German-Kosovar Business Association
Research study on Diaspora investments and FDI from Germany – The impact on Kosovo's economy

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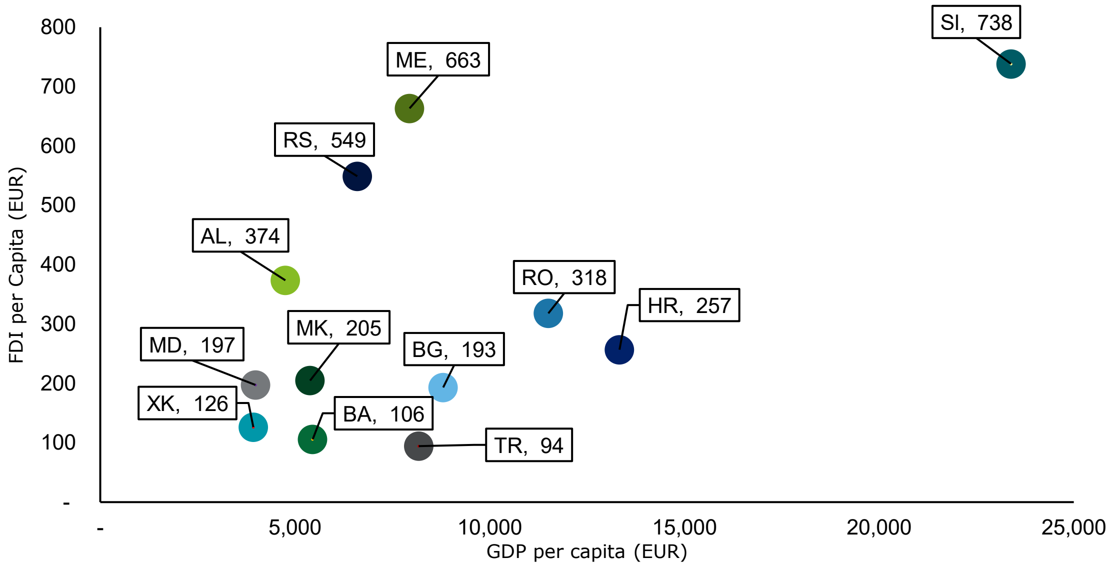
Executive Summary

Kosovo is a small, new emerging country in a strategic area of the Balkan Peninsula, bordered by Albania, North Macedonia, Montenegro, and Serbia. Since its independence from Serbia in 2008, Kosovo has worked to attract foreign direct investment as a tool of boosting its economy, especially in the sectors with highest potential, from a geographic perspective, cost-benefit strategies, natural resources etc.

Emerging markets countries like Kosovo which lack of funding from the government, benefit greatly from Foreign Direct Investments. FDIs bring technology, know-how, management skills, brand name and a certain standard that is normally higher than the one in the receiving country. Furthermore, they contribute through the products they build, the infrastructure, human capital employed and the direct capital poured into the country. Theoretically, this should translate into an increase in consumption and investments, improvements in production and a higher GDP.

According to IMF data, Kosovo during 2019 registered 124 EUR net inflow FDI per capita, while GDP per capita was recorded to be 3,932 EUR. This put Kosovo in the lower end of the spectrum of comparable countries in the region, regarding both GDP per capita and FDI per capita. As per the World Bank, to attract foreign investments a country has to have economic, political, legal and social stability. Kosovo is found to be lacking in all these areas, as international companies emphasize unfair legal treatments, corruption, legal and political uncertainty, with unstable governments and lack of economic development programs. Overall, a foreign investor needs to have the certainty that he will be protected against political and regulatory risks, that he will not be expropriated and that there will be transparency from the public institutions.

SEE12 - FDI / GDP per capital in 2019



Source: International Monetary Fund (IMF), December 2020

Many businesses point out that even the most basic utilities, such as supply of electricity, are not guaranteed. Moreover, infrastructure is still underdeveloped and underinvested. These factors lead to subpar economic growth and channel foreign investments elsewhere.

On the other hand, the graph above shows that net inflow FDIs do not significantly contribute to Kosovo's GDP per capita. During 2019 in Bosnia & Herzegovina and Turkey, respectively, registered 106 EUR and 94 EUR net inflow per capita, but had a greater GDP per capita, with 5,454 EUR and 8,176 EUR accordingly. Similarly to Kosovo, in 2019 Albanian net inflow FDIs contribution to GDP per capita was very low, as it registered 374 EUR net inflow investments per capita and 4,753 EUR GDP per capita. Meanwhile, due to it being a member of the European Union, the greatest impact of net inflow FDIs in the region was in Slovenia in 2019, consisting of 738 EUR inflow investments per capita and 23,390 EUR GDP per capita. As a benchmark analysis, these contradictory results might have occurred as a consequence of the political and fiscal policies, considering that stability is a key indicator to investors. Additionally, border barriers to EU countries, lack of strategic investment support from government and multiple factors might have been drivers for these results.

In addition, it should be pointed out that it is important for a country to attract the right kind of Foreign Direct Investments. Otherwise, they not only would not contribute to the GDP growth of a country, but also could very well crowd out domestic investment and impede capital formation, having an opposite impact to the intended one.

According to what Anabel Gonzales, Trade and Competitiveness Senior Director in the World Bank has stated in one of the Global Investment Competitiveness Reports, *"a country's investment competitiveness goes beyond attracting FDI. It is determined by the country's ability to bring in, retain, and leverage private investment for inclusive and sustainable economic growth."* Clearly, the results showed in the graph point to an inability of the country to retain the right foreign investors.

Kosovo has great investment opportunities in energy and mines, agriculture and farming, construction, textiles and tourism. It is important to put in place incentives that attract the right king of FDIs, to bring their know-how, their management skills and the capital to invest in these sectors and ensure, in a parallel way with government reforms and transparency, that these FDIs are translated into higher economic growth.

Survey Executive Summary

The research study targeted companies investing in Kosovo with German capital (currently operative or not), operating in different sectors. The survey was distributed to 161 businesses but only 31 businesses completed the survey. **Please find survey details in Appendix 4**.

The survey aimed at targeting companies that have some form of foreign participation and operate in various sectors of activity.

Some of the key findings of the survey are shown as below:

- The survey revealed that 71% of the respondents are of German nationality. Most of them operate in Services industry, while for those of Kosovo nationality, the main focus of investment is manufacturing and construction industry (further details about the main sectors can be found in Appendix 5).
- Companies with less invested capital, operate mostly in services industry and have also account for a smaller number of employees. On the other side, those who invested large size capital are in manufacturing and construction, energy and financial-banking and consulting services. The later account also for the greater number of employees.
- The data of the survey showed that companies which have been operating from 1-4 years have answered that the biggest obstacle are administrative barriers; those with 5-10 years of operating activity indicated that law and judicial system is the biggest obstacle; while the companies that operate for more than 10 years found the corruption as the main obstacle to deal with.
- In energy sector, 75% of the respondents found workforce skills as the main faced obstacle, in manufacturing and production industry 78% found corruption, in services industry 63% found administrative barriers, in financial services 50% found law and judicial system and the rest of 50% in information technology found the institutional credibility as the main faced obstacle.
- As per the survey, the main reason they have invested in Kosovo is labor force at 39%.
- Regarding the future expectations, the survey showed that labor force continued to be the seen as the main opportunity at 33%. On the other hand, the main threats are political factors at 26%.

SEE REGION OVERVIEW – MACROECONOMIC ANALYSIS

Section note: This section offers a macroeconomic overview of the SEE region, in order to put onto perspective Kosovo with other countries in the region. SEE-12 countries are chosen relevant for the analysis, in support also of the analysis of the German FDI towards these countries, later in the sections of this report.

SEE Real GDP Growth

South-Eastern European region, referring to a pool of 12 countries as presented in the adjacent graph, registered a median GDP growth of 3.5% in 2019, entailing a decline by 0.4% in comparison with the 3.9% growth exhibited in 2018. The main reason for the slowdown was the deterioration of the external environment since the start of 2018, with softer global trade volumes and the high geopolitical uncertainty. In 2020, however, based on IMF predictions, a median GDP decline of -6.0% is projected for the region, which amounts to be the same with the Germany. Meanwhile the GDP in Kosovo is forecasted to contract by 7.5% in 2020, which is 1.5% more than the region. This significant decrease is primarily expected due to the pandemic of Covid-19 pandemic.

Real GDP Growth

%	2015	2016	2017	2018	2019	2020	2021f
Albania	2.2%	*3.3%*	*3.8%*	*4.1%*	*2.2%*	*(7.5%)*	*6.1%*
Bosnia and Herzegovina	3.1%	*3.1%*	*3.2%*	*3.7%*	*2.7%*	*(6.5%)*	*5.0%*
Bulgaria	4.0%	*3.8%*	*3.5%*	*3.1%*	*3.4%*	*(4.0%)*	*4.1%*
Croatia	2.4%	*3.5%*	*3.1%*	*2.7%*	*2.9%*	*(9.0%)*	*6.0%*
Kosovo	4.1%	*4.1%*	*4.2%*	*3.8%*	*4.0%*	*(7.5%)*	*6.0%*
Moldova	(0.3%)	*4.4%*	*4.7%*	*4.0%*	*3.6%*	*(4.5%)*	*4.1%*
Montenegro	3.4%	*2.9%*	*4.7%*	*5.1%*	*3.6%*	*(12.0%)*	*5.5%*
North Macedonia	3.9%	*2.8%*	*1.1%*	*2.7%*	*3.6%*	*(5.4%)*	*5.5%*
Romania	3.9%	*4.8%*	*7.1%*	*4.4%*	*4.1%*	*(4.8%)*	*4.6%*
Serbia	1.8%	*3.3%*	*2.0%*	*4.4%*	*4.2%*	*(2.5%)*	*5.5%*
Slovenia	2.2%	*3.1%*	*4.8%*	*4.1%*	*2.4%*	*(6.7%)*	*5.2%*
Turkey	6.1%	*3.3%*	*7.5%*	*3.0%*	*0.9%*	*(5.0%)*	*5.0%*
Germany	***1.5%***	***2.2%***	***2.6%***	***1.3%***	***0.6%***	***(6.0%)***	***4.2%***
Median - SEE12	**3.2%**	***3.3%***	***4.0%***	***3.9%***	***3.5%***	***(6.0%)***	***5.3%***

Source: International Monetary Fund (IMF), December 2020

SEE Impact of Covid-19 on Real GDP

According to the IMF, Europe is heading for a historic recession, with both production and consumption collapsing in the first half of 2020 as a consequence of the Covid-19 pandemic and the containment measures implemented. Montenegro is expected to face the deepest contraction in Southeastern Europe, given the heavy caseloads and comparatively strict lockdown measures. More specifically, IMF forecasts Montenegro's GDP growth to be the lowest in the region by -12.0% in 2020, a decline of about 15.6% from 2019. Serbia on the other hand, is forecasted to face a GDP of -2.5% in 2020 due to pandemic effects, which is the lowest reduction in the region. Global supply chains are expected to remain disrupted, unemployment and business failures to continue to rise and consumers to remain cautious. Countries such as Albania, Croatia and Montenegro, which depend on tourism, are expected struggle for longer as quarantine and new restrictions being implemented by authorities may hold back holidaymakers. Growth rates according to EIU are projected to pick up in 2021, but this would only allow for a partial recovery.

SEE Inflation

Based on IMF, the overall price pressures exhibited in the SEE region impacted the displayed price instability levels during 2015 – 2019. The median inflation calculated as end of period consumer prices, based on the pool of 12 SEE countries, decreased to 1.6% in 2019, from 1.7% in 2018. Based on IMF estimations, the SEE region median inflation is predicted to continue decreasing in 2020, reaching 1.1%, while a slight growth is estimated for 2021, with inflation forecasted at 1.8%, which is 0.6% more than it is forecasted to be in Kosovo and Germany respectively.

Despite the median trends outlined above, inflationary pressures have been marked by significant regional differences, specifically in euro area countries, countries that have a fixed exchange rate to the euro, or - countries such as Bulgaria, Croatia and Western Balkans, in which central banks are limiting fluctuations against euro. As a consequence, inflationary pressures have been muted. These economies closely follow the economic cycle of euro area and inflation expectations tend to move in lockstep with those of the single currency bloc. Generally, as per IMF findings, the supply disruption caused by the pandemic has more than offset downward price pressures from the collapse in consumer demand, thus making prices in major goods and services sectors fell in year on year terms.

SEE Region - Inflation (current prices)

%	2015	2016	2017	2018	2019	2020	2021f
Albania	1.9%	2.2%	1.8%	1.8%	1.2%	1.2%	2.2%
Bosnia and Herzegovina	(1.3%)	(0.5%)	0.7%	1.6%	0.7%	(0.8%)	0.4%
Bulgaria	(0.9%)	(0.5%)	1.8%	2.3%	3.1%	0.5%	2.4%
Croatia	(0.6%)	0.2%	1.2%	0.9%	1.4%	0.2%	0.9%
Kosovo	(0.1%)	1.3%	0.5%	2.9%	1.2%	1.5%	1.2%
Moldova	13.5%	2.4%	7.3%	0.9%	7.5%	0.5%	6.0%
Montenegro	1.4%	1.0%	1.9%	1.7%	1.1%	(0.4%)	0.9%
North Macedonia	(0.4%)	(0.2%)	2.4%	0.8%	0.4%	1.0%	1.4%
Romania	(0.9%)	(0.5%)	3.3%	3.3%	4.0%	2.7%	2.7%
Serbia	1.6%	1.5%	3.0%	2.0%	1.9%	1.6%	2.0%
Slovenia	(0.5%)	0.5%	1.8%	1.4%	1.8%	1.2%	1.6%
Turkey	8.8%	8.5%	11.9%	20.3%	11.8%	12.0%	12.0%
Germany	**0.2%**	**1.7%**	**1.5%**	**1.8%**	**1.5%**	**0.3%**	**1.2%**
Median - SEE12	**(0.2%)**	**0.8%**	**1.8%**	**1.7%**	**1.6%**	**1.1%**	**1.8%**

Source: Agency of Statistics Kosovo (ASK) and International Monetary Fund (IMF), December 2020

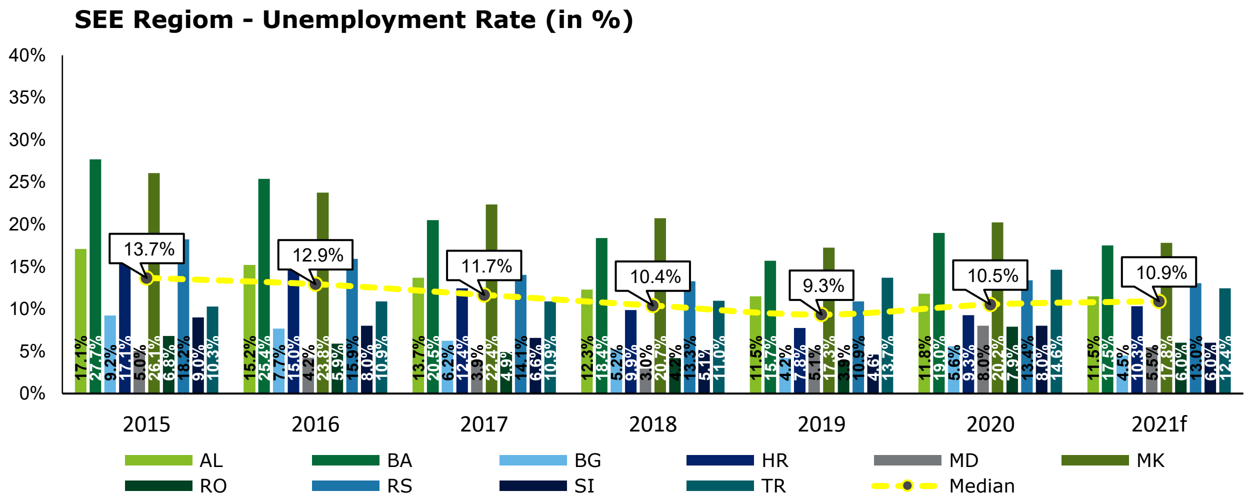
SEE Unemployment rate

The median unemployment in SEE region according to IMF publications fell to historic lows during 2019 reaching 9.3%, down by 1.1% in comparison with the 10.5% exhibited in 2018. Romania registered the lowest level of unemployment in 2019 by 3.9%, while the highest unemployment rate resulted in North Macedonia by 17.3%. Following the disruptions caused by the coronavirus pandemic, the median unemployment rate in the Region is expected to reach c. 10.5% in 2020. While upon failure of an expected significant portion of the firms, the governments will be presented with a difficult choice between:

a) Preventing a corporate debt crisis and a potential surge in unemployment;

b) And not supporting firms that are unsustainable and may stymie future economic growth.

