stem from the company ownership of insubstantial assets, such as technology, exclusive rights, and skilled management. The location advantage happen from the assets that foreign economy supply, such as rich natural resources, huge market size, inexpensive factors of production, and welcoming business environment. These possessions catch the attention of firms to produce abroad. The internalization advantage originates from the firm’s commitment in manufacturing in a foreign country itself rather than relying on the market for the reason that of the higher transaction costs of the last (Wasseem, Mina, 2007, 3-13).

The most significant influence in attracting FDI is the market effectiveness, tracked by the structure of incentives, technological capability, infrastructure and support services, modernization systems and market features. The institutional growth is seen by Dunning as a needed condition if countries want to stay attractive for foreign direct investors.

The starring role of governments moreover appears to be significant, as governments may possibly grow into an energetic partner for foreign investors, taking the opportunity to make a positive environment for investments and for doing business, particularly currently, where extra care is given to shaped resources as contributing factor for FDI.

5.3 Constant (Learning) and Temporary (Leaning) Spillovers from FDIs

Surrounded by the numerous explanations known for attracting foreign direct investment (FDI) is the idea that multinational enterprises (MNEs) offer spillovers to local companies, thus rising productivity, employment, and investment. Based on theoretical literature, they are two subject matter describe how spillovers occur. First presents the idea of constant technological otherwise learning spillovers in which MNEs advances local technology in many ways throughout direct sharing, imitation by locals, or by labor market mix. Constant spillovers might as well
occur from relationships to the worldwide economy in which local companies become skilled from MNEs regarding customers or suppliers of intermediate contribution from industrially more highly developed countries. According to the authors they labeled these constant growth spillovers as learning effects because they represent knowledge transfers to local companies generating efficiency externalities and self-controlling of the constant local firms presence of MNEs (Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. 2016, 2-3).

Secondly, the accesses of MNEs boost the demand for locally sourced goods and services in the domestic economy as long as the MNEs will function in the country. This domestic demand outcome can increase temporary output spillovers for local companies, for example, as for the time being they gain benefit from advanced excellence of the contributions they obtain from the MNEs. Although these special effects are temporary in the sense that they disappear with the disinvestment of the foreign company if the knowledge regarding the adaptation of new technologies, know-how /skills, or connections with companies in further advanced countries has not been transferred to the local company. However, according to the authors they labeled these temporary growth spillovers as leaning (Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. 2016, 3-4).

This recommend that if FDIs attracting procedures are projected to encourage sustainable development, it may perhaps be extra successful to attract and keep hold of FDIs using long term and continuing structural policies, for example, throughout lowering corporate tax rates relatively to short term tax holidays or throughout strategies that strengthen the local absorptive ability and relations between international and local companies. If increase spillover stem mainly come from leaning relatively than learning effects, FDI leads to expansion can boost a countries weakness to unpleasant global surprise in that the output grow of local companies will be moderately inverted with the disinvestment of international firms. The determination of FDI spillovers has not been argued regardless of the primarily diverse economic consequences and indirect method: if the growth come from learning effects the payback to local companies continue once the MNEs goes away, whereas if they approach from leaning effects they rapidly disappear once the MNEs depart (Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. 2016, 3-4).

According to the authors they find out that with the aim of FDIs in downstream businesses (i.e., those who puts effort from local companies) are mainly significant in producing these temporary leaning effects along with local supplier, with minor local companies being particularly impacted by leaving MNEs. This outcome recommend that the important FDI spillovers
to local suppliers in upstream businesses which have been found out in numerous rising countries do not automatically capture constant learning effects (such as know-how/skills and technology transfers) although relatively temporary leaning effects reflecting the higher demand for locally suppliers goods and services as long as the MNEs functions in that country (Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. 2016, 5).

First and foremost, in this article they provide evidence that by using the net change in spillovers obscures significant disproportionateness among FDI entry and withdrawal. Additionally, they find out important evidence of temporary leaning effects since, if spillovers remained to originate from permanent learning effects, withdrawals shouldn’t have any impact on the behavior of local companies. Furthermore, they show how the changes in the backward spillovers, then mainly when driven by withdrawals of FDIs firms, have the most strong influences. And the last they find out that the asymmetric temporary spillovers from FDI are mainly strong for service sector and smaller companies. This point toward that the existing literature concentrating completely on net changes in FDI is missing significant features of the spillover procedure (Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. 2016, 6-7).

One of the most important reasons for governments to attract foreign investment is the self-confidence that FDIs bring on in new technologies, approaches of doing business, and international networks, multinationals will rise the productivity, investment of local companies and employment generation. In generally, we find remarkable unsteadiness between entry and exit of foreign companies, with the estimates demonstrating a significantly temporary environment of FDI spillovers. Furthermore, we find out that the effect of these spillovers differs throughout sectors and companies size, with small and medium enterprises in the service businesses being mostly affected.

5.4 Types of Foreign Direct Investments (FDIs)

Horizontal Foreign Direct Investment type

The impact of FDI on local company’s axis’s on the supply chain correlation between the MNEs and the local companies, according to Rodriguez-Clare (1996) this connection can be horizontal (is the investment in the same industry abroad as companies function in at home). FDI inflows are strongminded by the measurement and the growing possible of the host countries. These types of FDI are substitute for exports. For that reason, transportation and commercial expenses inspire horizontal FDI (Kinoshita and Campos, 2003).
Horizontal Foreign Direct Investment: is the investment in the same industry abroad as a firm operates in at home.

**Vertical Foreign Direct Investment**

Foreign investors will favor the countries with the low-cost manufacture factors. The type is more close-fitting for the investments in the development countries. As a result, foreign investors are mostly attracted by the countries with cheap manual labor costs and commonly with cheap factor costs, or in resource rich countries (Markusen, J. R., Venables, A.J., Konan, D.E., Zhang, K.H., 1996, 221). This type also contains the existence of a lowest part of experienced labor in the local country, without this the investment cannot be made (Lattore Munoz, M. C. 2009, 109).

**Vertical Foreign Direct Investment: takes two methods:**

- Backward vertical FDI: when a corporation abroad delivers inputs for a company’s local production process, (with the MNE in a downstream industry supplied by the local companies).
- Forward vertical FDI: in which a foreign corporation sells the outputs of a company’s local production processes (with the MNE in an upstream industry supplying to the local companies).

**The knowledge-capital type**

This type of FDI in fact join in the two earlier types and was established by Markusen, the type points out to a complete liberalization for trade and investments in demand to rise the capital of the local country. The type it also consist of the knowledge, as appreciated as an advantage that can be easily delivered to geographically detached production units, needs a very high skilled labor force and is also highly moveable (Markusen, J. R., Maskus, K. E 2002, 698).

FDI can take the form of **Greenfield Investments** is about direct investment in different facilities or the enlargement of current facilities. The primary target of Greenfield investments are a host nation’s publicity efforts since they generate new production capability and employments, allocation of new technology and know-how and skills, and this will lead to relationships to the worldwide marketplace. Anyhow, it frequently does this by crowding out domestic companies; multinationals are capable to produce goods more economically (since they have the most advanced technology and well-organized processes) and use up resources (labor, intermediate goods, etc.). However, alternative disadvantage of Greenfield investment is that earnings from
manufacture does not provide back into the domestic economy, but instead to the multinational's home country economy. This is in dissimilarity to local companies whose earnings flow back into the local economy to encourage development (Assuncao, S., Forte, R., Teixeira, A. 2011, 12).

**Mergers and Acquisitions** take place while a transfer of existing assets from domestic companies to foreign companies occurs, this is the main type of FDI. Cross border mergers take place once the assets and operation of companies from different countries are joined to launch a new legitimate business. Cross border acquisitions take place once: the controller of assets and processes is moved from a domestic to a foreign firm, with the domestic firm becoming a partner of the foreign firm (Assuncao, S., Forte, R., Teixeira, A. 2011, 12).

In my opinion I think that one of the disadvantages of Greenfield investment, acquisitions offer short term benefits to the domestic economy. In general cases the partnership owners of the domestics company are paid in stock from the obtaining corporation, which in this case it means that the earnings from the trade may possibly by no means influence the domestic economy.