Nevertheless, limited government welfare due to Covid-19 and undeveloped capital markets will amplify the fall in private consumption in response to a rise in unemployment.



Source: Agency of Statistics Kosovo (ASK) and International Monetary Fund (IMF), December 2020

ECONOMIC OVERVIEW AND PROSPECTS IN KOSOVO

Section note: This section gives a further consideration to macroeconomic factors, with a specific focus on Kosovo and main indicators that are commonly treated as metrics when estimating foreign direct investments impacts.

Kosovo Real GDP

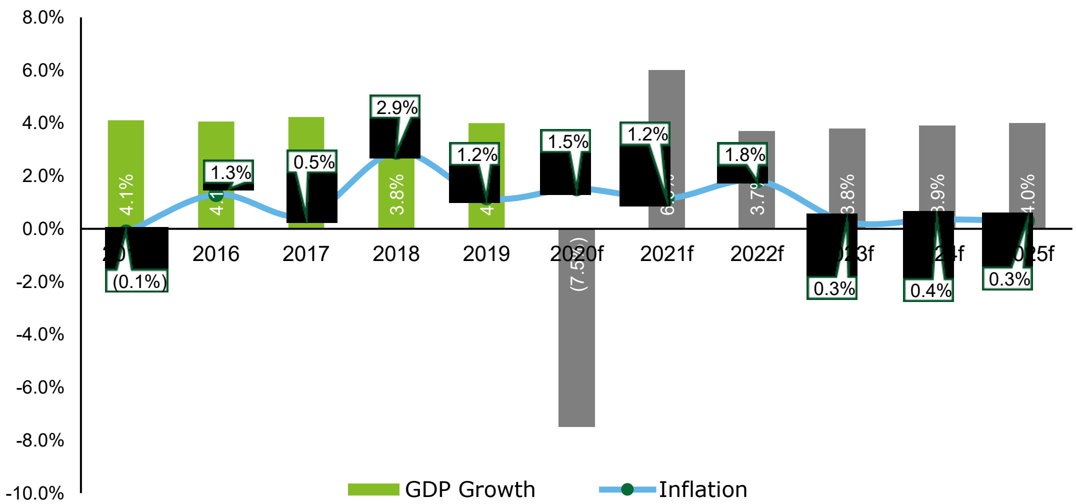
Similarly, to other countries in the region, in Kosovo the economy experienced a contraction in 2020, even if containment measures were lifted during the second quarter of the year. In addition to the temporary shut-down of key economic activities and the related income loss, the impact of the outbreak in Kosovo will primarily be associated with lower diaspora-driven exports of services, informal remittances, and FDI in residential construction. However the economy is expected to recover in 2021. Nevertheless, if the outbreak persists beyond first quarter of 2021, the impact of COVID-19 will more severely affect the supply side of the economy, leading to long-lasting losses in jobs and production.

Based on CBK data, in 2019 the GDP growth in Kosovo was 4.0%, entailing an increase by 0.2% in comparison with the 3.8% growth experienced in 2018. GDP growth exhibited in Kosovo, effected the recorded consolidation growth during 2016-2019 with -0.6% CAGR. As per CBK, investment revivals motivated by the increased bank lending and remittances were the key indicators for the GDP growth until 2019. IMF predicts Kosovo's GDP growth to be at a negative rate of -7.5% in 2020 and picking up in 2021 at 6.0% growth. The relatively large decline in GDP in 2020 is predominantly driven by the Covid-19 pandemic impacts. However, domestic consumption demand remained high as remittances, salaries and pensions continued to rise up to Covid-19 pandemic shutdown.

Kosovo Inflation

As per CBK, in 2019, inflation measured by CPI as end of period consumer price percentage change, was recorded stronger and substantially lower than the previous year, specifically decreasing from 2.9% in 2018 to 1.2% in 2019. Moreover, in comparison to the region median rate of 1.6% in 2019, inflation recorded in Kosovo was around 0.4% lower. Whereas, regarding IMF expectations, in 2020 Kosovo's inflation rate is predicted to decrease at 1.5% while the region median rate is expected to remain weak at around 1.1% and c. 40 basis points below the Kosovo's inflation. According to IMF, in 2019, the inflation trends were mainly driven by the increase in basket food price and accommodation services. However, before 2018 prices were generally low in the economy, because the supply of goods might have been higher than the demand for those goods, also potentially impacted by the increase in money purchasing power during 2015 - 2019. Fluctuation of prices in Kosovo is expected to continue to be reliant on international market prices, specifically to the European one, as long as there exist high dependency of the economy to imports from the region.

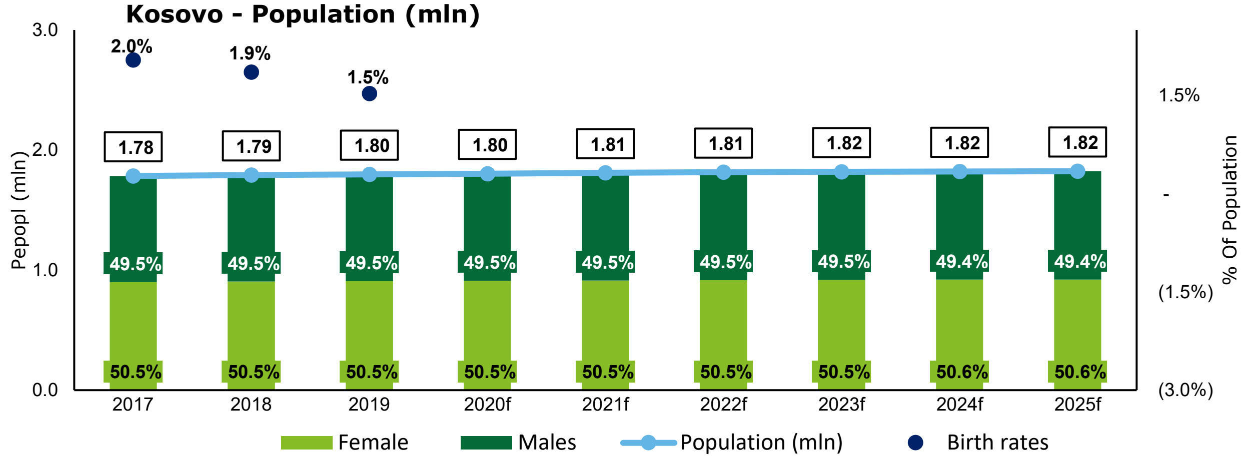
Kosovo - Economic Growth and Inflation



Source: International Monetary Fund (IMF), December 2020

<u>Kosovo Population</u>

According to ASK, population of Kosovo has been exhibiting stable growing trends in very small rates with CAGR of 0.4% during 2017 – 2019. Specifically in 2019 Kosovo's population amounted to 1.80 mln people, out of which 49.5% being male and 50.5% female. During the same period the birth rate was 1.5%, entailing a decrease by 0.4% in comparison with the 1.9% rate experienced in 2018. ASK's predictions reflect an expected smooth increase in population of Kosovo up to 1.82 mln until 2025 as a result of increased longevity and higher birth rates. On the other hand, female dominance is expected to be present almost at the same amounts from 2019 to 2025. As per EIU, approximately 25% of population were at the age of 0-14 years in 2019, thus making Kosovo's population one of the youngest population in the Europe and region.

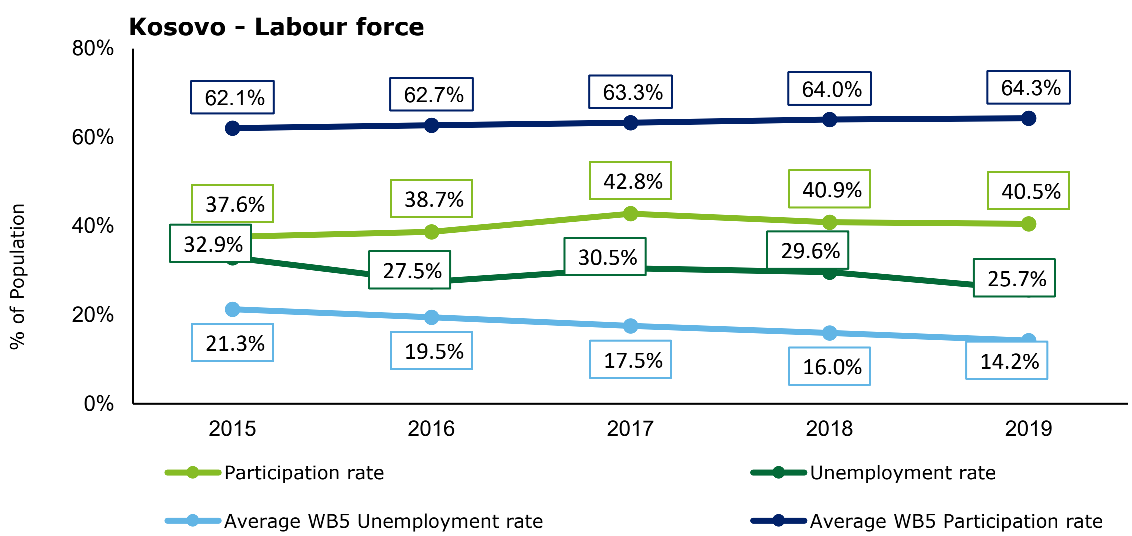


Source: Agency of Statistics Kosovo (ASK), December 2020

Kosovo Labour Force

According to ask's labour force survey, the labour force participation in Kosovo has remained at around 40% since 2016, (40.5% in 2019) while declines in the high levels of unemployment rate and gains in employment were short-lived and followed seasonal patterns. The 2019 data suggest a bright spot in Kosovo's labour market as the unemployment rate fell to 25.7% from 29.6% one year earlier, while the employment rate increased to 30.1% from 28.8% during the same period.

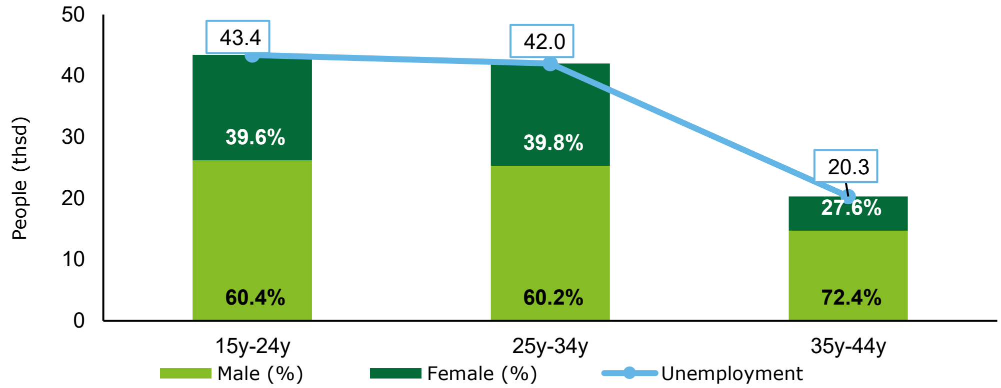
Based on ASK, this improvement was partially driven by temporary jobs creation due to preparations for elections. The wide gap between male and female employment rates (49% and 14% respectively) persisted. Very high rates of inactivity (59.5%), in particular female inactivity (78.9%), and youth unemployment (49.4%) suggest undeclared work and misalignment between education outcomes and labour market needs. Emigration of skilled workers poses a significant challenge to medium-term economic prospects. Active labour market policies, pre-qualification schemes and vocational training programmes remain inadequate to labour market needs.



Source: Agency of Statistics Kosovo (ASK), December 2020

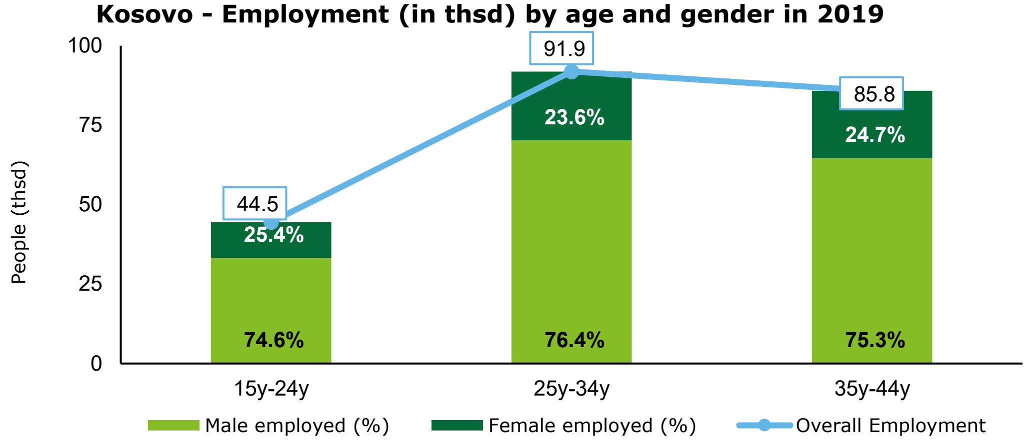
ASK reported that in 2019 in Kosovo were 43.4 thsd unemployed people of age 15 – 24, ergo 1.4 thsd people less than the 42 thsd unemployed people aged between 25 – 34 years. Nonetheless, in 2019 Kosovo registered 20.3 thsd unemployed people of age 35 – 44, composed by 72.4% male and 27.6% females. Male unemployment popularity remains present even at (15 – 24) and (25 – 34) age group by 60.4% and 60.2% respectively. Generally, unemployment rate in Kosovo exhibits tendencies to decrease as age increases, thus creating a negative relation between the two variables.

Kosovo - Unemployment (in thsd) by age in 2019



Source: Agency of Statistics Kosovo (ASK), December 2020

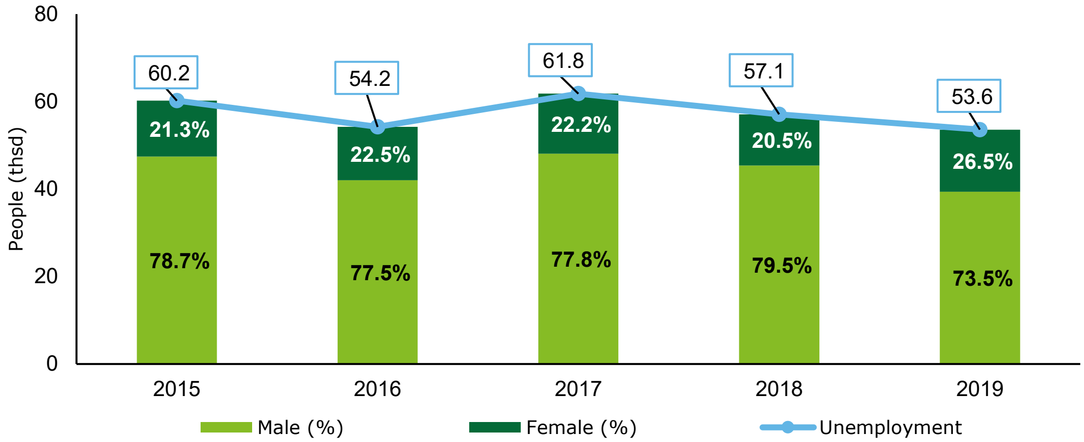
Kosovo - Employment (in thsd) by age and gender in 2019



Source: Agency of Statistics Kosovo (ASK), December 2020

Employment level registered in Kosovo during 2019 were in significant imbalance, with male dominance being present in high levels according to ASK publications. The lowest number of 44.5 thsd people was registered for age between (15 – 24) years, 74.6% composed by males and 25.4% by females. During the same year in Kosovo were registered 91.9 thsd and 85.8 thsd employed people aged between (25 – 34) and (35 – 44) years respectively, where females were as low as 21.7 thsd and 21.2 thsd accordingly. Based on CBK, the majority of employed people consisted of males aged between (25 – 34) years. Similarly, males of age between (25 – 29) years were very popular even in labor participation rate, followed by the same gender at age between (30 – 34) years, consisting of 68.4% and 74.9% respectively.

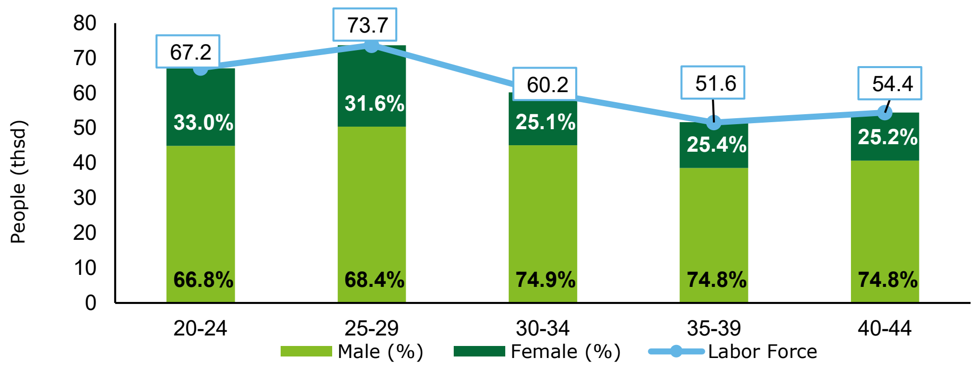
Kosovo - Unemployment (in thsd) by professional secondary education



Source: Agency of Statistics Kosovo (ASK), December 2020

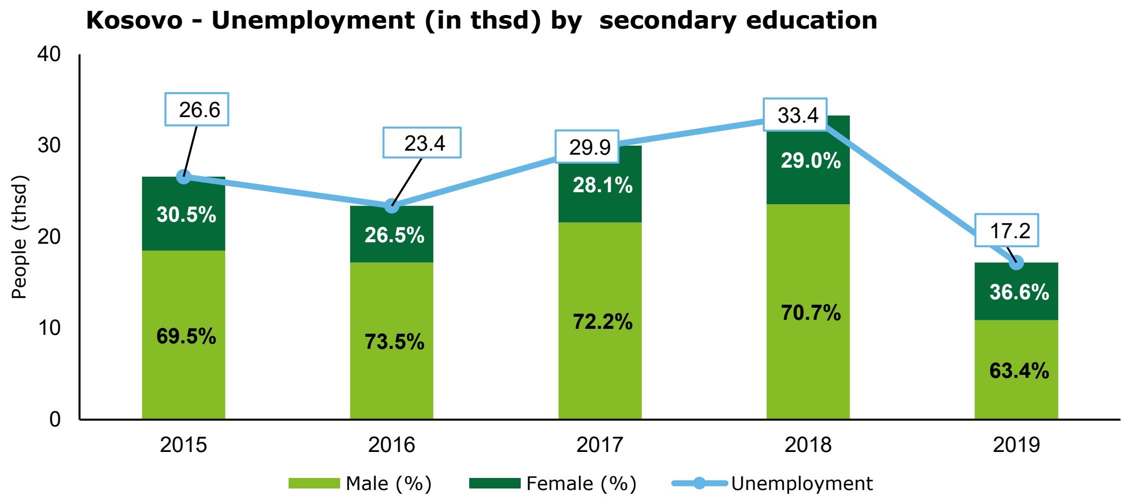
As per the ASK's publications on unemployment statistics focused on professional secondary education, Kosovo in 2019 registered 53.6 thsd people which constitutes 3.5 thsd and 8.2 thsd people less compared to 2018 and 2017 levels respectively (57.1 thsd people in 2018, 61.8 thsd people in 2017).

Kosovo - Labor participation by age and gender in 2019



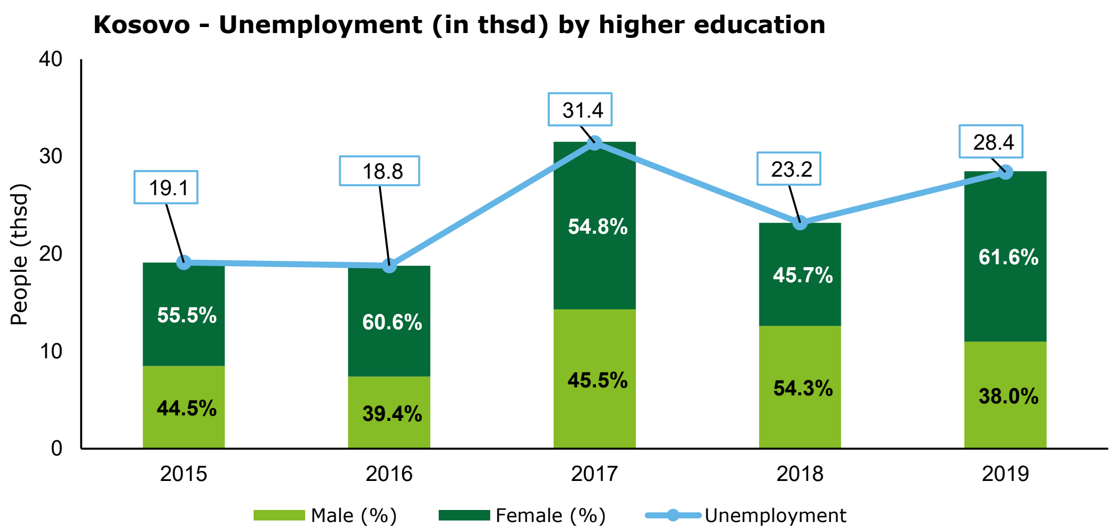
Source: Agency of Statistics Kosovo (ASK), December 2020

Whereas in 2019, the overall level unemployed people with professional secondary education (composed of 73.5% males and 26.5% females) registered what was the lowest rate of males and highest rate of female unemployment since 2015. According to ASK, the 2019 exhibited prevalence of males has been present in unemployment by professional secondary education since in 2015. During this period male unemployment rate decreased with 4.5% CAGR, the females rate increased by 2.6% CAGR and in overall terms registering a CAGR decreases by 2.9%.



Source: Agency of Statistics Kosovo (ASK), December 2020

According to ASK, Kosovo recorded 17.2 thsd people unemployed with secondary education in 2019, entailing a decrease by 16.2 thsd in comparison with the 33.4 thsd people experienced in 2018. Male dominance in unemployment was present during the period under review, whereby in 2019 it amounted of 63.4% or 10.8 thsd people (36.6% and 6.4 thsd female trends, respectively). The overall unemployment by secondary education displayed a CAGR decrease by 10.3%, males and females declined by CAGRs of 12.4% and 6.1% CAGR from 2015 to 2019.

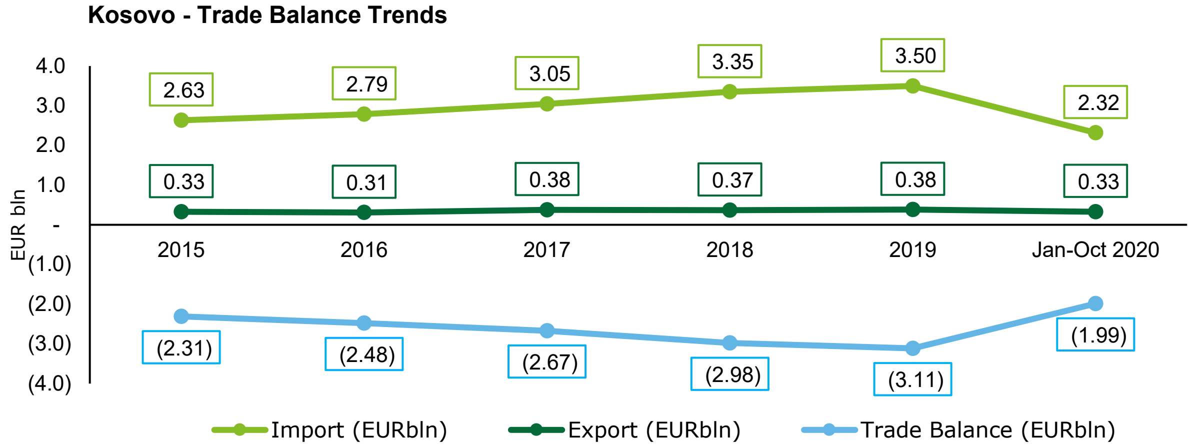


Source: Agency of Statistics Kosovo (ASK), December 2020

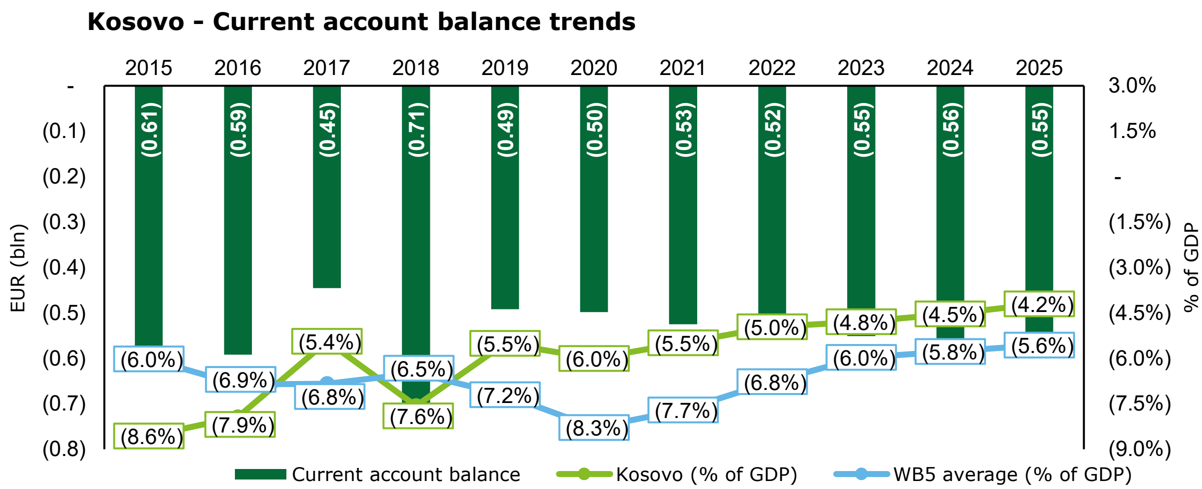
Male prevalence over females on unemployment rate by tertiary education was relatively faded from 2015 – 2019 as per ASK. In 2019, 28.4 thsd people were registered as unemployed with tertiary education, out of which 61.6% being females and 38.4% male. Contrary to the other types of education, tertiary education unemployment rate increased with a CAGR of 10.4% during 2015 – 2019. Moreover, female unemployment rate increased by a CAGR of 13.4%, entailing a double increase in percentage compared to the 6.7% respective growth incurred in males during the same timeframe.

Kosovo International trade

In 2019, Kosovo imported approximately EUR 3.50 bln of goods and services, compared to exports amounting to EUR 0.33 bln, with key export contributors being iron and steel (c. 19.7%) followed by plastic and its components (c. 12.6%). In 2019, exports increased by c. 2.7%, mainly driven by the travel services to Kosovo's diaspora, resulting in an improvement of the current account deficit. According to IMF, Kosovo's exports are forecasted to increase considerably throughout the 2020 – 2025 period. Imports are forecasted to experience the same trend. IMF predicts the Kosovo current account balance, to reduce throughout 2020-2025, by a CAGR of 1.9%, thus amounting around EUR 0.55 bln in 2025 or 4.2% of GDP, entailing a decrease by 1.3% compared with 5.5% of GDP in 2019.