Table 5.3: Largest Foreign Direct Investments (FDIs) in Kosovo
<table>
<thead>
<tr>
<th>Business</th>
<th>Country code</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newco Ferronikeli Complex L.L.C.</td>
<td>NL</td>
<td>2003</td>
</tr>
<tr>
<td>Sharcom</td>
<td>CH</td>
<td>2004</td>
</tr>
<tr>
<td>Trafa</td>
<td>B</td>
<td>2005</td>
</tr>
<tr>
<td>Stone Castle</td>
<td>US</td>
<td>2005</td>
</tr>
<tr>
<td>Kosovo Wood</td>
<td>US</td>
<td>2005</td>
</tr>
<tr>
<td>Peja Brewery</td>
<td>SI</td>
<td>2006</td>
</tr>
<tr>
<td>British Airways Plc</td>
<td>GB</td>
<td>2003</td>
</tr>
<tr>
<td>Enka Insaat Ve Sanayi A.S. - Kosovo Branch</td>
<td>TR</td>
<td>2010</td>
</tr>
<tr>
<td>Royal Mining Ltd Branch Office Kosovo</td>
<td>CH</td>
<td>2009</td>
</tr>
<tr>
<td>Siemens</td>
<td>AT</td>
<td>2009</td>
</tr>
<tr>
<td>Raiffeisen Bank Kosovo J.S.C.</td>
<td>AT</td>
<td>2009</td>
</tr>
<tr>
<td>Isto Telecommunications L.L.C.</td>
<td>GB</td>
<td>2009</td>
</tr>
<tr>
<td>Bechtel International Inc Kosovo Branch</td>
<td>US</td>
<td>2010</td>
</tr>
<tr>
<td>N.T.T. Adria Airways Predstavništvo Pristina</td>
<td>SI</td>
<td>2002</td>
</tr>
<tr>
<td>Procredit Bank Sh.A</td>
<td>DE</td>
<td>2008</td>
</tr>
<tr>
<td>Thyssenkrupp Forstertechnik GmbH - Branch Office In Kosovo</td>
<td>DE</td>
<td>2008</td>
</tr>
<tr>
<td>Nib Pristina</td>
<td>SI</td>
<td>2008</td>
</tr>
<tr>
<td>Strabag Ag Branch Office Kosovo</td>
<td>AT</td>
<td>2008</td>
</tr>
<tr>
<td>Ener Capital Group Sh.A</td>
<td>AL</td>
<td>2008</td>
</tr>
<tr>
<td>Petrol - Oti - Slovenia L.L.C.</td>
<td>SI</td>
<td>2007</td>
</tr>
<tr>
<td>Banka Ekonomika Sh.A</td>
<td>CH</td>
<td>2008</td>
</tr>
<tr>
<td>Banka Për Biznes Sh.A</td>
<td>IT</td>
<td>2003</td>
</tr>
<tr>
<td>Dg Beton Ad - Shoppe - Branch Kosovo</td>
<td>MK</td>
<td>2007</td>
</tr>
<tr>
<td>Ramis Sadiku Sh.P.K.</td>
<td>AL</td>
<td>2009</td>
</tr>
<tr>
<td>Zagorie - Tehnoglob D.D. Varazdin Republic Of Croatia Kosovo Branch Office</td>
<td>HR</td>
<td>2009</td>
</tr>
<tr>
<td>Inokot Sh.P.K.</td>
<td>MK</td>
<td>2009</td>
</tr>
<tr>
<td>Alstom Power Service - Representative Office In Kosovo</td>
<td>FR</td>
<td>2007</td>
</tr>
<tr>
<td>M &amp; Sillaxi Sh.P.K.</td>
<td>CH</td>
<td>2010</td>
</tr>
</tbody>
</table>
In overall, countries must be accurate about the tradeoffs related with different forms of investment, they also must be accurate about other types of investment they will be competent to attract. I think this is very important because governments with impracticable opportunities are more than likely to waste valuable financial investment targeting companies that will under no circumstances invest. In general, the forms of investment that a location will be capable to attract be determined by its economic features and strategies. This affiliation is demonstrated further down, which classifies countries according to their level of economic growth and economic improvement. In this case, the poorest developing countries those categorized by unskilled labor, minor markets, and import replacement policies are perhaps not capable to attract most types of FDI, with the potential exception of companies looking to invest in natural resources. By difference, minor emerging countries that have embraced market developments and have a good supply of low cost labor will remain attractive investment locations for export-oriented industries (Advani, A. 1997, 26).
Higher developing countries that have parallel reforms are attractive to investors demanding to produce goods for these rising local markets; additionally, these countries may also offer attractive investment opportunities in infrastructure growth and privatization. Conversion economies have even larger visions for attracting FDI. These countries are attractive to investors looking for serving both local and regional markets, to investors looking for Merger and Acquisition (M&A) chances causing from privatization, and to investors interested in infrastructure expansion. Lastly, newly developed countries have the highest prospective for attracting Foreign Direct Investments in a wide-ranging of doings.

Table 5.4 Illustrative country FDI stages

<table>
<thead>
<tr>
<th>Country Category</th>
<th>Country Characteristics</th>
<th>Economic Policy Dimensions</th>
<th>Inward FDI Prospects</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Poorest developing country</td>
<td>Unskilled, untrained labor; low incomes; small markets</td>
<td>Relatively closed markets; import-substitution development policies</td>
<td>Some natural resource-seeking FDI in raw materials and commodities; little or no inward FDI manufacturing</td>
</tr>
<tr>
<td>IIa. Small, emerging developing countries</td>
<td>Availability of low-cost, trained or trainable labor; growing incomes and markets</td>
<td>Market reform and opening; export-oriented development policies</td>
<td>Inward FDI in labor-intensive, export-oriented manufacturing; efficiency-seeking (rationalized) FDI</td>
</tr>
<tr>
<td>IIb. Larger, emerging developing countries</td>
<td>Growing incomes and markets; plentiful supply of low-cost labor</td>
<td>Market reform and liberalization; privatization priorities; shift to export-oriented development policies</td>
<td>Slower pace of reform than in category IIa; market-seeking FDI, primarily to serve growing domestic markets; opportunities for FDI in privatization and in infrastructure development</td>
</tr>
<tr>
<td>III. Economies in transition</td>
<td>Plentiful supplies of skilled, relatively low-cost labor, growing, but volatile markets.</td>
<td>Public-sector reform and privatization priorities; market reform and liberalization; cautious shift to export-oriented policies</td>
<td>Market-seeking FDI to serve domestic and neighbouring markets; merger and acquisition opportunities in privatization; FDI in infrastructure development</td>
</tr>
<tr>
<td>IV. Newly industrialized countries</td>
<td>Manufacturing of higher value-added products and services; skilled workforce and higher income, sophisticated consumers</td>
<td>Investment in research, technological development, education, and other public goods, open or opening markets, support for outward FDI by indigenous companies (to obtain lower costs and avoid protectionism)</td>
<td>FDI to serve regional or global markets, plant upgrading or divestment of labour-intensive operations, range of marketing, production, or other activities at subsidiary level</td>
</tr>
</tbody>
</table>
It is important to note that these categories are purely illustrative and that wide divergences and notable exceptions exist within each category. Nonetheless, the table illustrates two important points: First, an important linkage exists between a country’s level of economic development and its economic policies on the one hand, and its ability to attract FDI on the other. Second, the types of FDI that a location is able to attract vary in accordance with its size, level of economic development, and economic policies. From a policy perspective, market reform and economic liberalization, reform of the public sector and privatization, and a switch from inward-oriented to outward-oriented economic development strategies are all important factors in encouraging FDI and are within the government’s control (Advani, A. 1997, 28).

Based on the above table I think Kosovo fall between first and second category, where Kosovo is poor and small emerging developing country. It has availability of low cost trained and labor, low incomes. Where it comes to economic policy dimensions are market reform and opening, export oriented development policies. Whereas inward FDI prospect it has some natural resources seeking FDI in raw materials and commodities and also inward FDI in labor intensive, efficiency seeking (rationalized) FDI.
General summary of Republic of Kosovo’s economy

People living in Kosovo are facing really hard times with the unemployment rate being so high and the economic conditions being so poor. These conditions are the main cause of the poverty, political crisis, poor education and the poor healthcare in our society. It has become really hard for unemployed in Kosovo to survive and even harder for the society to take care of them. Unemployed families cannot afford to buy the things that are required to survive and the majority of poor people are having serious health issues and many of them are passing away while waiting for the government to help them. This issue is not getting any better, the longer it takes to resolve this problem the more difficult it becomes for people to live in Kosovo.

Kosovo used to be part of Yugoslavia it was an autonomous region in the Republic of Serbia, one of the six republics originally making up the country. It had a national Albanian majority although with a significant Serb minority. On the other hand, a legitimate reform in 1974, Kosovo was approved autonomy; agree to have possession of administration, assembly, and judiciary (United Nations International Criminal Tribunal for the former Yugoslavia par, 6).

Throughout the 1980s ethnic apprehension increase and in 1989 Kosovo’s autonomy was invalidated by the nationalistic Serbian government led by Slobodan Milosevic. The 1990s witnessed the breakdown of Yugoslavia and in Kosovo growing oppression by the Serbian regime resulted in the occurrence of war lead by the Kosovo Freedom Army and an entire collapse in the rule of law.

Beginning if the year 1997 until June 1999 an estimated 10 000 Kosovo people were murder. In reply to the quickly worsening situation the North Atlantic Treaty Organization (NATO) attack Serbia and Serbian armed forces in Kosovo to forced them out of Kosovo territory. In June 1999, the United Nations (UN) Security Council implemented Resolution 1244/99 which put up a United Nations Interim Administration Mission in Kosovo (UNMIK) in relegate of the Government of Serbia. It authorized UNMIK to carry out the entire aspects of civil administration, create democratic institutions and establish the basis for eventually resolving Kosovo’s status (European Commission pg, 5-7).

The direct task of UNMIK in combination with the NATO lead Kosovo Force (KFOR) was to set up law and order by stopping the brutality and oppression and allowing for a secure re-
turn of all refugees. Starting 2003, beneath a legitimate framework established by UNMIK, the structures of the so-called ‘Provisional Institutions of Self-Government’ slowly began evolving. Despite the fact that UNMIK hang on to final power, a gradual transfer of power from UNMIK to Kosovo institutions took place (European Commission pg, 8).

Following discussions over the period 2005 to 2007, the UN Special Envoy, Martti Ahtisaari, projected and proposed a ‘supervised independence’ for Kosovo. Whereas this suggestion was not authorized by the UN Security Council, two key parts of the Ahtisaari suggestion were nonetheless subsequently implemented: (a) The EU Council of Ministers established a Common Security and Defense Policy (CSDP) mission, the ‘European Union Rule of Law Mission in Kosovo’ (EULEX), to supervise, guide and advise on all areas related to the rule of law and carry out certain executive functions. (b) A group of states supporting Kosovo’s independence, the International Steering Group, established an International Civilian Office (ICO) to check the implementation of the suggestion. The Head of the ICO has the authority to annul decisions or laws adopted by Kosovo authorities and sanction or remove public officials (European Commission pg, 10-11).

Kosovo declared independence from Serbia in February 17, 2008 but this step was not followed by universal recognition of Kosovo until 1st of December 2016, 114 countries have recognized Kosovo. Five out of 28 EU Member States (Cyprus, Greece, Romania, Slovakia and Spain) have not accepted Kosovo’s independence which has led the EU to adopt what is termed a ‘status neutral’ position means that the European Union neither supports nor opposes Kosovo’s independence (About KosovoThanksYou).

According to the Statistics of the Kosovo’s labor market demonstrate the employment rate in 2014 stood at 26.9 percent (figure 5.1). The employment is mainly concentrated in services and manufacturing sector, which employs over 90 percent of total employees in the labor market (Central Bank of Kosovo, Annual Reports 2016 pg 35).
According to the Statistics of the Kosovo’s labor market demonstrate an unemployment rate of 35.3 percent in 2014 (figure 5.2). This compared to 2013 the unemployment rate outcome to have noticeable and rise, particularly among the youth (the age group 15-24 years of age) in 2014, the youth double had a probability to be unemployed compared to adults, and thus 61 percent of the young residents were without a job. The split of youth (15-24 years old) to total unemployment rate reached 28.5 percent in 2014 (Central Bank of Kosovo Reports 2016 pg 35).
Kosovo's independence did not help to reduce the unemployment rate and bank interest rate remains same as before (UNMIK, European Union par. 3). The government and the Central banking Authority of Kosovo cannot interfere with the banking market and decrease these high interest rates in view of the fact that they reflect the present situation in this country (UNMIK, European Union par. 1). According to Besnik Kada CBAK Information Officer, the interest rates reflect the complete situation of the nation. On the other hand we believe that after the entrance of new banks on the market and the increasing of competition in the banking division, there will be a further decreasing of interest rate (UNMIK, European Union par. 4). I would say the privatization process is one of the most important achievements and these have been demonstrated by the increase in exports from Kosovo which was recently reported by the newspaper Koha Ditore (Vladimir, Gligorov par. 3).

Kosovo in June 2009 became a member of the World Bank (WB) and the International Monetary Fund (IMF). And, as the second newest recognized country in the world, Kosovo is now completely open for business. Kosovo is a potential runner for European Union (EU) associations. In October 2012, the EU confirmed in its feasibility revision of the country’s political, economic, and legal environment that there was in legal obstacle and Kosovo was ready to
open negotiations on a stabilization and association agreement. The challenging structure of Kosovo’s economy with narrow financial connection and a small export base has indirect that, similar to the aftermath of the global crisis in 2008-9, spillovers even from the worsening Euro zone crisis have been less ruthless than in neighboring countries. In particular, remittances (recorded as transfers in the balance of payments), Foreign Direct Investment (FDI), and other non-debt creating flows from Kosovars living abroad are expected to remain relatively stable (Ministry of Trade and Industry in Kosovo 2013, 22-24).

According to the statistics published by Central Bank of the Republic of Kosovo, in the first quarter of 2015, GDP shows an annual growth of 1.7 percent, in opposition to the growth rate of 0.3 percent as it was in the same period of the previous year. In the second quarter of 2015, Kosovo’s economy was illustrate with an increase annual growth rate of 4.8 percent while in the third quarter of 2015 the real GDP growth rate was 4.0 percent (Central Bank of Kosovo Reports 2016 pg 24).

Figure 6.3 Real GDP growth rate in Republic of Kosovo

![Real GDP growth rate in Republic of Kosovo]


The European Union and several of the member states have been energetically helping Kosovo for an important period of time through various projects and additional forms of support and assistance. Kosovo’s Diasporas group of people is well represented crossways the member states as well as other countries they are not join in European Union. So this makes us think that Kosovo European integration is on the right track (UNMIK, European Union par. 7).
Kosovo has prepared small development towards establishing an implementation market economy. In general, economic policies remained largely sound and market-oriented. Price increases were low, and the price level of domestic goods and service cut down. Privatization of previously within society owned venture accelerated considerably even though much remains to be done. The monetary sector additional expanded and consolidated in a context of increased foreign ownership (UNDP & JICA, par. 4). However, growth was relatively modest and unemployment very high. Inadequate implementation of the rule of law, status related uncertainties and fiscal risks continued to affect the functioning of market mechanisms and the business climate. Economic policy co-ordination remained.

In general, the economy of Kosovo is mostly dependent relative on the foreign sector. The level of importation is fairly high with rising trends. On one hand, this appears as an effect of economic expansion itself, while on the other hand from the high level of Diaspora transfer of funds, which cover up the high trade shortage. Furthermore, economy of Kosovo is set apart with a high attendance of foreign contributor, but in the last few years, their slow withdrawal has slowed the speed of economic development (Program of the Government of the Republic of Kosovo 20013 – 2016, p. 7).

Kosovo’s massive trade disproportion is negatively impacting GDP growth, current account deficit, job creation and poverty decrease. The most important challenge for Kosovo’s economy is to decrease this deficit. One method to do so is by forceful export promotion through FDI and joint ventures (Aitken, Brian, G. Hanson, and A. Harrison 1997, 605-618).

FDI can also contribute towards replacement of imports with domestic products and potentially boost exports, as a result closing the trade deficit. Therefore, the Republic of Kosovo needs to do considerably more to attract foreign investment and “outside” investors as a means to achieve long-term, sustainable growth. In addition to the noticeable direct benefits – capital investment and employments – FDI furthermore supports integration into local and global economies, due to the fact that it is very frequently export-oriented; it engage transfers of technology, supervision best practices, and know-how/skills, thus indirectly promoting innovation and competition in beneficiary countries; etc. – all of which guide to better standards of income and assist to reinforce a country’s overall competitive profile. Increasing and attracting foreign investments is one of the main policies to progress Kosovo’s economy. (Aitken, Brian, G. Hanson, and A. Harrison 1997, 103-132).
6.1 Republic of Kosovo as an investment environment

In this section will be argued about key areas that suggests decent investment prospects; incentives system; World Bank Doing Business Report 2016 &2017; tax scheme, infrastructure and trade system.

For rule makers demanding to advance their economy’s controlling environment for business, a decent place to start is to find out in what way it compares with the controlling environment in other economies. Doing Business Report make available a combined ranking on the comfort of doing business based on indicator sets that amount and standard regulations relating to domestic small to medium size businesses through their life cycle. (Doing Business 2017, 6)

Figure 6.1 Where economies stand in the global ranking on the ease of doing business


Business environment in Kosovo offers numerous comparative advantages that are significant for a successful small and medium enterprises that operates in private sector as well as for attracting FDI in the tradable and employment subdivisions. In this case for Kosovo the tax scheme is very simple and has very low rates, and labor market inflexibilities are also very low, whereas at the same time wages are smaller compare to other countries in the region. These are
several benefits which compared to other countries in the regions, are very significant for attracting foreign investors.

According to this report from Doing Business made in 2017 Republic of Kosovo Economy Overview:

• Region: Europe & Central Asia
• Income category: Lower middle income
• Population: 1,797,151
• GNI per capita (US$): 3,950
• DB2017 rank: 60
• DB2016 rank: 64*
• Change in rank: 4
• DB 2017 DTF: 68.79
• DB 2016 DTF: 67.15
• Change in DTF: 1.64

Based on this report from Doing Business 2017 the ranking shown 60, which compare to last year’s published Doing Business 2016 Kosovo was rank 64 that captures the effects of such factors as data revisions and the changes in methodology. Furthermore if you go back several more years you will see that Kosovo ranking is improving each year on the ease of doing business (Doing Business 2017, 6).

For strategy makers, having in mind where their economy stands in the collective ranking on the ease of doing business is beneficial. Also advantageous is to know exactly how it ranks comparative to economies and relative to other countries in the regional average (figure 6.2). The economy’s rankings in (figure 6.3) and distance to frontier scores (figure 6.4) on the subjects included in the ease of doing business ranking provide additional viewpoint.
Figure 6.2 How Republic of Kosovo and comparator economies rank on the ease of doing business


Figure 6.3 Rankings on Doing Business 2017 topics – Republic of Kosovo
(Scale: Rank 190 center, Rank 1 outer edge)
Figure 6.4 Distance to frontier scores on Doing Business 2017 topics – Republic of Kosovo (Scale: Score 0 center, Score 100 outer edge)


The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each Doing Business indicator. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities (Doing Business 2017, 9).

Simply as the general ranking on the ease of doing business expresses only part of the story, therefore make sure of changes in that ranking. Every year movements in rankings be able to deliver some suggestion of fluctuations in an economy’s regulatory environment for companies, but they are continuously relative.