Source: Agency of Statistics Kosovo (ASK), December 2020



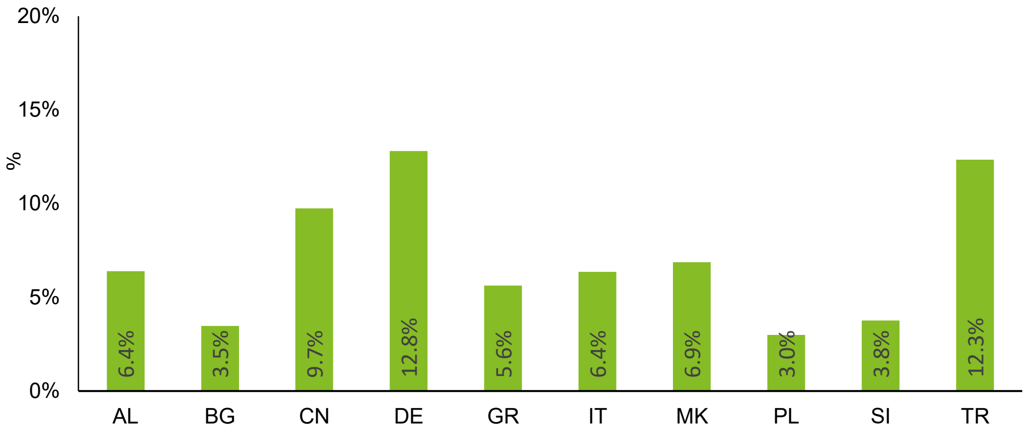
Source: International Monetary Fund (IMF), December 2020

During 2019, imports from Germany accounted 12.8% of total imports of Kosovo, which is the largest importing country. Other main importing countries, as it is shown in the graph, come from the region of SEE-12. On the other side, based on ASK data, Kosovo exports 17.6% of total exports to Albania, followed by 11.5% in North Macedonia. Most of the exports are related to the neighbor countries, but

8.1% are exported to Germany in 2019. Exports in Switzerland amounted 7.4%, which is around 4.5% less than Great Britain.

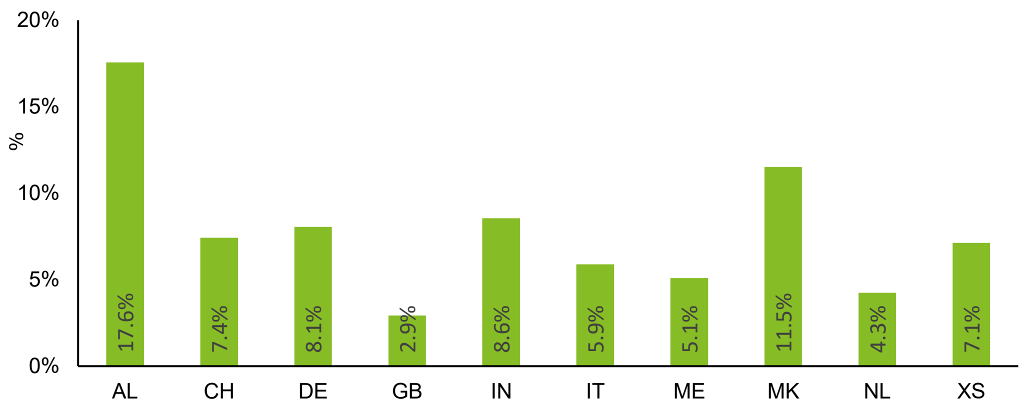
Regarding on ASK publications, Mineral products industry resulted the highest amount in exports and imports by 25.4% and 45.5% respectively. Nonetheless, Machinery and Transport industry indicated the second highest export amount by 21.3%, followed by products of chemical industry and food & beverages by 13.4% and 12.06% accordingly. Regarding imports, products of chemical industry listed the second industry by 15.4% followed by food and beverages by 10.4%.

Kosovo - Imports by Countries in 2019



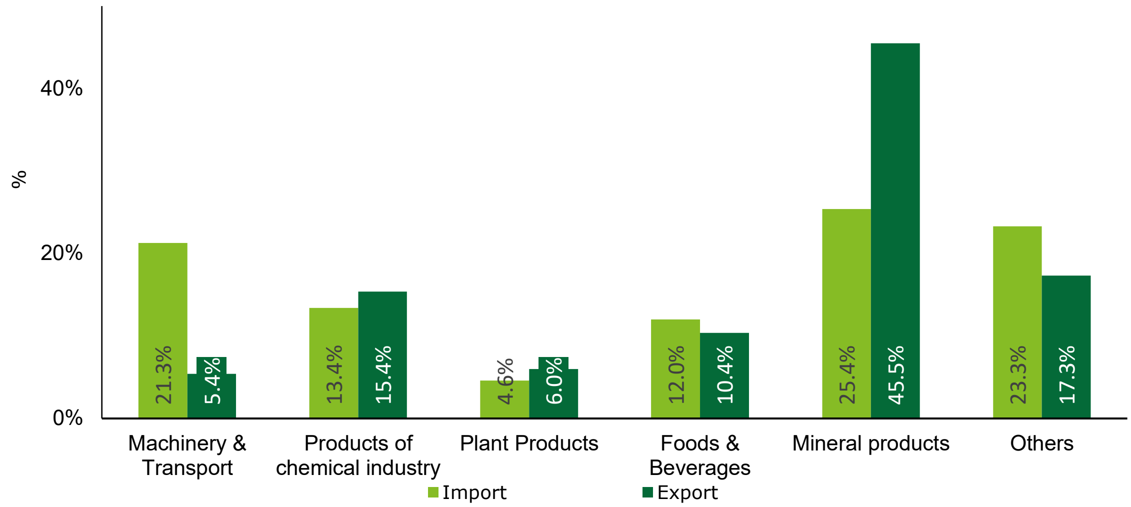
Source: Agency of Statistics Kosovo (ASK), December 2020

Kosovo - Exports by Countries in 2019



Source: Agency of Statistics Kosovo (ASK), December 2020

Kosovo - Export/Import by industry in 2019

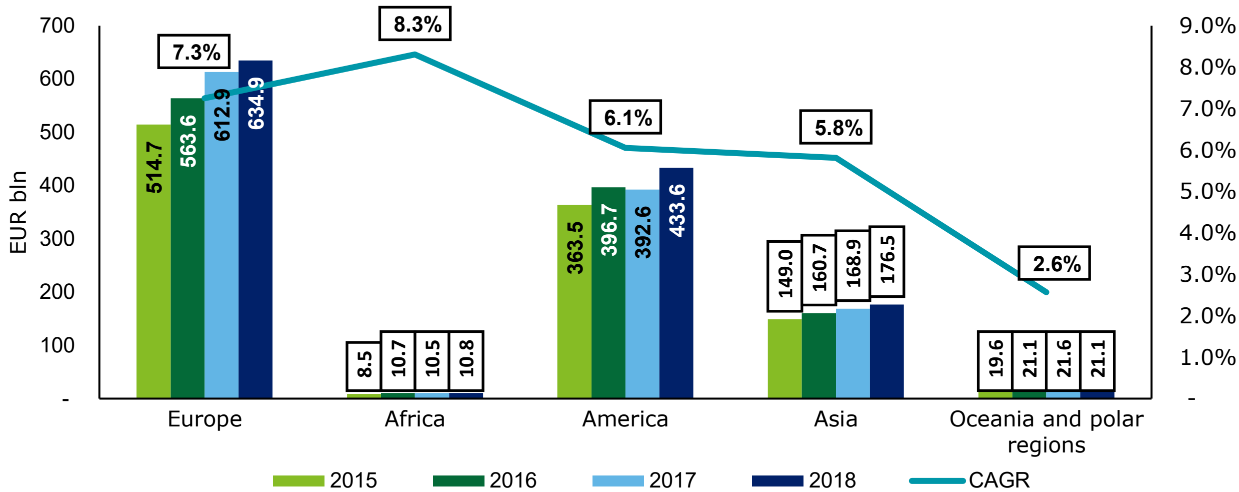


Source: Agency of Statistics Kosovo (ASK), December 2020

FOREIGN DIRECT INVESTMENT FROM GERMANY

[Section note: This section gives an overview of foreign direct investments from a German perspective. The information regarding the countries where Germany invests, will give us an understanding of German strategies, the sectors they invest the most in order to accomplish their needs and strategic goals of the economy, both from a sectorial perspective (manufacturing, trade, financial etc.) as well as geographical/political ones (Global, EU vs. Non-EU countries, SEE) . This will further help us in evaluating the potential of future German investments in Kosovo, and the possibilities that Kosovo has in attracting these investments.]

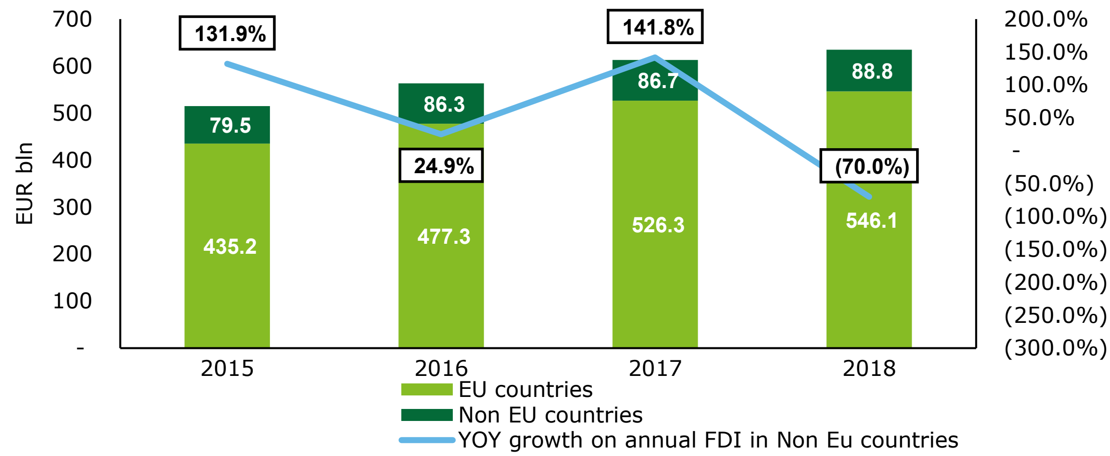
Outward German FDI stock composition



Source: Deutsche Bundesbank (DB), December 2020
Note* - 2018 represents the last year of available data from DB

According to Deutsche Bundesbank (i.e. the Germany Central Bank, hereafter DB), during 2018 the total level of German Outward FDI stock amounted to EUR 1,276.9 bln, exhibiting an increase 5.8% from 2017 (EUR 1,206.5 bln). The most preferred region for German investors was Europe with a level of investments amounting to EUR 634.9 bln. These investments comprised 49.7% of the total German outward FDI stock, and displayed a yearly growth by 3.6% in comparison to the 2017 level of investments (612.9 bln). The second largest share of German FDI outward stock was occupied by the American region (c. 34.0%). These investments exhibited an increase by 10.4%, from EUR 392.6 bln in 2017 to EUR 433.6 bln in 2018. Investments during years in Asia constituted 13.8% of the total, while the African, Oceania and other regions jointly occupied less than c.2.5% of the total outward FDI. In the aggregate, German outward FDI stock increased with a CAGR of 6.6% during 2015-2018, with the highest growth exhibited in the African region (8.3%) and the lowest in the Oceania and polar regions (2.6%)

Outward German FDI stock composition in European region (EU and Non EU)



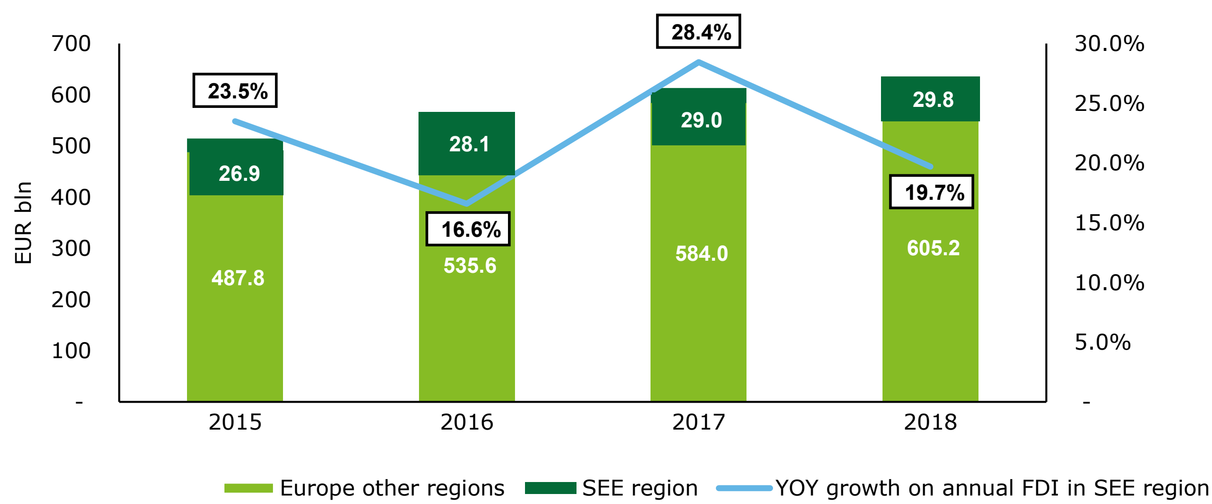
Source:Deutsche Bundesbank (DB), December 2020

As per the information provided by DB, with reference to stock in the European region, German investors have historically displayed a preference towards EU Member States, by remaining on average on levels of c. 85.3% of the total European region assets during 2015-2018.

In the same time period, German capital on EU countries has grown by a CAGR of 7.9%, leading to an increase of the proportion occupied by the EU member states from 84.6% in 2015 to c. 86.0% in 2018. In contrast, the Non EU stock increased by a slower pace of 3.8%, leading to a contraction of the proportion occupied from 15.4% to 14.0% of total European region capital during 2015-2018.

During 2018, German outward stock in Non EU countries constituted 14.0% of capital invested in European region and exhibited a YOY growth by 2.5% in comparison with 2017 (EUR 86.7 bln).

Outward German FDI stock composition in European region (SEE and Other European Countries)

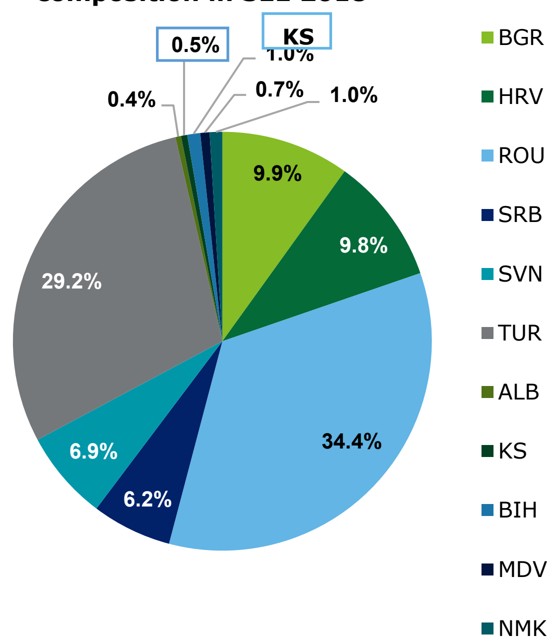


Source: Deutsche Bundesbank (DB), December 2020

Based on Deutsche Bundesbank, German investors invested on SEE region EUR 29.8 bln during 2018, which comprised 4.7% of the Germany Outward investments done in European region. These investments displayed a yearly growth by 2.8% from 2017 (EUR 29.0 bln).