Furthermore, yearly movements in the overall rankings does not reproduce how the business controlling environment in an economy has transformed over period of time, or in what way it has improved in different areas. In the direction of supporting in measuring such changes, Doing Business presented the distance to frontier score. This measure demonstrations exactly how far on average an economy is from the greatest performance accomplished by any economy on individually Doing Business indicator (Doing Business 2017, 10).
Comparing the measure for an economy at 2 points in period of time lets users to measure how much the economy’s regulatory environment has changed over time as measured by Doing Business report 2017 or just how far away it has moved in the direction of (or away from) the greatest well-organized performs and strongest procedures in areas covered by Doing Business report 2017 (figure 7.5).

Figure 6.5 How far has Republic of Kosovo come in the areas measured by Doing Business?

Note: The distance to frontier score shows how far on average an economy is from the best Source: Doing Business database 2017.

6.2 Top reasons why you should invest in Republic of Kosovo

According to the Investment Promotion Agency several top reasons why you should invest in Kosovo are:

1. Youngest population in Europe - With an average age of 25 years, Kosovo has the youngest population in Europe. Albanian and Serbian are the official languages; English and German are commonly used.
2. Very high availability of skilled and cheap labor - The normal monthly cost of labor in Kosovo is somewhere from €200 to €250. Incomes in Kosovo are unburdened by costly social contributions, different from those in the countries of the region.

3. Very low corporate income tax - Kosovo has very simple and straightforward tax schema. International Accounting Standards apply.

The tax burden is very low:
- Personal Income Tax 0-10 %
- VAT 16 %
- Corporate Income Tax 10 %
- Mandatory contributions for employees only 5 % of gross salaries

4. EURO as the official currency - Euro is the official currency in Kosovo, by this means eliminating currency and exchange rate risks.

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

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

7. Kosovo is well endowed with natural resources and agricultural land so they are great investment opportunities. The sectors of agriculture, food and wood processing, construction, textile, IT, automotive components, energy, and mining offer the most opportunities for foreign investors.

8. Since after the Kosovo war in 1999, Kosovo’s legal system has been re-built and is now completely compatible with the EU legislation. Foreign investors are enjoying national treatment, protection against expropriation and nationalization. The deportation of profits and relocation of invested capital is free and unrestricted.

9. Kosovo is located in the heart of the Balkans, very strategic location and developing infrastructure - Kosovo capital city is Prishtina is one hour driving time to any neigh-
boring country. Recently some major projects are finished like modern highway connections to Albania, Serbia, and Macedonia.

6.3 Foreign investments in Republic of Kosovo

The origin of foreign investors in Kosovo is mostly from the neighbor’s countries; Albania, Macedonia and Turkey are one of the largest countries that are investing in Kosovo. Also European Union (EU) countries are investing like Germany continues to be one of the largest countries that they invest in Kosovo, followed by Slovenia which represents the second country in conditions of the amount of investments in Kosovo. An important share of FDI in Kosovo also comes from Austria and China.

Table 6.1: Assessment of Tax Systems in the Balkan region – 2016

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

Source: Investment Promotion Agency of Kosovo (IPAK)

According to the Vjollea Saliu, Kosovo government have worked so hard and it’s continuing to work hard quickly to encounter the values which are required for membership in the European Union. It has shaped a steady macroeconomic environment, a complete financial system and improvements are made in monetary policy in the request of lowering tax rates in the region. Amongst the significant objectives that Kosovo has set for the country, is the increasing attractiveness and competition of the economy in the local area as well as in wider regional market (Vjollea, S 2015, 159).

Table 6.2: Number of foreign enterprises Republic of Kosovo based on sectors and number of employees.
Table 6.3: Number of foreign enterprises based on countries of origin

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

Source: Investment Promotion Agency of Kosovo (IPAK)

Kosovo Investment and Enterprise Support Agency (KIESA), KIESA is an organization that operates under the Ministry of Trade and Industry and is responsible for protection and promotion of investments, supports application of public policies and programs for Micro, Small and Medium enterprises (SMEs) and develops policies related to establishment and development of economic zones.

The IT sector in Kosovo, including also Internet Service Providers, has experienced a remarkable development since after the Kosovo war in 1999. From being inexistent 10 years ago, Kosovar companies in the IT sector offer today high quality services and the latest technologies to their customers both local as well as to foreign companies who want to outsource their soft-
ware development and or call and support centers (Kosovo Investment and Enterprise Support Agency (KIESA), Investor Guide – Investing in Kosovo, 2017).

Kosovo is one the highest country that has the youngest population in Europe. It is both skilled and multilingual, with English being only just short of an official language due to a high international presence. In addition, many Kosovars who have studied abroad are now returning to Kosovo, bringing their skills and know-how. Today, public and private education institutions in the IT field, maintained by companies such as CISCO or Microsoft, make available education to lots of young Kosovars at the same time as the demand for this form of training is still rising.

Table 6.4: Fixed broadband penetration rate in Republic of Kosovo, from 2009 until 2011

![Fixed broadband penetration rate chart]

*Source: Cullen International*

Be present it the outsourcing of software improvement, data management, establishment of call and support centers and other consulting services, Kosovar firms provide high quality services at very low costs. The recent acquisition of the largest IT company in Kosovo, Pronet, by the Assecio SEE is proof of high opportunities in this sector in Kosovo (Kosovo Investment and Enterprise Support Agency (KIESA), Investor Guide – Investing in Kosovo, 2017).

Kosovo has two cell phone operators and two virtual mobile operators. The state owned mobile telephony operator VALA, has currently over 1,000,000 users, while the second private owned mobile telephony operator IPKO – Telekom Slovenian, serves more than 350,000 users and has a territory coverage of 99 percent. The state owned mobile cell phone operator VALA
is in final phase of privatization and soon the new owner of 75% shares of company will be presented. In addition, great opportunities for foreign investors are available for fixed telephony, VoIP, cable TV, etc (Kosovo Investment and Enterprise Support Agency (KIESA), Investor Guide – Investing in Kosovo, 2017).

6.4 Economic and other benefits from Foreign Direct Investments (FDI)

When Kosovo government consider Foreign Direct Investments, they have a habit of to focus on short term benefits such as employment and income. This is comprehensible. These are legitimate benefits, and politicians need to make tangible results in short periods of time. On the other hand, if a location is to take complete advantage of Foreign Direct Investments, and the government must think through all possible benefits, both direct and indirect (Kosovo Investment and Enterprise Support Agency (KIESA), Investor Guide – Investing in Kosovo, 2017). Some of the most common benefits are the following:

**Employment** - Despite the fact that the amount of jobs created differs in harmony with the size of the investment and the manufacture procedure itself, the most common benefit associated with Foreign Direct Investment is improved or secure employment. And, of course, with new employment comes additional income and spending power for local residents.

**Capital** - A foreign investor will transport in capital with which a new production facility will be constructed, or a local company acquired (Brewer, T., and S. Young. 1998).

**Income benefits** - Foreign Direct Investments expands the host country tax base and contributes to government revenues. Even though if foreign investors remain allowed complete release from taxes for a short period of time throughout investment encouragements, host governments be able to receive greater than before income from the payment of personal income taxes since the new jobs were generated by Foreign Direct Investments. Furthermore, export-oriented investment generates foreign exchange wages.

**Technology spillovers** - Foreign Direct Investment know how to advance a host country’s entrance and transfer to technology through licensing, joint ventures, and local trade. Employees of TNCs (transnational corporation) may take know-how/skills they have developed and set up new firm, or join existing local firm. Whatever the form, technology spillovers have a tendency to lead to better-quality productivity and growth (Bende-Nabende, Anthony. 1998).
**Improved know-how and skills** - Foreign corporations generally carry out more on-the-job training than do local companies, and TNCs (transnational corporation) in specific commonly involve in undertakings that practice quite high levels of know-how and skilled workers. These know-how and skills are frequently transferred to other areas and activities once employees strive for new jobs or start their own businesses. Employees are also every so often exposed to new organizational and management skills, in which communication that can motivate higher efficiency, entrepreneurship, and openness to education.

**Advantageous influence on local investment** - Foreign Direct Investments inflows have a tendency to tip to a rise in local investment as firms advance access to supply networks released by TNCs, become suppliers to TNCs (Transnational Corporation), or answer back to opposition from TNCs.

**Enhanced exports** - Considerably Foreign Direct Investment is export-oriented, and TNCs (Transnational Corporation) every so often account for an important share of host country exports. For the reason of their proportions and right of entry to overseas marketing and supply networks, foreign corporations normally find it at ease to enter export markets. Numerous emerging countries have been able to use Foreign Direct Investment as an approach to increase their export levels and increase foreign exchange earnings. Additionally, the attendance of foreign owned exporting companies has been effective in many countries in encouraging local companies to come into export markets.

**Improved international competitiveness of local companies** - The opportunity to trade inputs or deliveries to foreign owned companies inspires local firms to increase their quality stages and distribution consistency. Foreign companies every so often announce new products to the domestic economy, and local companies are often encouraged to compete with these goods. Finally, throughout their communication with a foreign owned corporation, suppliers, consumers and competitors in the domestic country are often stimulated to advanced levels of investment, efficiency and improvement. The outcome is frequently greater economic effectiveness and higher quality manufacture by local companies (Brewer, T., and S. Young. 1998).