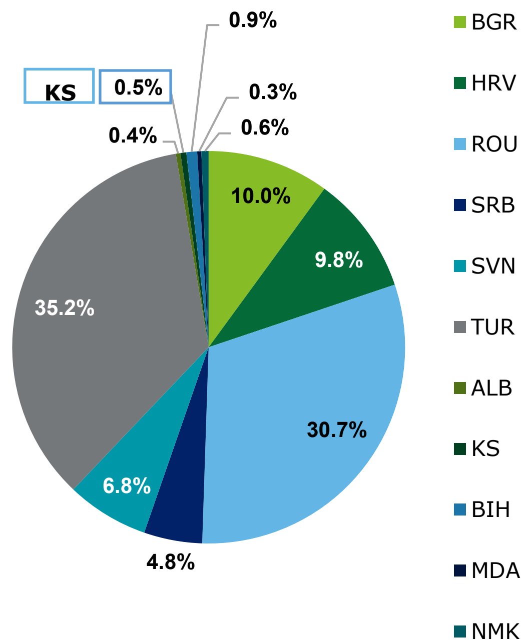
Investments on other European regions were valued EUR 605.2 bln in 2018 exhibiting an increase 3.6% from 2017 (EUR 584.0 bln). German Outward FDI in SEE increased with a CAGR of 3.5% during 2015-2018 and investments made in other European regions increased by a CAGR of 7.3% in the same time period.

Germany - Outward FDI stock composition in SEE 2018



Source: Deutsche Bundesbank (DB), December 2020
Note* - Missing information for German FDI's in Montenegro

Germany - Outward FDI stock composition in SEE 2015



Source: Deutsche Bundesbank (DB), December 2020
Note* - Missing information for German FDI's in Montenegro

According to Deutsche Bundesbank, Romania had the highest level among German Outward FDI stock in SEE region in 2018 c. EUR 10.2 bln, displaying a growth 8.8 % from 2017 (EUR 9.4 bln).

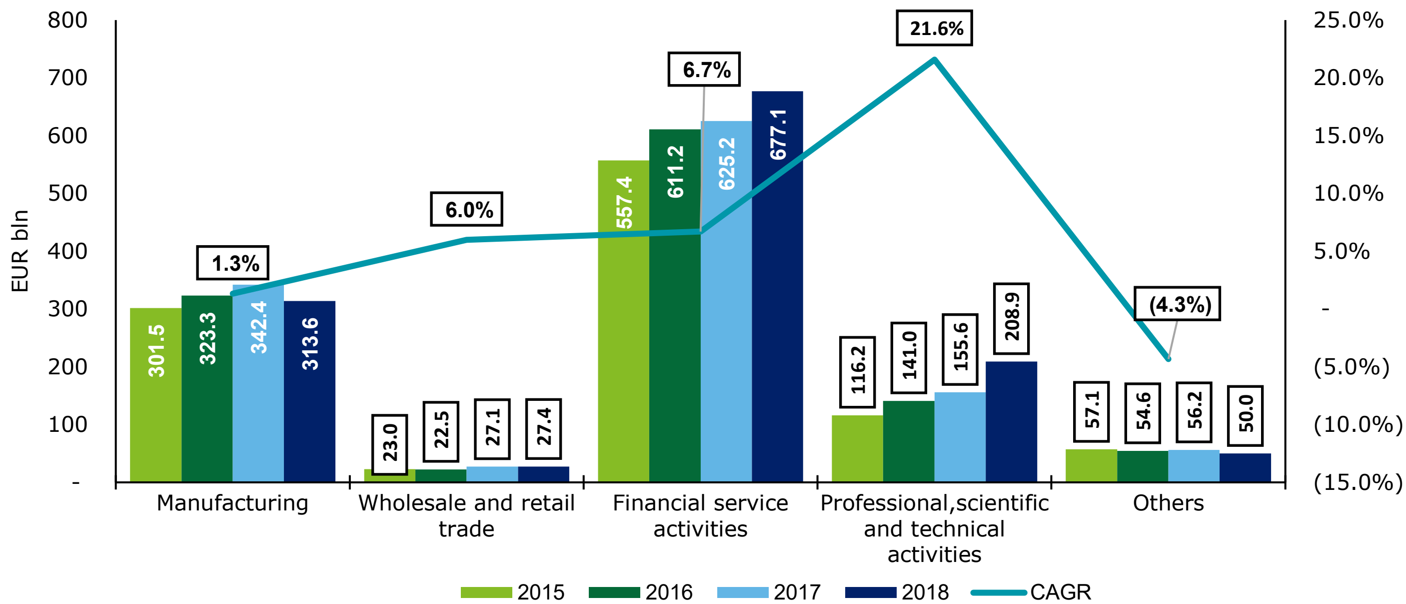
Turkey occupied the second largest share of this cluster of German Outward stock during 2018 with EUR 8.7 bln, exhibiting a decrease by 7.1% compared with the previous year (EUR 9.4 bln). With reference to capital on SEE region, German stock in Turkey lost proportionate share from 2015 (35.2%) to 2018 (29.2%) by 6% points, in advantage to German capital in Romania, which increased by 3.7% points from 2015 (30.7%) to 2018 (34.4%).

As it pertains to the countries of Western Balkan, Serbia had a slight increase by 1.4% points on German FDI share in SEE from 2015 (4.8%) to 2018 (6.4%). Croatia attracted 9.8% of German Outward FDI stock in SEE displaying a growth by 2.5% from 2017 (EUR 2.85 bln) to 2018 (EUR 2.92 bln).

During 2015-2018, German stock in SEE region increased by a CAGR 3.5%. Moldova had the highest growth in terms of CAGR by 32.1% from 2015 (EUR 92.0 bln) to 2018 (EUR 212.0 bln). North Macedonia had the second highest increase in the region in terms of CAGR growth by 22.4% during the same time period. The only country in SEE region, where German Outward FDI stock decreased during 2015-2018 was Turkey by 2.8%.

As it can be noticed from the above sections, the contribution of German capital stock is focused in EU members accounting for less barriers like Romania and Croatia.

Outward German FDI based on activity



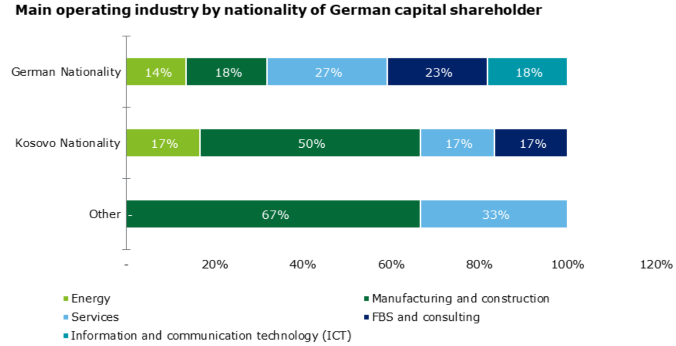
Source: Central Bank of Germany, December 2020

Based on information provided by DB, the sector where German investors generally invested more during the period 2015-2018 was the financial service activities. During 2018, financial service activities constituted 53.0% of German Outward investments followed by manufacturing segment with a share of 24.6%. Financial service activities included holding companies without management function, except insurance and pension funding. Manufacturing activity covered foreign investments in manufacture of chemical products, electrical equipment, machinery, motor vehicles, trailers and semi-trailers. Repair of motor vehicles and motorcycles included in wholesale and retail trade industry. Investments in activities of head offices covered holding companies with management function.

Survey results

According to the data of the survey, it is shown that the highest number of German investors in Kosovo have German nationality (71%). Also, it is revealed that most of the German nationality respondents operate in services industry (50%), while Kosovo nationality respondents mainly operate in the manufacturing and construction industry (67%).

Main operating industry by nationality of German capital shareholder

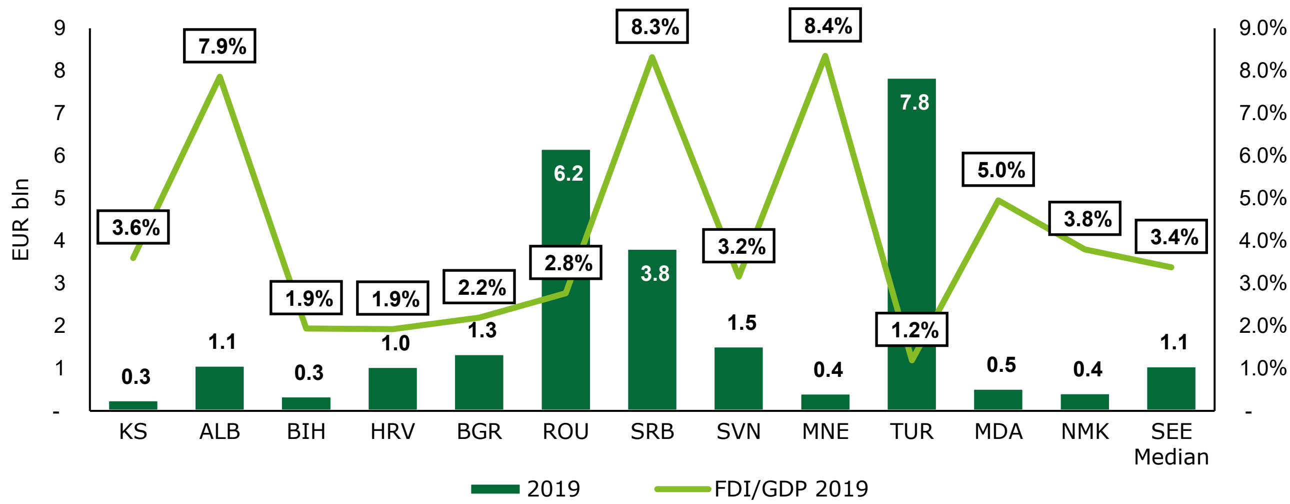


Source: Deloitte Albania

Regarding the perceptions of future business activity, from the data of the survey it is revealed that 61% of the respondents, indicated an indefinite planned period for continued investment, growth and expansion of activities.

FOREIGN DIRECT INVESTMENTS IN SEE

FDI in SEE region



Source: World Bank, Central Bank of Kosovo, December 2020

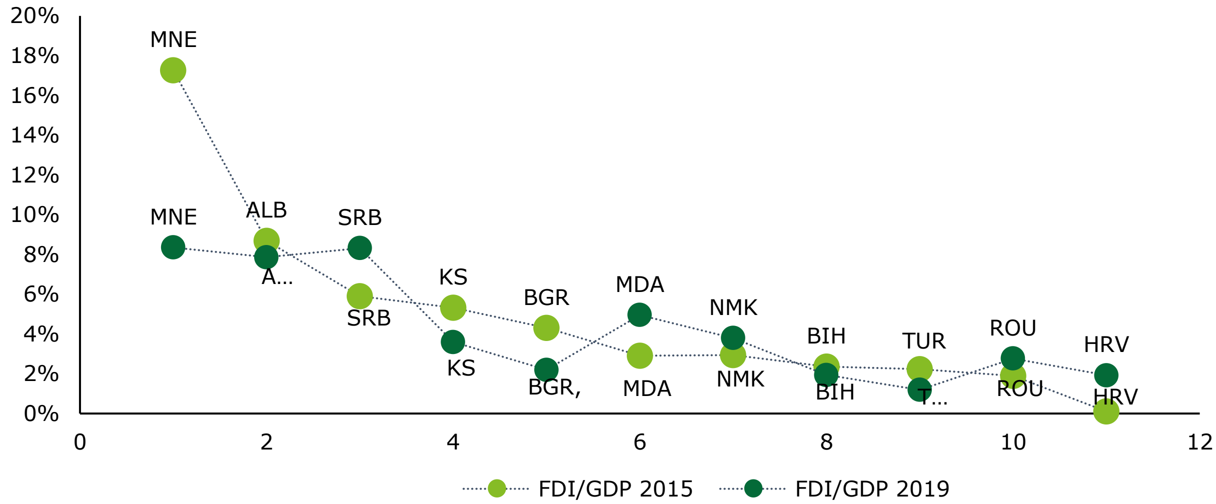
According to World Bank the only SEE countries where FDI increased significantly in 2019 in terms of annual growth was Moldova (100.3%), Bulgaria (29.6%) and Slovenia (17.1%). Countries of Western Balkan during 2019 generally attracted less foreign investments than in 2018. The most significant FDI decline was displayed in Bosnia and Herzegovina by 30.9%, followed by Turkey (28.9%) and North Macedonia (22.5%).

Turkey, Romania and Serbia were the SEE countries with the highest level of FDI during 2019. Foreign investments in Turkey recorded EUR 7.8 bln and constituted 31.6% of German outflows in the region. Investments on Romania valued EUR 6.2 bln and comprised 24.9% of German Outward investments. Kosovo attracted 1.0% of FDI made in the region in 2019, amounting to EUR 0.3 bln.

In relative terms the highest penetration rate in 2019 ((FDI/GDP %) was registered in Montenegro, Serbia and Albania, respective by 8.4%, 8.3% and 7.9%, while the penetration in Kosovo is 3.6%, lower compared to neighbor countries (Albania, Montenegro, North Macedonia and Serbia).

In line with the above analysis, the table below aims to capture the historical trend of the penetration rate for the period 2015 and 2019.