**Increased competition** - Foreign Direct Investment can increase general economic development by increasing competition in areas before controlled by only one or two local companies. When a government chooses that attracting Foreign Direct Investment is an objective, it requires to identify the tradeoffs related with any form of investment. Labor demanding assembly
activities, creates both exports and jobs, but these actions usually depend on imported intermediary goods rather than on domestics inputs. As an outcome, they may not generate connections with the local economy or boost technology transfer. Furthermore, the employments related with assembly operations are often low skilled Foreign Direct Investment that happens through privatization can result in technology transfer, mainly through staff training and the introduction of up-to-date management and manufacture methods. “Governments must also be realistic about the probable economic impact of FDI. Empirical evidence demonstrates the positive role that FDI plays in promoting economic growth in developing host countries - for example, foreign investment has a stronger impact on economic growth than does domestic investment” (Brewer, T., and S. Young. 1998). On the other hand, research also make evident that middle and high income emerging countries stem better benefits than do low income emerging nations.

**Enhanced backward linkages** - Research point out that TNCs (Transnational Corporation) normally get only a minor share of their economic contributions from domestic suppliers. This is partially due to quality, and decision-making holes that occur between foreign corporation and domestic firms. Domestic companies often can’t produce inputs of appropriate quality and/or distribute them on time. This difficulties has turn out to be even bigger with the globalization of the economy, because TNCs are capable to hunt world marketplaces to get the lowest cost and top quality inputs. However, local sourcing or “backward linkages” among foreign investors and local companies, brings significant economic benefits to a locality in terms of local employment, better sales for domestics companies and advantageous effect on the balance of payments. It also exposes the domestics firms providing the goods to internationally competitive management and managerial approaches (Advani, A. 1997, 28). Additionally, governments that put more stress on foreign investors to localize in country side areas, they take a serious risk of misplacing the investment to neighboring countries that allow investors to choose their own investment locations.
7 Questionnaire results from Foreign Direct Investments in Republic of Kosovo

7.1 What attract the most Foreign Investor’s to invest in Republic of Kosovo

Based on questionnaire from foreign direct investors in Republic of Kosovo we can make a statement that Kosovo has sufficient strengths to draw attention of foreign business. Majority of foreign investor’s questionnaire on this matter (68.45 percent) that Kosovo has lots of advantages to attract new foreign investors in Kosovo because of cheap labor, low corporates taxes and young and dynamic labor force. Based on their statements is that it also dependents up to the Republic of Kosovo government to make their place more attractive area for foreign businesses.

More than 65 percent of foreign investors questionnaire think that Republic of Kosovo has one of the strengths of a young and dynamic workforce, compare to the Balkan countries. At the same time they made a statement that the workforce must be trained in order to fit their organization faster.

Competition in Republic of Kosovo is seen as suitable, approximately 63 percent of the respondents ranked this factor in the low, and said that this moment Republic of Kosovo market has very low competition compare to other countries in the region.

Also at the same time more than 65 percent of foreign investors questionnaire think that Republic of Kosovo has one of the advantages of cheap labor costs compared to other regional countries in Balkan.

According to questionnaire respondents from foreign direct investors in Republic of Kosovo believed that areas of most interest for investment in Kosovo are: good investment opportunities; competitive, low cost and young, educated and well skilled labor force; contemporary EU-compatible lawmaking; responsive banking system; legal tender EURO; investment incentives, modern business support institutions, etc.

Some other supplementary positive aspect measured by foreign investors stood that the geographical position of Kosovo. They raise the value of the important location of Kosovo in
South East Europe, which it gives Kosovo links with neighboring countries in many ways. Kosovo is located in the middle of Balkan countries. (Figure 7.1)

Figure 7.1 What attracts FDIs the most to invest in Republic of Kosovo

The amount of positivity of foreign investors concerning their investment in Kosovo is fairly high. This positivity is grounded on a young and dynamic workforce, cheap labor, the prospective for business growth, market expansion and decrease in crime and corruptions.
7.2 Main types of Foreign Direct Investments in Republic of Kosovo

According to the foreign investors’ respondent the most attractive areas for investment are: agriculture, food industry, mining, road transport, trade, hotels and restaurants, telecommunication, etc. There is no rating for tourism in which area Kosovo have natural wealth and I think it has very good opportunity for foreign investors to look into tourism area since at the moment there is no competition in this field in Kosovo market. (Figure 7.2)

Figure 7.2 The most attractive areas to invest in according to the foreign direct investors

![Main type of FDIs business in Republic of Kosovo](image)

Explanations provided under other option:

- Mobile software
- Production Industry
- Computer programming

53
7.3 Overall assessments of how attractive is Republic of Kosovo investments

Concerning the overall assessments of how attractive is the Republic of Kosovo investment situation, questionnaire respondents from foreign direct investors in Kosovo provides the following subsequent:

Very attractive (20%); quite attractive (27%); reasonable (43%); not so reasonable (8%) and unattractive (2%). (Figure 7.3)

Figure 7.3 Overall assessments of how attractive is the Republic of Kosovo Investments

![Pie Chart showing assessments]

7.4 The size of the investment of FDIs in Republic of Kosovo

A main concern for FDI is about the majority of young generations of Kosovo are unemployed, and unemployed rate at the moment in Kosovo it's very high. FDIs in Kosovo think
that might be economic crises, which in most cases it will make difficulties to attract foreign investment in Kosovo.

According to questionnaire respondents from foreign direct investors in Kosovo their Investments in Kosovo are approximately 55% of them said that they invested already is 1 to 10 Million Euro, while other remaining percentage are as following: Less than 1 Million Euro (35%), 10 to 50 Million Euro (8%) and over 50 Million Euro (2%). (Figure 7.4)

Figure 7.4 The size of the investment of FDIs in Republic of Kosovo

The size of the investment of FDIs in Republic of Kosovo

Based on this above chart we can make an assumptions that 35 % of foreigner companies who invested less than 1 million euro are small foreigner investors, and 55 % who answered the questionnaires 1 to 10 million euro are basically medium size enterprises whereas the remaining 10 % are large corporations. So 90 % of them who answered this questioners are small and medium size foreigner companies.
7.5 The main weaknesses of Republic of Kosovo

According to questionnaire respondents from foreign direct investors regarding the main weaknesses of Kosovo, their concern was about lack of administrative procedures, majority of foreign investors are dissatisfied by the administrative efficiency and staff, the way that administration of Kosovo deals with their foreign investors clients. Their recommendations is raising the efficiency of administrative staff, oversimplification of procedures.

An alternative issue that was recognized by the respondents of foreign investors is the lack of information about Kosovo explain to investors about the economic prospects offered in Kosovo. They think that could be done more about this, by presenting and promoting these opportunities further.

Also according to questionnaire respondents the foreign investor’s they criticize the banking financial system, because nonexistence of offering well financial support by government institutions and also bank interest loans rate being very high.

Concerning the level of economic development in Kosovo, there is a difference among positive and negative views of foreign companies in Kosovo. Approximately half of foreign businesses think that Kosovo has a low development or relatively low development, whereas on the other half of foreign businesses that think the opposite.

As I mentioned earlier where Kosovo location was as a positive side for attraction of foreign investors, in area even though Kosovo good location in the heart of Balkan region, however here in the weaknesses of FDIs in Kosovo comes into play the undesirable element of bad infrastructure.

Foreign Investors also believe that level of risk investing in Kosovo is very low as it presented in the figure below. Most of them they don’t think there is any risk in investing in Kosovo as the competition it’s very low at the moment, and they feel very self-confident about expending their investment in the future too.

Similarly most investors think that the level of lack of transparency it’s very low, and this is very good for Kosovo to attract more foreign investment, since the FDIs they would like the transparency be to the maximum if they invest somewhere.
FDIs in Kosovo it also worries them about high rate of unemployed in Kosovo, and this unemployed rate at the moment in Kosovo it’s very high and could have some kind of connection to the crimes that are happening during this time there. FDIs in Kosovo also think that if the unemployment rate will decrease more likely the crimes will decreases which in this case will boost more the attraction of foreign investment in Kosovo.

7.6 Special incentives that investors would you like from the Government of Republic of Kosovo to support them

According to the respondent approximately 24% of foreign companies would like from the Government of Kosovo to reform government administration, also monitored by 24% to lift unnecessary permits and procedures. Whereas majority of FDIs 27% would like to introduce a strict measure to prevent corruption. Small portion of them about 10% think that simplify further taxation regulations and procedures is also important and Reform education system to meet demand is with same percentage 10%, etc.
Figure 7.6 Main incentives required by foreign investors that Government of Kosovo should consider

Comments provided under other, please specify option:

- Improved access to market information
- Negative issues must be remove
- Additional authorities should be assigned to Kosovo Investment and Enterprise Support Agency (KIESA)

7.7 The difficulties that FDIs face while they are in Republic of Kosovo

According to the respondent of foreign companies the most difficulties that they face while they are investing in Kosovo are: the most difficulty one is political environment with around 37%, the second highest is corruption and nepotism about 27%, whereas the third one is bureaucratic procedures with 14%, and the two lowest one are infrastructure & physical environment only with 12% and the last one is trading limitations with 10%.
Comments provided under other, please specify option:

- Improving and training of staff
- Negative evidence and experiences for foreign investors should be always available on internet
- Crimes and other negative issues must be decrease

7.8 The most important actions that Republic of Kosovo government should consider in order to attract foreign investors

According to the respondent majority of foreign companies 53% would like from the Government of Kosovo to take action and reform government administration. Whereas less than half of FDIs 41% would like to lift unnecessary permits and procedures, etc.
The most important actions that Republic of Kosovo government should consider in order to attract foreign investors

Comments provided under other, please specify option:

• Having access to online information about FDIs opportunities
• Fight corruption

7.9 Most positive characteristic of Republic of Kosovo

According to the surveyed from foreign investors’ their most positive characteristic is investments opportunities, location of Kosovo, young population, cheap labor, skilled worker and low tax corporation, etc. These opportunities will offers possibilities for inward oriented foreign investment.
Also a positive element measured by investors is the location of Kosovo. Foreign investors raise the value of the important element that Kosovo has significant cross roads with several neighboring countries, which have great influence on business growth.