SEE - Penetration Rate (FDI/GDP)

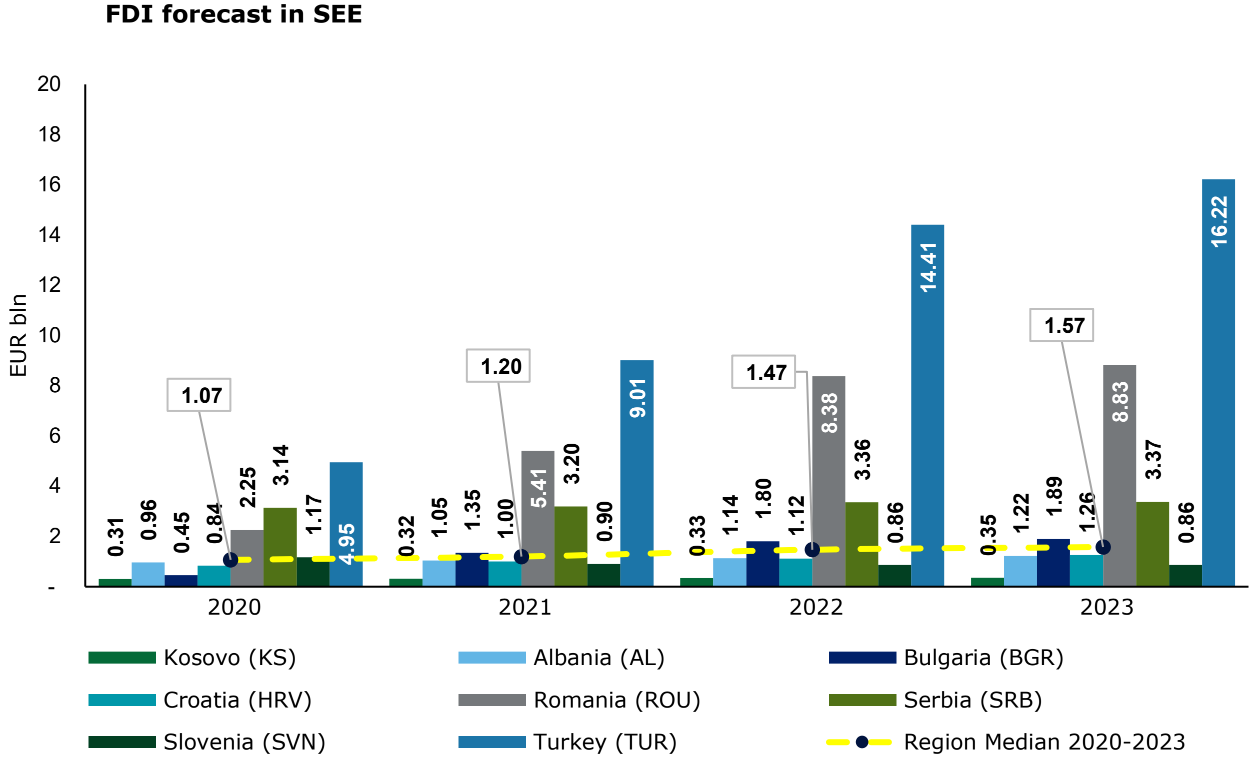


Source: World Bank, December 2020

As can be noticed from the table, while for most of the countries the penetration rate has remained quasi stable, indicating a linear growth trend for FDI and GDP, countries like Montenegro, Kosovo, Serbia and Bulgaria differ.

Montenegro experienced the highest decrease, from 17.3% to 8.4% caused by a high decline of FDI (10%). Same trend was followed by Kosovo, declining penetration rate, caused by a shrink by 15% of FDI (2019/2015), while GDP increase by 5%.

FORECASTED FDIS IN SEE



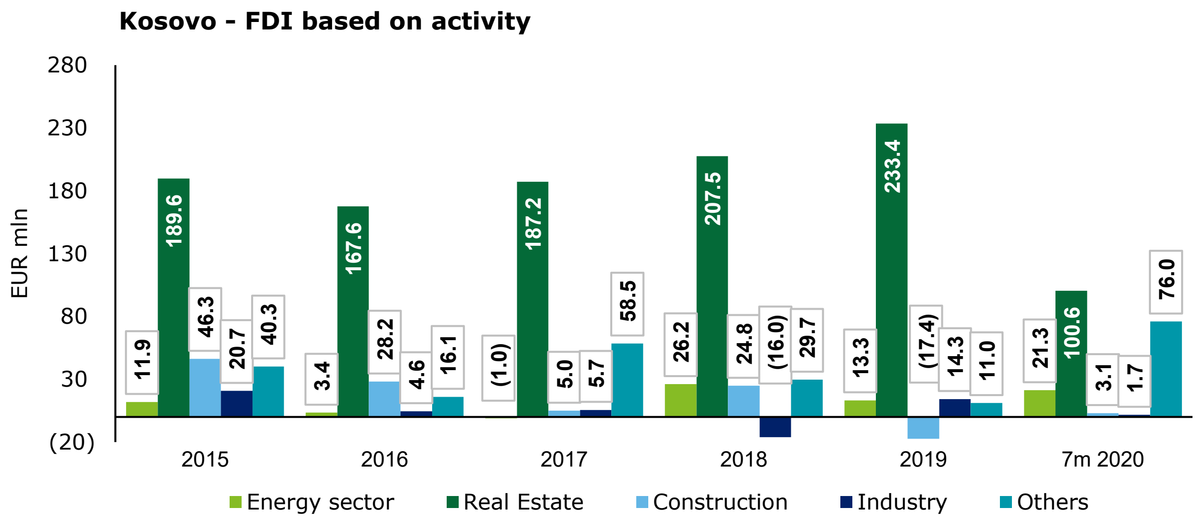
Source: Economist Intelligence Unit (EIU), Emis, December 2020
Note*: SEE median is calculated based on forecasts for eight region countries
Note*: No information for Montenegro, Bosnia and Herzegovina, Moldova and North Macedonia

EIU and EMIS project FDI in Kosovo to reach EUR 0.31 bln during 2020, growing by a forecasted rate of 22.5% compared to the year end 2019 (EUR 0.25 bln). All other countries of the region are expected to register a decrease on FDI during 2020. Bulgaria is forecasted to attract EUR 0.5 bln of FDI during 2020 showing the highest decrease in the region, by 66.5%. The SEE region in total is forecasted to attract EUR 14.1 bln worth of FDI displaying a decline by 39.0 % from 2019 (EUR 23.1 bln). According to Vienna Institute for International Economic Studies the drop is due to economic breakdown caused by Covid-19 pandemic.

During 2020-2023, Kosovo is forecasted to register an annual growth by 4.7% (CAGR). In terms of FDI growth rates, among SEE countries, Bulgaria, Romania and Turkey are expected to register the highest values, respectively 61.3%, 57.7% and 48.5%. Slovenia is the only country in the region which is forecasted to register a decrease by a CAGR of 9.9%. Compared to Western Balkan countries regarding FDI, Kosovo is expected to register a higher growth by CAGR than Serbia (2.4%), but lower growth than Albania (8.1%) and Croatia (14.5%).

According to EIU, SEE region is expected to attract more foreign investments during 2020-2023 by reaching a CAGR of 34.2%.

FOREIGN DIRECT INVESTMENT IN KOSOVO



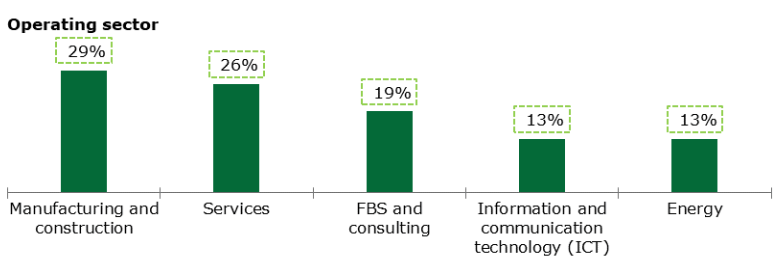
Source: Central Bank of Kosovo, December 2020

According to Central Bank of Kosovo , during 2019, the total level of foreign direct investments in Kosovo amounted EUR 254.6 mln, displaying a decrease of 6.4% compared to 2018 (EUR 271.2 mln). Kosovo's FDI decreased with a CAGR of 4.7% during 2015-2019. The most preferred sector for foreign investors was real estate amounting EUR 233.4 mln. This sector exhibited the highest increase during 2015-2019 period in terms of CAGR by 5.3%. This group comprised 91.7% of the total FDI, and registered a yearly growth of 12.5% compared to 2018 (EUR 207.5 mln). The second largest share on Kosovo's FDI was related to Industry Sector making c. 5.6% of total FDI in 2019. Negative values of construction during 2018 and industry during 2019 are a consequence of disinvestments on these sectors.

In 2020 (Jan-Jul), FDI in Kosovo increased with a growth rate of 37.1 % compared to the same period in 2019. Real Estate remains the main sector of investment from foreign investors, but comparing to the same period in 2019, the level of investment has declined. This is also related to COVID-19 impact, which may have slowdown investments not only in EU but globally.

Survey results

According to survey results, 29% of respondents operate in the Manufacturing and construction sector (please find detailed sector composition in the Appendix 5 of this report), followed by Services sector with 26%.

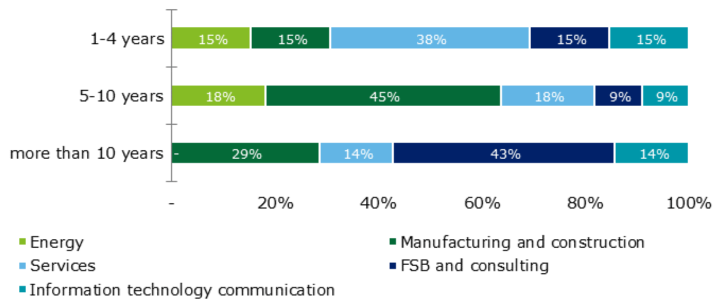


Source: Survey Analysis

The survey also revealed that 42% of the companies surveyed had 1-4 years of operating activity in Kosovo, mainly focusing in investing in the Service sector. Meanwhile, 35% had 5-10 years of operating active, mainly in manufacturing and construction sector.

The remaining 23% had more than 10 years of operating activity in Kosovo focused in FSI sector.

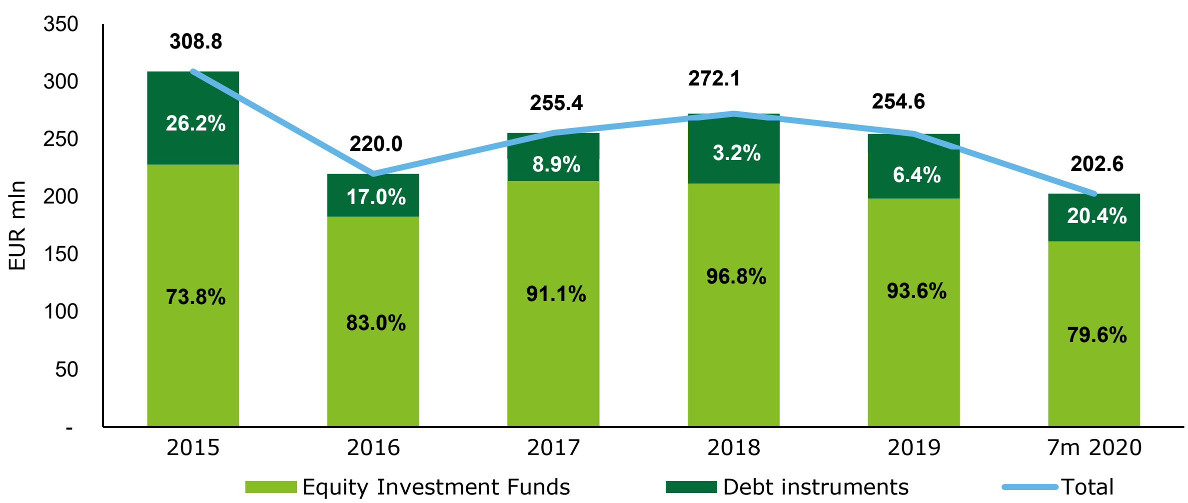
Years active by industries



Source: Survey Analysis

As per CBK , equity investment funds have historically been the main financial sources for FDI in Kosovo, contributing on average 87.7% of total foreign investments during 2015-2019. In the same time period these type of investments have grown by a CAGR of 6.1%. During the first seven months of 2020, however, financing investments through equity investment funds decreased to 79.6% merely caused by Covid-19. On the other side debt instruments have decreased by a CAGR of 29.6% during the same period resulting to a fall in their contribution to total FDI in Kosovo from 26.2% in 2015 to 6.4% in 2019.

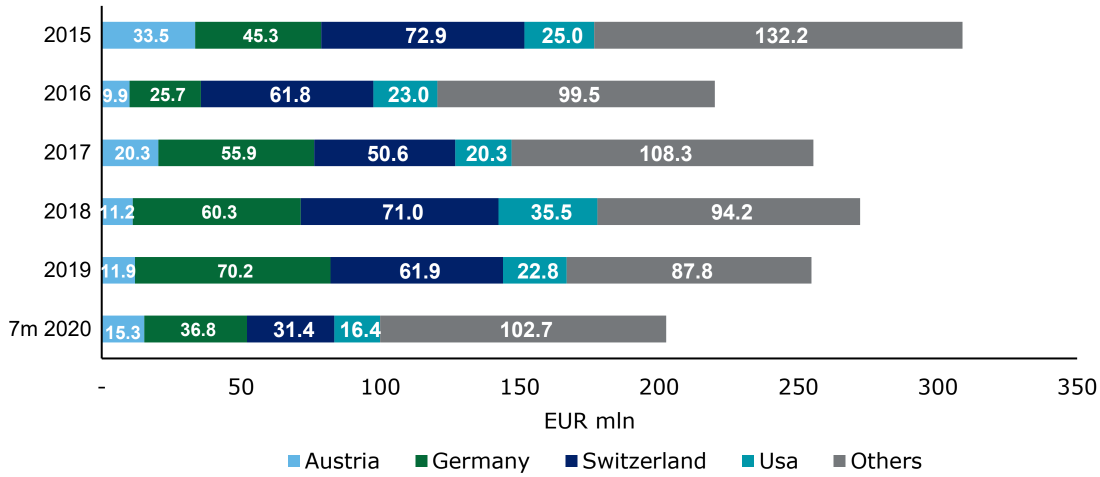
Kosovo - FDI based on financial sources



Source: Central Bank of Kosovo (CBK), December 2020

According to Central Bank of Kosovo, foreign investments from Germany were the main contributors of Kosovo's FDI during 2019 increasing by 16.4% in comparison to 2018 (EUR 60.2 mln). FDI from Switzerland, the second largest in 2019 by EUR 61.9 mln, decreased by 12.8% compared to 2018 (EUR 71 mln. FDI from Germany has been increasing over the years (2015-2019) by 11.6% (CAGR), making the only positive growth trend away other contributing countries.