Majority of the foreign companies stated that Kosovo has a young and dynamic population workforce. This is very good advantages that Kosovo could take from their neighboring countries, since in their countries their young population it’s not as high as compare to Kosovo young and dynamic workforce.

According to survey based on respondent from the questionnaires shows that the majority of the foreign companies think that labor is cheap, and compering to the countries in the Balkan region Kosovo has very cheap labor.

Several foreign companies stated that Kosovo has high number of skilled worker, which in this case it’s very convenient for foreign companies to hire these skilled worker for their companies which they are investing in Kosovo or they want to invest in the future there.

According to survey based on respondent several foreign companies stated think that Kosovo has low tax corporation, this is a good opportunity for foreign investors to take advantages of this positive element.

According to analysis based on the questionnaire, some of the foreign companies think that one of the most positive aspect of Kosovo is low competition, same percentage of the foreign companies think that one of the most positive characteristic of Kosovo is free access to the EU market.
7.10 Most negative experience in Republic of Kosovo

The analysis of questionnaires have carried main negative structures in Kosovo: High unemployment rate, crime and corruption, bad infrastructure, lack of administrative efficiency, lack of information about Kosovo, no industrial companies, lack of transparency and poor population.

According to survey based on respondent from the questionnaires unemployment rate in Kosovo is very high, and Kosovo has also the highest unemployment rate in the region and Europe and the majority of these unemployed people from Kosovo are young generation. The biggest concern is that in Kosovo the highest numbers of unemployed are young people.

Concerning crime and corruption, foreign investors are solid in their views. Majority of the enterprises think that might be some crime or corruption involve, and there is small portion of enterprises share their view that in Kosovo there is no crime or corruption involved. On the other hand, foreign investors in Kosovo believe that Kosovo has economic corruption involve, which in this case they think it generates problems for them, because it makes competition and...
unsatisfactory unlawful goods and services offered by foreign investors in comparison to goods and services delivered by organized crime and corrupted people.

Regarding bad infrastructure clearly we can see from surveyed investors which is stated that the infrastructure continued to be the biggest concern for them in the future.

Another major concern for the foreign investors is the lack of administrative efficiency, majority of them are dissatisfied by administrative procedures and administrative staff and other methods that the administration of Kosovo has to offer their foreign investors. As we can see by these respondent from questionnaires by foreign investors in Kosovo have a strong feeling that Kosovo lacks the efficiency of administration and need to raise averseness on this particular part of administration procedure.

According lack of information about Kosovo, clearly Kosovo need to work more on promote and improvements and other factor which they effect the offering to foreign businesses which in this case is evaluated by foreign investors comparatively well.

When it comes to transparency in Kosovo, some investors have listed that transparency is lacking. In this case if Kosovo wants to attract foreign investment, then I think transparency should be to the maximum, otherwise would make foreign investment to go away from Kosovo. This suggestion should focus especially government organizations, which at least should always be transparent front of foreign investors.

Another concern about poverty in Kosovo, foreign investors think that in Kosovo there is some level of poverty, which can be easily seen from high unemployment rate.

Only in this question from the survey investors stated that there isn’t risky at all for investment in Kosovo, as I mentioned earlier as well the competitions it’s there its very low and the foreign investors they don’t feel any risky investment there.
Figure 7.10 Most negative experience of Kosovo

![Bar chart showing the most negative experiences in Kosovo]

- Investments feel risky: 0
- Poor population: 13
- Lack of transparency: 15
- No industrial companies: 33
- Lack of information about Kosovo: 31
- Lack of administrative efficiency: 35
- Bad infrastructure: 40
- Crime and corruption: 53
- High Unemployment rate: 57
8 Findings and Recommendations

The outcomes of the questionnaires provide us with a clear picture of motivations, anxieties and recommendations from existing foreign investors. Kosovo, since 1999 through 2015, pass on from being in a war environment into a state which is considered to be under transition. Since than Kosovo still is facing high unemployment rate and as well high deficit rate of trade. Even though there has been constantly foreign investment coming to invest in Kosovo since the war ended, which they have continued at a relatively very low level up to date.

8.1 Findings

It seem that the very low level of investment in Kosovo is beyond all the negative consequence with serious damage to the business environment, due to major administrative difficulties, mostly the corruption in institutions, and insufficient road infrastructure. Even though Kosovo has made investments in these areas such as: roads, water supply, telecommunication, etc., it seems that there is still more to do for the government of Kosovo to increase their investments in order to attract more foreign investors in Kosovo.

According to the Central Bank of the Republic of Kosovo (CBK) 2012 - 2015, Kosovo Budget 2012, around € 350 Million, or about 30 % of the budget has been assigned for the economic development sector. Some of the major achievements in the infrastructure and economic development area have been:

- Road Infrastructure – Highway Morinë - Merdare finished in 2014.
- Improvement of network and infrastructure of KEDS, Central Heating, Water and Waste in Kosovo,
- Agronomy grants,
- Development of working conditions in Kosovo coalmines etc.

According to the Ministry of Infrastructure in the last decade investments in telecom, as the biggest investors are IPKO and PTK. IPKO Network and Telecommunications Company from Slovenia so far has invested more than 250 Million Euro together with payment for the authorization and licensing, Whereas PTK Company has invested in all sectors more than 455 Million Euro. If we take the entire ICT division, investments are more than 1.5 Billion Euro. The investments in this division should be continue by attracting more tactical investors.
Infrastructures are a significant important for Kosovo to sustain and grow its economic development. Kosovo has made investments in these areas for more than 15 years and infrastructure has enhanced a lot but there is still more to invest in this area and mostly on local roads which will connect the cities inside Kosovo with each other. Total amount of investments from 2001 to 2016 are approximately 2 Billion Euro. Last year the Ministry of Transport has finished the project of building the new highway Morinë - Merdare which it costed over 1 Billion Euro. This highway connects Kosovo with Albania. Additional to this, there is still need to invest in health care and education areas. I think these are two very important mainstays for the Kosovo’s development, furthermore these two sectors that need urgent investments to improve capability and construction.

Kosovo more than ever needs to create a sound business environment. Based on the project survey with foreign investors it stood that there are several important areas to now consider.

The top five main difficulties from the foreign investors were demonstrated in Figure 7.7: which they are:

1. Political environment,
2. Corruption & bias,
3. Administrative procedures,
4. Infrastructure & Physical Environment and
5. Trading limitation

The top five important action that Kosovo government should consider in order to attract foreign investors were demonstrated in Figure 7.8: which they are:

1. Reform governments administration,
2. Lift unnecessary permits and procedures,
3. Simplify further taxation, regulations and procedures,
4. Introduce a strict measure to prevent corruption and
5. Reform education system to meet demand

According to the Doing Business 2017 report from 2017 the ranking shown 60, which compare to last year’s published Doing Business 2016 Kosovo was rank 64 that captures the effects of such factors as data revisions and the changes in methodology. Furthermore if you go back several more years you will see that Kosovo ranking is improving each year on the ease of doing business.
Throughout the war infrastructure, energy and water supplies of Kosovo were broken and it will take time in order to repair all the sectors. I think this is one of the difficulties Kosovo has to solve in order to become attractive place for foreign investors.

According to the foreign companies when they were asked about the overall assessments of how attractive is the Kosovo Investments more than 43% responded reasonable and more than 27% responded quite attractive, whereas 20% of foreign investors said very attractive. Only 8% responded with not so reasonable and 2% said unattractive, as you can see in the above illustrations (Figure 7.3).

Based on report from Doing Business 2017 Kosovo was ranked 60, which compare to last year’s published report Doing Business 2016 Kosovo was ranked 64 that captures the effects of such factors as data revisions and the changes in methodology. Furthermore if you go back several more years you will see that Kosovo ranking is improving each year on the ease of doing business. For strategy makers, having in mind where their economy stands in the collective ranking on the ease of doing business is beneficial. Also advantageous is to know exactly how it ranks comparative to economies and relative to other countries in the regional average. The government of Kosovo always must be carefully on these areas in order to become more attractive for foreign investors and try to eliminate bureaucratic procedures.

The outcomes of the questionnaires provide us with a clear picture of motivations, anxieties and recommendations from existing foreign investors. The recommendations that derive from the numerous studies and analyses in this project it show us that institutions must have a better look to foreign investors, hence improving more the business environment.

8.2 Recommendations

The top six Recommendations are:

**Recommendation 1 (Improving infrastructure and environment)**

The merit of infrastructure is a key foreign direct investors contributing factor, this does not include only roads and railways but also water supplies, telecommunications, electricity, etc. The attention of Kosovo government should be in specific on highways and railways which
allow linking of Kosovo with neighboring countries and other Europe countries. Additionally use of business zones and business parks must assist as a model for the decision-making of the country as a critical project that affects the establishment of advantageous environments for business and protection.

**Recommendation 2 (Building transparent and responsible scheme of authority which will stop corruption at any time and place)**

Implementation of strict laws and increasing the number of judiciaries and public prosecutor for more than 50% are significant components that will significantly decrease corruption. There is also an essential to encourage competition and meritocracy to decrease the level of bias and discrimination.

**Recommendation 3 (Important condition for economic development which it will give governmental steadiness)**

1. Strict loyalty to rule of law
2. Reinforcement self-governing procedures
3. Funds for domestic safety and
4. Cultivation of broad-mindedness are significant features that have countless influence on investment environment.

**Recommendation 4 (Improvement of education structure)**

Education is an instrument for innovation and development. Arrangement of some specialized consultants who will orient students based on their professional capacities might increase the merit. Because of high requirements from foreign investors which they need students to do internships in different corporations, there is need to increase number of students which they can attend to these internship and they fulfill the language requirements.

**Recommendation 5 (Implement a strategy of investment incentives)**

One of the best encouragements that Kosovo government could provide foreign investors with is a tax break. To make available at least 1-3 year tax break if the corporations spend in fixed assets that will nearly 4 Million Euro, and through the investment phase they hire approximate-
ly 45 employees. I think this will be the best incentives which foreign direct investors would like to have it, while they are investing in a host country.

**Recommendation 6 (The outcomes of report Doing Business 2017 by World Bank provided a decent source for improving the investment environment in Kosovo)**

1. Struggling at starting the business
2. Taking licenses and permits in the public level
3. Have a better protection for foreign investors
4. Tradeoff through borders and
5. Implementing and put in force contracts

These are significant features that Kosovo institution must be taken care of, in order to remove administrative procedures and to generate facilities to do business in Kosovo. I think the attention have to be mostly in reducing time and processes.

**8.3 Evaluation and the main milestones throughout the thesis**

The first goal for this master’s thesis was introduced already in the beginning of last semester and after that the work pass on as described below:

By average 50 hours in a month will be allocated to each task.

Table 8.1 Thesis Schedule

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<tr>
<th>Start</th>
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<tr>
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<td>Finalizing Thesis Topic</td>
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<tr>
<td>06/2016</td>
<td>08/2016</td>
<td>Literature search and review</td>
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<tr>
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<td>01/2017</td>
<td>Writing and reading, search for material</td>
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<tr>
<td>02/2017</td>
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<td>Writing and reading, analyzing the market data</td>
</tr>
<tr>
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<td>05/2017</td>
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</tr>
</tbody>
</table>
Analyzing the questionnaires from FDIs and interpreting the data

Third meeting with my thesis supervisor

Conclusion

Finalizing the Thesis

Maturity Exam

Presenting and reporting the Thesis

The expected results of this study will be of great help for attracting Foreign Direct Investments in Kosovo, as it will be helpful for increasing its performance and it will benefit from FDIs that import products into Kosovo territory. In conclusion, with the help and support from the Ministry of Trade and Industry an investigation, report and proposed recommendations will be generated for improving ways of attracting Foreign Direct Investments in Kosovo and at the same time the small and medium enterprises (SMEs) that operate in Kosovo territory improving their technology and know-how and skills and efficiency.
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Günter Verheugen, Member of the Europe commission responsible enterprise and industry <http://www.etsi.org/about/who-we-are/smes/strategic-importance-of-smes> 26 Feb 2016.


Ronald B. Davies, Michael J. Lamla, and Marc Schiffbauer. Working Paper No 4: 01-2016 “Learning or Leaning: Persistent and Transitory Spillovers from FDI”


United Nations International Criminal Tribunal for the former Yugoslavia
http://www.icty.org/en/about/what-former-yugoslavia/conflicts


### Appendix 1: Summary of Doing Business indicators for Republic of Kosovo

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<tr>
<td>Depth of credit information index (0-8)</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>5.0</td>
<td>6.0</td>
<td>7.0</td>
<td>4.0</td>
<td>8.0 (30 Economies*)</td>
</tr>
<tr>
<td>Credit registry coverage (% of adults)</td>
<td>38.1</td>
<td>95.2</td>
<td>38.9</td>
<td>37.6</td>
<td>66.9</td>
<td>0.0</td>
<td>6.8</td>
<td>3.1</td>
<td>100.0 (3 Economies*)</td>
</tr>
<tr>
<td>Credit bureau coverage (% of adults)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>10.4</td>
<td>0.0</td>
<td>100.0</td>
<td>79.2</td>
<td>100.0</td>
<td>100.0 (23 Economies*)</td>
</tr>
<tr>
<td>Protecting Minority Investors (Rank)</td>
<td>63</td>
<td>62</td>
<td>19</td>
<td>81</td>
<td>13</td>
<td>27</td>
<td>53</td>
<td>9</td>
<td>1 (New Zealand*)</td>
</tr>
<tr>
<td>Protecting Minority Investors (DTF Score)</td>
<td>58.33</td>
<td>58.33</td>
<td>71.67</td>
<td>55.00</td>
<td>73.33</td>
<td>66.67</td>
<td>60.00</td>
<td>75.00</td>
<td>83.33 (New Zealand*)</td>
</tr>
<tr>
<td>Strength of minority investor protection index (0-10)</td>
<td>5.8</td>
<td>5.8</td>
<td>7.2</td>
<td>5.5</td>
<td>7.3</td>
<td>6.7</td>
<td>6.0</td>
<td>7.5</td>
<td>8.3 (New Zealand*)</td>
</tr>
<tr>
<td>Extent of conflict of interest regulation index (0-10)</td>
<td>5.3</td>
<td>5.3</td>
<td>7.7</td>
<td>4.7</td>
<td>6.7</td>
<td>5.7</td>
<td>5.3</td>
<td>7.3</td>
<td>9.3 (New Zealand*)</td>
</tr>
<tr>
<td>Extent of shareholder governance index (0-10)</td>
<td>6.3</td>
<td>6.3</td>
<td>6.7</td>
<td>6.3</td>
<td>8.0</td>
<td>7.7</td>
<td>6.7</td>
<td>7.7</td>
<td>8.3 (Norway)</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------</td>
<td>---------------</td>
<td>----------------</td>
<td>--------------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-----------------------</td>
<td>----------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Paying Taxes (Rank)</td>
<td>43</td>
<td>77</td>
<td>97</td>
<td>133</td>
<td>83</td>
<td>49</td>
<td>53</td>
<td>24</td>
<td>1 (United Arab Emirates)</td>
</tr>
<tr>
<td>Paying Taxes (DTF Score)</td>
<td>83.24</td>
<td>74.07</td>
<td>70.96</td>
<td>60.08</td>
<td>72.81</td>
<td>81.74</td>
<td>80.69</td>
<td>86.55</td>
<td>99.44 (United Arab Emirates)</td>
</tr>
<tr>
<td>Payments (number per year)</td>
<td>10.0</td>
<td>32.0</td>
<td>34.0</td>
<td>34.0</td>
<td>14.0</td>
<td>31.0</td>
<td>8.0</td>
<td>10.0</td>
<td>3.0 (Hong Kong SAR, China*)</td>
</tr>
<tr>
<td>Time (hours per year)</td>
<td>155.0</td>
<td>155.0</td>
<td>261.0</td>
<td>411.0</td>
<td>453.0</td>
<td>206.0</td>
<td>234.0</td>
<td>245.0</td>
<td>55.0 (Luxembourg)</td>
</tr>
<tr>
<td>Total tax rate (% of profit)</td>
<td>15.2</td>
<td>15.2</td>
<td>36.5</td>
<td>22.6</td>
<td>27.0</td>
<td>20.9</td>
<td>50.0</td>
<td>31.0</td>
<td>26.1 (32 Economies*)</td>
</tr>
<tr>
<td>Postfilling index (0-100)</td>
<td>61.0</td>
<td>61.0</td>
<td>83.0</td>
<td>47.9</td>
<td>73.3</td>
<td>97.9</td>
<td>94.3</td>
<td>95.0</td>
<td>98.5 (Estonia)</td>
</tr>
<tr>
<td>Trading across Borders (Rank)</td>
<td>51</td>
<td>59</td>
<td>24</td>
<td>36</td>
<td>21</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1 (10 Economies*)</td>
</tr>
<tr>
<td>Trading across Borders (DTF Score)</td>
<td>85.93</td>
<td>82.31</td>
<td>96.29</td>
<td>91.87</td>
<td>97.41</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00 (10 Economies*)</td>
</tr>
<tr>
<td>Time to export: Border compliance (hours)</td>
<td>42</td>
<td>56</td>
<td>9</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (18 Economies*)</td>
</tr>
<tr>
<td>Cost to export: Border compliance (USD)</td>
<td>137</td>
<td>137</td>
<td>55</td>
<td>106</td>
<td>55</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (18 Economies*)</td>
</tr>
<tr>
<td>Time to export: Documentary compliance (hours)</td>
<td>38</td>
<td>50</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1 (25 Economies*)</td>
</tr>
<tr>
<td>Cost to export: Documentary compliance (USD)</td>
<td>127</td>
<td>177</td>
<td>10</td>
<td>92</td>
<td>52</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (19 Economies*)</td>
</tr>
<tr>
<td>Time to import: Border compliance (hours)</td>
<td>16</td>
<td>16</td>
<td>10</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (25 Economies*)</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>---------------</td>
<td>---------------</td>
<td>----------------</td>
<td>-----------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>------------------------</td>
<td>----------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Cost to import: Border compliance (USD)</td>
<td>83</td>
<td>83</td>
<td>77</td>
<td>109</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (28 Economies*)</td>
</tr>
<tr>
<td>Time to import: Documentary compliance (hours)</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1 (29 Economies*)</td>
</tr>
<tr>
<td>Cost to import: Documentary compliance (USD)</td>
<td>42</td>
<td>42</td>
<td>10</td>
<td>97</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (30 Economies*)</td>
</tr>
<tr>
<td>Enforcing Contracts (Rank)</td>
<td>44</td>
<td>43</td>
<td>116</td>
<td>64</td>
<td>49</td>
<td>7</td>
<td>68</td>
<td>119</td>
<td>1 (Korea, Rep.)</td>
</tr>
<tr>
<td>Enforcing Contracts (DTF Score)</td>
<td>65.66</td>
<td>65.66</td>
<td>53.66</td>
<td>60.60</td>
<td>65.09</td>
<td>75.87</td>
<td>60.36</td>
<td>52.97</td>
<td>84.15 (Korea, Rep.)</td>
</tr>
<tr>
<td>Time (days)</td>
<td>330.0</td>
<td>330.0</td>
<td>525.0</td>
<td>595.0</td>
<td>564.0</td>
<td>572.0</td>
<td>611.0</td>
<td>1160.0</td>
<td>1640.0 (Singapore)</td>
</tr>
<tr>
<td>Cost (% of claim)</td>
<td>34.4</td>
<td>34.4</td>
<td>34.9</td>
<td>36.0</td>
<td>23.8</td>
<td>16.7</td>
<td>33.0</td>
<td>12.7</td>
<td>9.0 (Iceland)</td>
</tr>
<tr>
<td>Quality of judicial processes index (0-18)</td>
<td>9.5</td>
<td>9.5</td>
<td>6.0</td>
<td>11.0</td>
<td>10.5</td>
<td>15.0</td>
<td>10.5</td>
<td>10.5</td>
<td>15.5 (Australia)</td>
</tr>
<tr>
<td>Resolving Insolvency (Rank)</td>
<td>163</td>
<td>164</td>
<td>43</td>
<td>41</td>
<td>48</td>
<td>54</td>
<td>26</td>
<td>12</td>
<td>1 (Finland)</td>
</tr>
<tr>
<td>Resolving Insolvency (DTF Score)</td>
<td>20.88</td>
<td>20.30</td>
<td>64.96</td>
<td>66.95</td>
<td>59.38</td>
<td>55.62</td>
<td>76.42</td>
<td>83.97</td>
<td>93.89 (Finland)</td>
</tr>
<tr>
<td>Recovery rate (cents on the dollar)</td>
<td>38.8</td>
<td>37.7</td>
<td>42.3</td>
<td>37.3</td>
<td>34.9</td>
<td>33.7</td>
<td>66.5</td>
<td>89.2</td>
<td>92.9 (Norway)</td>
</tr>
<tr>
<td>Time (years)</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>3.3</td>
<td>3.3</td>
<td>3.1</td>
<td>2.1</td>
<td>0.8</td>
<td>0.4 (22 Economies*)</td>
</tr>
<tr>
<td>Cost (% of estate)</td>
<td>15.0</td>
<td>15.0</td>
<td>10.0</td>
<td>9.0</td>
<td>9.0</td>
<td>14.5</td>
<td>17.0</td>
<td>4.0</td>
<td>1.0 (22 Economies*)</td>
</tr>
<tr>
<td>Strength of insolvency framework index (0-16)</td>
<td>0.0</td>
<td>0.0</td>
<td>13.5</td>
<td>15.0</td>
<td>13.0</td>
<td>12.0</td>
<td>13.0</td>
<td>11.5</td>
<td>15.0 (6 Economies*)</td>
</tr>
</tbody>
</table>