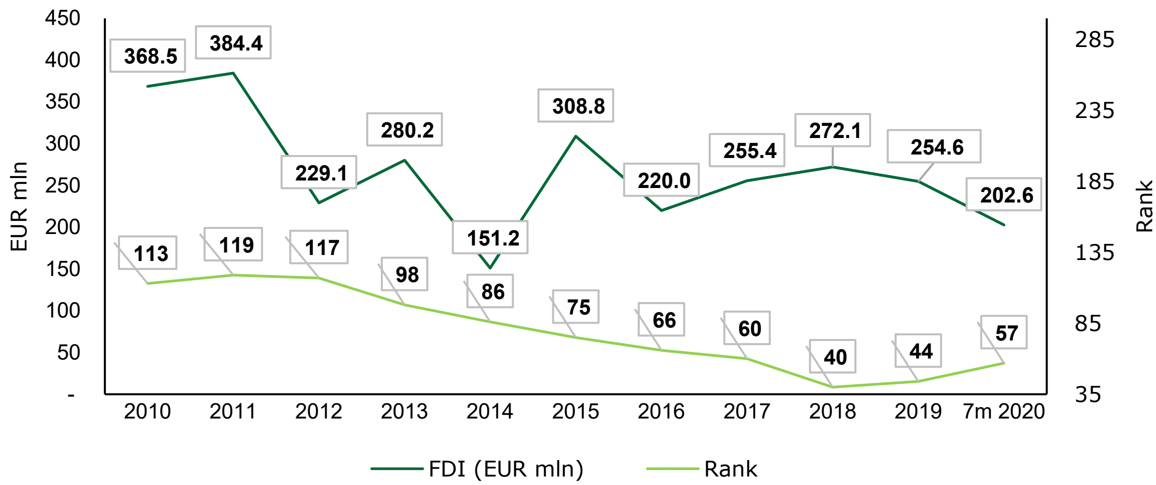
Kosovo - FDI composition by countries (EUR mln)



Source: Central Bank of Kosovo (CBK), December 2020

FDI AND "DOING BUSINESS"

FDI and Doing bussines rank



Source: World Bank, Central Bank of Kosovo, December 2020
Note*: 0-190 from higher rank to the lowest

This section aims to assess the correlation between Foreign Direct Investments and the ranking from the Doing Business report, independently from any other factors that may impact the level of FDIs.

Young or developing countries such as Kosovo, with a relatively low reputation or recognition, are reliant on international reports to attract foreign investors. The World Bank's Doing Business report gives a presentation of the country, its benefits and obstacles and is often a determinant for investors when choosing a country. The lower the score in the report, the easier it is to do business in the specific country.

According to Doing Business publications, Kosovo in 2020 ranked 57^{th} out of 190 in ease of doing business, falling by 13 positions from Doing Business 2019 report (44^{th}). Based on these reports from World Bank, Kosovo reached its lowest evaluation score in 2011, by ranking 119th. Kosovo has made improvements on business climate starting from 2012 and in 2018 had the best rank (40^{th}) since World Bank started to publish Doing Business report in 2003.

The most significant fluctuations on Kosovo's FDI were during 2012 and 2014. In 2011, the North Kosovo crisis occurred, increasing further regional tensions. In the meanwhile, European crisis were engulfed by the debt crisis. Both these factors led to a decrease in FDIs. Obviously, as the tensions were still high in the region, the ease of doing business in the years leading to 2012 decreased, and Kosovo went up in the rankings. It can be assumed that a deterioration in these rankings discouraged investors. As the rankings decreased in 2012 and 2013, the geopolitical conflict eased somewhat, the political situation improved and the elections that occurred were transparent, leading to the FDIs going up in 2013.

On Doing Business 2013 report, Kosovo ranked 100^{th} out of 185 economies. Kosovo strengthened minority investor protections by requiring greater disclosure of transactions with interested parties, extending access to corporate information before trial, clarifying ownership and control structures and requiring greater corporate transparency. These improvements affected positively on amount of FDI in the following years.

In 2014, the inflation rate dropped to 0.6%, which is less than the rate of 1.8% over the same period in 2013. This decline is attributed to the price decrease of the imported goods, which reflects the interrelation between the price developments in Kosovo and the prices in international markets. The growth of domestic demand in 2014 had an impact on the import growth and on the deficit growth of the current account. As per Doing Business 2015 report, which refers to Jun 2013-Jun 2014 period, Kosovo was ranked 62^{nd} on protecting investors indicator. While FDIs reached their lowest levels in 2014, the ease of doing business continued to improve. The lack of correlation in that specific year is not related to Kosovo, because FDIs decreased in some of the other countries of the SEE region as well.

Throughout the 2015-2018 period, a positive correlation between FDIs and the Doing Business ranking is displayed. As the young Balkan state continued to mature, grow and move forward in its European integration path, so did the FDIs increase and the ease of doing business improved. In 2016, the EU-Kosovo Stabilization and Association Agreement was signed, serving as a useful tool to guide the implementation of EU related reforms in Kosovo. In July 2018, according to the EU Commission 2019 Report, the Commission confirmed that Kosovo had fulfilled all visa liberalization benchmarks, and the following year the European Parliament supported the Commission's proposal. Kosovo made progress with regards to the rule of law and public administration, even though it is still in the early stages of judicial system reforms, fight against corruption and organized crimes. On the other hand, during this period, Kosovo enhanced greatly the guarantee of human rights, freedom of expression and in developing a functioning market economy. All these improvements led to better rankings in the renowned Doing Business report and was translated into higher FDIs.

The slight increase in the Doing Business Reports of 2019 and 2020, referred to the return of tensions with Serbia, the tariffs put into place and the political instability with several parties being unable to form stable governments. Confirming the positive correlation between the two variables, FDIs decreased in both periods.

SOCIAL IMPACT OF FDIS

FDI inflows generally provide economic benefits such as increased competition, technological spillovers and innovations. Yet the impact of foreign investment extends far beyond economic growth. At times FDI can be a catalyst for change to society as a whole, therefore it should be reasonable thinking of the whole impact (economic, political, social, technological, cultural, and environmental factors.)

Technology effects and Spillovers
An advantage of FDI is the possibility of technology spillovers, which can potentially enable the recipient country to benefit from advanced technologies developed overseas. Spillovers may be the result of competitive pressures (Globerman, 1979; Blomstrom, 1986), demonstration effects, mobility of trained staff from foreign-owned to domestically owned businesses or cooperation with local suppliers to enhance their products (Caves, 1998; Nayak, 2005).

In terms of the indirect effect, Sjöholm (2008) found a clear linkage between the employment and technology. On the one hand, new technology may make firms more competitive which permits them to grow and employ more workers. On the other hand, new technology may also decrease demand for labour by substituting the low skilled employees with fewer high skilled employees. Therefore, the change of technology policies will affect the job creation.

Effects on Employment

Direct vs Indirect Effects

The FDI have the potential to generate employment through direct hiring of people for new plants, which means they improve aggregate domestic employment through types of jobs created, regional distribution of new employment, wage levels, income distribution and skill transfer (Mickiewicz, Radosevic and Varblane (2000). These direct effects are accompanied by indirect or spillover effects.

Indirect effects take place through movement of trained labour from foreign firms to other sectors as well as they create links with suppliers and service providers and through increase of incomes, which can also increase employment through higher levels of consumption, savings and investment.

The integration of FDI into a local economy results in transmission of business culture, which includes corporate values, organizational structures and management practices (Mirza, 1998). Because FDI bring relatively new technology, its impact on employment depends on the interaction between productivity growth, output growth, and the specialization of labour. Along with the improvement of skills, technology, productivity and trade, FDI may have the potential adverse effects on wages and employment in the host economy.

Employee Matrix	Direct		Indirect	
	Positive	**Negative**	**Positive**	**Negative**
Quantity	Adds to net capital and creates jobs in expanding industries	Acquisitions may result in rationalization and job losses	Create jobs through forward and backward linkages and multipliers effects in local economy	Reliance on imports or displacement of existing firms results in job losses

Quality	Pays higher wages and has higher productivity	Introduces practices is e.g. hiring and promotion that are considered undesirable	Spillover of "best practice" work organization to domestic firms	Erodes wage levels as domestic firms try to compete
Location	Adds new and perhaps better jobs in areas with high unemployment	Crowds already congested urban areas and worsens regional imbalances	Encourages migration of supplier forms to areas with available labour supply	Displaces local producers, adding to regional unemployment, if foreign affiliates substitute for local production or rely on imports

Source: United Nations Conference on Trade and Development (UNCTAD), 1999

While the direct impact of FDI on employment has inconclusive answer, FDI may create positive indirect impact on employment generation. However, research on the indirect effect of FDI on employment is very limited. The estimates of impact of FDI in U.S. by Glickman and Woodward (1989) using the survey data from the Bureau of Economic Analysis (BEA) have shown a substantial increase in employment between 1982 and 1986.

Mode of Entry Considerations

Most researchers conclude that there would be higher positive employment effects if the investment takes the form of Greenfield investment. Greenfield investments entail the creation of new manufacturing plants, as they create new production capacity and increase the demand for labour. Otherwise, they may potentially bring labour-saving technologies which decrease the labour demand and crowd-out less competitive domestic firms making the net effect negative. On the other hand, are expected limited, even negative effects on the employment level if foreign capital comes through mergers and acquisitions and buys privatized enterprises (Dicken, 2007).

Mickiewicz, Radosevic and Varblane (2000) showed that the bigger diversity of types of FDI is more favourable for the host economy. There is higher potential that it will lead to more diverse types of spillovers and skill transfers. If policy is unable to maximize the scale of FDI inflows then policymakers should focus much more on attracting diverse types of FDI.

Final Considerations

Finally, we can conclude that the quantification of the overall impact of FDI on employment is still uncertain from both theoretical and empirical points of view. To the extent that FDI contributes to economic growth then it may be contributing indirectly to the creation and improvement of employment.

<u>Case Studies: Overview of Investments with social Impact in Kosovo</u>

Below are presented a few case studies examples from investments and projects which have exhibited evidence of investment social impact in Kosovo such as in employment, skills, technological advancement or other social metrics.

1. **Youth, Employment and Skills in Kosovo**

Background: This project was commissioned by German Federal Ministry for Economic Cooperation and Development (BMZ) during 2017-2020.

Social Issue: High level of youth unemployment (more than 50%) and high vacancy rate in the private sector and need to employee staff. The project aimed to connect the job seekers' skills and the labour market demands which is a major challenge in Kosovo.
Impact: The Youth, Employment and Skills in Kosovo project enhanced the employability of young people by improving the quality of Vocational Education and Training and also strengthening matching mechanisms between labour market supply and demand. By the end of 2018, about 3,000 young people in Kosovo had benefited directly from a broad range of human capacity development and active labour market measures. The project aimed:

- To offer internship schemes for over 2,000 young job seekers in Kosovo. Furthermore, over 600 start-up business ideas were financially supported.
- Improve the quality of vocational education - it has been invested in 10 technical and economic schools which are focused in implementing school development plans, increasing workplace-based training opportunities and strengthening the competencies of professional practice teachers.
- To bridge the needs and requirements of the private sector for skilled labour, specifically for IT, graphic design, gastronomy, tailoring, handicrafts, metal construction, and soft skills.

2. Water supply and waste water disposal

Background: This project was realized in Prishtina on behalf of the German Federal Government. A total investment of EUR 50 mln was financed by the German Federal Government and the EU, while EUR 10 mln contributed by the government.
Social issue: Water losses and Poor existing Infrastructure
Impact: Some of the key outcomes are:

- A total of 18,000 new house connections and water meters were installed.
- The measures contributed to ensuring a continuous and hygienic supply of drinking water for Pristina and the surrounding area in the next few decades – also during the summer months. The project was able to achieve an uninterrupted water supply of 23 hours a day. The construction of a pumping station meant that 6,000 inhabitants who live in the higher-up district of Kodra could be reliably supplied with water. Overall, the water supply company increased the number of its customers by 15%.
- The use of the new infrastructure improves the drinking water supply for the local residents, prevents further overuse of the Batllava and Badovc reservoirs and encourages the protection of water resources. At the same time, more people were connected to the public drinking water supply.

3. Ferronikel factory

Background: Cunico Resources N.V (Cunico) is an international mining company engaged in the exploration, mining, processing, marketing and sale of nickel, copper and cobalt. Ferronikel factory is the biggest private investment on heavy industry in Kosovo. Until now, there are invested 60 mln euro and further investments are expected to be registered. As of December 31, 2006, the Company operations produced 10,942 tons of nickel.
Impact: The Company has 1,018 employees and other 300 employees via subcontractors. Ferronikel contributes with 50% of total export of Kosovo. Their products are exported especially in Germany, Italy, Spain, India etc.

4. Adem Jashari airport

Background: Limak Kosovo International Airport JSC completed the construction and put the new terminal building and facilities of Prishtina International Airport Adem Jashari into service with a ceremony on October 23, 2013. The new terminal building and facilities were designed and built with a modern architectural concept as passenger and eco-friendly, intelligent building. Limak has a 20 year contract with government for the use of airport. The whole project was valued over 140 mln euros.
Impact: Prishtina International Airport Adem Jashari is the only international airport in Kosovo and the only port of entry for civilian air travelers to the country.
The opening of the new terminal is expected to bring an increase in the airport's annual passenger capacity from 2 to 5 mln. The airport has already ranked third in the number of annual passengers among airports in the ex-Yugoslavian countries, after Belgrade and Zagreb airports. Other impacts are observed on tourism, development of local business, hospitality etc.

5. **Future Project: ScandGreen Energy**

Background: ScandGreen Energy is a Norwegian company with more than 30 years experience in chemical production and it has factories in different countries such as Slovakia, Denmark and Germany. ScandGreen Energy is expected to invest around EUR 65 mln in Kosovo to build a power plant for garbage recycling.

ExpectedImpact: Garbage recycling is one of the sectors that has big potential but less development in Kosovo. The government is interested to develop more this sector, and has entered discussions with ScandGreen Energy. The project will contribute to increase employment, improve environmental and quality of life.

6. **Kivo**

Background: Netherland company Kivo, is in Kacanik municipality since 2015. This company is one of the biggest producers of plastic packing in Europe.

Impact: In Kosovo, the company has 130 employees. According to the investor Robert Kwakman, what attracted him to invest in Kosovo was cheap labor force. But for him Kosovo offers a lot of other opportunities for a foreign investor. Similar investment improve trade balance as they reduce the dependence to import plastic products for packaging and also considering the benefits of lower labour and other costs has an advantage in exports.

7. **Energy**

Background: The Kosovar energy sector is facing considerable challenges related to outdated facilities and inadequate maintenance. The country's rising demand for electricity has not been adequately met thus far, resulting in significant dissatisfaction among consumers.

Impact: Since 1999, German Federal Government has committed funds totaling more than EUR 163 mln to the energy sector, primarily to expand power transmission facilities and district heating but also to create a wind atlas. This makes it easier for investors to estimate the potential returns from wind energy projects.

TAX LEGISLATION IN KOSOVO

[Section note: The analysis includes hypothetical impact in the fiscal budget of the country from corporate tax, VAT, social contribution etc. Below the tax laws and regimes are described in details, which will be as a reference for the survey findings.]

Value Added Tax (VAT)

VAT shall be charged in line with the provisions of the law, on:

- The supply with goods and services made for consideration within the territory of Kosovo by a taxable person;
- Importing goods into Kosovo.