Source: Doing Business database 2017. Note: DB2016 rankings shown are not last year’s published rankings but comparable rankings for DB2016 that capture the effects of such factors as data revisions and changes to the methodology. The global best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2017 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax. If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a “no practice” mark. Similarly, an economy receives a “no practice” mark if regulation exists but is never used in practice or if a competing regulation prohibits such prac-
Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator. * Two or more economies share the top ranking on this indicator. A number shown in place of an economy’s name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the Doing Business website (http://www.doingbusiness.org).

Appendix 2: Summary of scoring for the protecting minority investors indicators in Republic of Kosovo

<table>
<thead>
<tr>
<th>Strength of minority investor protection index (0-10)</th>
<th>Answer</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of conflict of interest regulation index (0-10)</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>Extent of disclosure index (0-10)</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Which corporate body is legally sufficient to approve the Buyer-Seller transaction? (0-3)</td>
<td>Shareholders excluding interested parties</td>
<td>3.0</td>
</tr>
<tr>
<td>Must Mr. James disclose his conflict of interest to the board of directors? (0-2)</td>
<td>Existence of a conflict without any specifics</td>
<td>1.0</td>
</tr>
<tr>
<td>Must Buyer disclose the transaction in published periodic filings (annual reports)? (0-2)</td>
<td>Disclosure on the transaction and on the conflict of interest</td>
<td>2.0</td>
</tr>
<tr>
<td>Must Buyer immediately disclose the transaction to the public and/or shareholders? (0-2)</td>
<td>No disclosure obligation</td>
<td>0.0</td>
</tr>
<tr>
<td>Must an external body review the terms of the transaction before it takes place? (0-1)</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Extent of director liability index (0-10)</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Can shareholders representing 10% of Buyer’s share capital sue directly or derivatively for the damage the transaction caused to Buyer? (0-1)</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Can shareholders hold the interested director liable for the damage the transaction caused to Buyer? (0-2)</td>
<td>Liable if negligent</td>
<td>1.0</td>
</tr>
<tr>
<td>Can shareholders hold the other directors liable for the damage the transaction caused to Buyer (0-2)</td>
<td>Liable if negligent</td>
<td>1.0</td>
</tr>
<tr>
<td>Must Mr. James pay damages for the harm caused to Buyer upon a successful claim by shareholders? (0-1)</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Must Mr. James repay profits made from the transaction upon a successful claim by shareholders? (0-1)</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Is Mr. James disqualified or fined and imprisoned upon a successful claim by shareholders? (0-1)</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Can a court void the transaction upon a successful claim by shareholders? (0-2)</td>
<td>Voidable if negligently concluded</td>
<td>1.0</td>
</tr>
<tr>
<td>Ease of shareholder suits index (0-10)</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Before suing can shareholders representing 10% of Buyer’s share capital inspect the transaction documents? (0-1)</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Can the plaintiff obtain any documents from the defendant and witnesses at trial? (0-3)</td>
<td>Any relevant document</td>
<td>3.0</td>
</tr>
<tr>
<td>Can the plaintiff request categories of documents from the</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
<td>Score</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>Can the plaintiff directly question the defendant and witnesses at trial?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Is the level of proof required for civil suits lower than that of criminal cases?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Can shareholder plaintiffs recover their legal expenses from the company?</td>
<td>Yes if successful</td>
<td>1.0</td>
</tr>
<tr>
<td>Extent of shareholder governance index (0-10)</td>
<td></td>
<td>6.3</td>
</tr>
<tr>
<td>Extent of shareholder rights index (0-10)</td>
<td></td>
<td>10.0</td>
</tr>
<tr>
<td>Does the sale of 51% of Buyer’s assets require shareholder approval?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Can shareholders representing 10% of Buyer’s share capital call for an extraordinary meeting of shareholders?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Must Buyer obtain its shareholders’ approval every time it issues new shares?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Do shareholders automatically receive preemption rights every time Buyer issues new shares?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Must shareholders approve the election and dismissal of the external auditor?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Are changes to the rights of a class of shares only possible if the holders of the affected shares approve?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, does the sale of 51% of its assets require member approval?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, can members representing 10% call for an extraordinary meeting of members?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must all members consent to add a new member?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must a member first offer to sell his interest to the existing members before selling to a non-member?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Extent of ownership and control index (0-10)</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Is it forbidden to appoint the same individual as CEO and chair of the board of directors?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Must the board of directors include independent and nonexecutive board members?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Can shareholders remove members of the board of directors without cause before the end of their term?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Must the board of directors include a separate audit committee exclusively comprising board members?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Must Buyer pay dividends within a maximum period set by law after the declaration date?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Is a subsidiary prohibited from acquiring shares issued by its parent company?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, is there a management deadlock breaking mechanism?</td>
<td>Yes</td>
<td>1.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must Buyer</td>
<td>No</td>
<td>0.0</td>
</tr>
<tr>
<td>Question</td>
<td>Rating</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Distribute profits within a maximum period set by law after the declaration date?</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Extent of corporate transparency index (0-10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Must Buyer disclose direct and indirect beneficial ownership stakes representing 5%?</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Must Buyer disclose information about board members' other directorships as well as basic information on their primary employment?</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Must Buyer disclose the compensation of individual managers?</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Must a detailed notice of general meeting be sent 21 days before the meeting?</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting?</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Must Buyer's annual financial statements be audited by an external auditor?</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Must Buyer disclose its audit reports to the public?</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must members meet at least once a year?</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, can members representing 5% put items on the meeting agenda?</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Assuming that Buyer is a limited company, must Buyer's annual financial statements be audited by an external auditor?</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>