Where a taxable person is any person who is or is required to be registered for VAT and who independently carries out any economic activity in a regular or non- regular manner, regardless of the purpose or outcome of that economic activity.

Bodies of International organizations, foreign countries and their agencies shall not be regarded as taxable persons in respect of the activities or transactions similar or identical to those above, even if they receive payments regarding those activities. However, agencies of foreign countries shall be regarded as taxable persons in respect of those activities or transactions where their treatment in their own country would result in considering those activities as being carried out by a taxable person.

Every person who meets all conditions of the definition for taxable person is required to register for VAT if it, exceeds the turnover of EUR thirty thousand (30,000) within a calendar year. Solely the portion of the supply which results in exceeding the turnover shall be taken into account for VAT purposes. Foreign persons developing an economic activity in Kosovo shall be, considered taxable persons since the commencement of exercising an economic activity in Kosovo. The permanent unit of non-resident person shall be the taxable person since the commencement of the economic activity in Kosovo.

Every person, unless otherwise provided in VAT law, shall be obliged to register upon reaching the turnover referred above (EUR 30,000) and shall notify authorities within 15 calendar days from the moment the obligation for registration arises. The registration is effective on the date when the turnover is exceeded. However, they have the right to choose to be registered and notify authorities accordingly.

VAT Chargeable

The VAT is charged at standard rate of eighteen percent (18%) and the chargeable event shall occur and VAT shall become chargeable when the goods or the services are supplied and goods are imported. However, law on VAT predicts specific events and deductions regarding the nature and incidents may occur while operating the activity. The reduced VAT rate is calculated and paid of eight percent (8%) for supply with goods and services as well as their import, such as: supply with water (except bottled water), supply with electricity, grains, products made from grain for human consumption, cooking oils, dairy products, information technology equipment, supply with medicines, medical equipment, etc. Although, special treatments and schemes are projected for specific activity, such as Flat rate scheme for farmers, Special scheme for electronically supplied services, Special scheme for investment gold.

Moreover, multiple exemptions for certain activities in the public interest may occur, such as respective transactions: hospital services and medical care, supply with human organs, dental technicians in their professional capacity, services and goods closely linked to welfare and social security work, services related to education and protection of children and young people, activities carried out by public radio, newspapers and periodic publication, public transport, etc.

VAT Deduction

The right to deduct input VAT shall be born when VAT becomes chargeable. A taxable person cannot deduct input VAT before the tax period in which he received invoices for goods or services supplied to him or in which he received customs declarations for imported goods. However, a taxable person shall not deduct input VAT on yachts and boats intended for sport and recreation, private aircraft, cars and motorcycles only used for non-business purposes, fuels and lubricants and spare parts and services closely linked thereto, other than vessels or vehicles used for leasing and renting and for resale, and vehicles used in driving schools for the provision of the drivers training program in accordance with the regulations. Regarding the total purchase costs and current expenditures of cars used for both private, at the same time for business purposes, the right to deduct input VAT is only allowed to a maximum of fifty percent (50%).

VAT Refund

A taxable person may carry forward the excess VAT credit to the following tax period or may submit a VAT refund claim if the taxable person has carried forward the input VAT excess for three (3) consecutive months. The VAT return of a taxable person reflects an amount of deductions that exceeds the amount of VAT due amount. The excess VAT credit carried forward may be applied against the VAT liability in the succeeding tax periods. A taxable person may claim a VAT refund if for 3 consecutive months is in credit and at the end of the third months the amount of VAT credit exceeds the value of EUR 3,000 and if all VAT and other tax returns for all past tax periods have been submitted. In a case where the taxable person has exports may claim a VAT refund after each tax period, provided that such conditions are met: the amount of VAT credit exceeds EUR 3,000 at the end of the tax period; the taxable person complies with all applicable customs and VAT provisions, and all VAT returns and other tax returns for all past periods are submitted.

CORPORATE INCOME TAX

The following people shall be taxpayers under the present Law:

- A corporation or other business enterprise that has the status of a legal person under the applicable Law in Kosovo;
- A business organization operating with public or socially owned assets;
- An organization registered as a non-governmental organization under relevant legislation governing the Registration and Operation of Non-Governmental Organizations (NGO) in Kosovo;
- A non-resident person with a permanent unit in Kosovo.

The object of taxation for a resident taxpayer shall be taxable income from Kosovo source income and foreign source income, while the object of taxation for a non-resident taxpayer shall be taxable income from Kosovo sources.

Taxable income for a taxable period shall mean the difference between gross incomes received or accrued during the tax period and the allowable deductions under this law, while the specific cases are excluded such as taxable income from long-term construction projects and contracts; taxable income from operational and financial leasing; gross interest income, that include: interests from loans awarded to people or entities; interest from bonds or securities issued by business organizations; interest from accounts (savings accounts) that generate interest and which are held in banks and other financial institutions.

The corporate income tax rate shall be ten percent (10%) of taxable income.

Tax payments

Each taxpayer under the present Law shall make every three (3) months advance payments of tax to an account designated by the Tax Administration in a bank, or financial institution, licensed by the Central Bank of Kosovo on or before 15 April, 15 July, 15 October and 15 January with respect to the calendar quarter immediately preceding these dates.

Taxpayers with annual gross income of EUR 30.000 who are not required to, or do not opt to, submit an annual tax declaration shall make the following payments per quarter:

- Three percent (3%) of each quarter’s gross income from trade, transport, agricultural and similar commercial activities, but not less than EUR 37.5 per quarter;
- Nine percent (9%) of each quarter’s gross income from services, professional, vocational, entertainment and similar activities, but not less than EUR 37.5 per quarter;

- Ten percent (10%) of net rental income for the quarter, reduced by any amount withheld during that quarter pursuant;
- If a taxpayer provided has no income during a quarter, no payment is required but the taxpayer must submit the statement of quarter instalment for the period where there is no tax liability.

If an advance payment is not made timely, or in an amount that is less than that required, authorities shall impose a penalty in an amount equal to the rate of interest in effect at the time the advance payment was due to be made. There shall be no other additions to tax, for late or inadequate advance payments. If payments, or corrected payments, for the quarterly instalments have been made on or before the due dates and a final statement, or final corrected statement, has been made as required no penalty shall be charged for late, or insufficient advance payments, if:

- the difference between the amount due in each instalment and the amount paid in each instalment does not exceed twenty percent (20%) of the amount due;
- after the taxpayer's first tax period, the amount paid in each instalment is at least ten percent (10%) more than one-fourth (1/4) of the tax liability on the tax declaration for the preceding tax period;
- if the authorities perform an audit of any year and makes an adjustment to the tax of that year of more than twenty percent (20%), the relief from penalty provided above will not apply to the advance payment requirements for the succeeding tax period;
- for the first tax period during which a taxpayer has been in business, the taxpayer shall not be subjected to a penalty if the quarterly advance payments including the fourth quarter is more than eighty percent (80%) or more of the final tax obligatory for that tax period;
- a taxpayer that had a loss on the previous year Corporate Income Tax declaration is not eligible to use the provisions in making advance payments for the current year.

Corporate tax income exemptions

However multiple incomes are predicted to be exempted such as:

- the income of organizations registered under Legislation on the Registration and Operation of nongovernmental organizations that have received and maintained public benefit status to the extent that the income is used exclusively for public benefit purposes;
- income of the Central Bank of Kosovo, and those of entitled and duly authorized international governmental financial institutions operating in Kosovo;
- interest on financial instruments which are issued, or guaranteed, by a public authority of Kosovo paid out to resident or non-resident taxpayers;
- income of religious communities under the Law on Religious Freedom in Kosovo;
- income of prime contractors or subcontractors, other than a local person, generated from contracts for the supply of goods or services to the United Nations, the Specialized Agencies of the United Nations, KFOR and the International Atomic Energy Agency under the condition that they are directly engaged in projects and programs of the organizations mentioned above;
- income of a prime contractor or a subcontractor but other than a local person, generated from contracts with foreign governments, their organs and agencies, the European Union, the Specialized Agencies of the European Union; the World Bank, the International Monetary Fund and international inter-governmental organizations for the supply of goods or services in support of programs and projects for Kosovo;
- income received from grants, subsidies and donations in accordance with the rules and conditions for benefiting;
- dividend paid or received for resident and non-resident person.

Disallowed Expenses

While determining taxable income, some expenses are disallowed such as: cost of acquisition and improvement of land; cost of improvement renovation and reconstruction of assets that are capitalized and depreciated; fines and kind of interests; income taxes paid or accrued for the current or previous tax period and interest on them; pension contributions above the maximum amount allowed; expenses on gifts, losses in specific weight or material; damages, remains, surpluses; gains in kind such as meals and transport; expenses for renting apartments used for accommodation of employees; expenses covered by grants, donations and subsidies; expenses for entertainment and recreation; etc.

Deductions allowed

Public interest activities

Contributions made by taxpayers who keep the books and records pursuant in the form of a donation and sponsor for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes under this Law are considered as contribution paid for public interest and are allowed as expenditures up to a maximum of ten percent (10%) of taxable income computed before the charitable contributions are deducted. An allowable deduction shall not include a contribution that directly, or indirectly, benefits the donor or related persons of the donor.

Representation, advertisement and economic promotion expenses

The representation expenses include expenses of general character that a business person incurred for the purpose of a presentation in relation to its partners or other institutions, such as: organizing meetings, presenting new projects, inaugurating new lines or products, treats and hosting related to the business activity. Representation expense is limited to one percent (1%) of gross annual income. Whereas advertising and promotion expenses conducted in different information outlets such as: television, radio, newspapers, magazines, direct advertisement, internet, posters, leaflets, billboards, transit advertisements and similar, are fully deductible expenditures for tax purposes.

Bad debt

Bad debt deductions are limited to the non-recovered portion of the debt. Any bad debt deducted as an expense and then subsequently collected shall be included in the taxpayer income at the time of collection. Meanwhile, bad debt up to € 500 is considered to be deducted without the need to initiate judicial procedures.

Provisions for expected losses on loans, technical and mathematical provisions

Provisions for expected losses are not allowed as deductible expenses in the determination of taxable income except cases such as:

Banks, microfinance institutions and non-bank financial institutions licensed by the CBK for the determination of taxable income shall be entitled to recognize deductible expenses the provision for expected losses from loans up to eighty percent (80%) of the amount determined by a sub-legal act issued by the CBK.

Financial insurance and reinsurance institutions licensed by the CBK, in determining the taxable income, shall be entitled to recognize the deductible expenses for technical and mathematical reserves up to eighty percent (80%) of the amount determined by the Law on Insurances and sub-legal acts issued by the CBK.

Special allowances for new assets

If a taxpayer purchases production lines for plant and machinery, railway inventory and locomotives used for railway transportation, airplanes, ships, heavy transport vehicles, earth moving equipment, bulldozers, scrapers and other heavy vehicles for the purpose of the taxpayer's economic activity, in addition to the normal allowable depreciation, a special deduction of ten percent (10%) of the cost of the asset acquisition shall be allowed in the year in which the asset has been first placed into service.

Transfer of price, avoidance of double taxation

A taxpayer that is subject to corporate income taxation and who participates in one or more controlled transactions shall determine the taxable profit in accordance with the open market value for transfer prices. Open market value for the purpose of price transfer – the market principle - shall mean the principle when such conditions have been created or established between two enterprises, in trade or financial relations, which differ from those that would have been created between independent enterprises, whereby any profit under such conditions that would have resulted in any of the enterprises, because of such conditions has not been generated, shall be eligible to be included in the profits of the enterprise and taxed in accordance to such profit.

Relevant adjustments - when under conditions of controlled transactions an adjustment is made by the tax authority of another country and this adjustment results in taxation of profits in that country for which the taxpayer is already taxed in Kosovo, and the country proposing the regulation has an agreement for elimination of double taxation with Kosovo, then under these conditions TAK shall, upon submission of a request by the Kosovo taxpayer, control the compliance of that regulation with the open market value.

Withholding on certain payments to non-residents

Income attributable to a non-resident of Kosovo as an entertainer, such as a theatre, motion picture, radio or television artiste, or a singer or musician, or as a sportsman, from his or her personal activities exercised in Kosovo shall be subject to withholding by the payer of that income, whether paid directly or indirectly to the non-resident.

Notwithstanding any other provisions corporate income tax law, the amount of withholding shall be five percent (5%) of the gross compensation. Each payer shall submit a statement of withholding and remit the amount of tax withheld to an account designated by the Tax Administration in a bank licensed by the Central Bank of Kosovo within fifteen (15) days after the last day of each calendar month, in accordance with a sub-legal act issued by the Minister. Each payer, who withholds under during a tax period shall, upon request of the receipt of income, before the 1st of March of the year following the tax period, shall provide a certificate of tax withholding to the recipient of the income in the form specified with a sub-legal act issued by the Minister.

Survey Results

Based on respondents aggregated results, an approximated contribution of these companies in the fiscal budget of the country was estimated. In estimating the implied CIT contribution, average EBT margins are extracted, which are considered representative in the industry/sector where the companies operate, and the 10% CIT rate effective in Kosovo is applied. Moreover, based on annual average turnover of the companies, the aggregated VAT contribution (on sales) is estimated to be EUR 26mln on yearly basis. In addition, considering a total invested capital of c. EUR 238mln, the implied VAT contribution from the investments is estimated to be c. EUR 43mln.

Given that the companies have employed a total number of 1,102 employees, the Social Contribution Implied Impact is estimated to be EUR 411thsd, on annual basis.

(Please refer to Appendix 6 for more details on the calculations of fiscal contributions)

	Total Revenues	Total invested CAPEX	CIT Implied Contribution	VAT on Sales	VAT on CAPEX	No. of Employees	Social Contribution Implied Impact
EUR	145,734,616	238,584,200	4,471,862	26,232,231	42,945,156	1,102	411,166

Source: Survey Analysis

**The above analysis is an indicator of the expected impact and is based only on the data extracted from the survey. Such data have not independently been verified and are considered accurate for the purpose of the above analysis.*

IMPACT OF GERMAN & DIASPORA INVESTMENTS ON KOSOVO'S ECONOMY

An essential part of this report, is the estimation of the impact that German investments have had on the economy of Kosovo. FDI is considered to be an important contributor to economic growth due to its potential to enhance productivity and innovation, create employment and lead to several other economic benefits. This section identifies various economic factors that are important to consider when assessing the impact of FDI on the economy of Kosovo. Furthermore an econometric analysis is undertaken to assess the impact FDI has on the identified economic impact factors on the basis of annual historical data in Kosovo between 2010 and 2019.

The following economic indicators are chosen to be part of the analysis:

- Gross Value Added (GVA)
- GDP per Capita
- Employment rate
- Average wage

Timeline: Data for all indicators were available only for the period 2010-2019[1].

The analysis is performed on the total FDIs in the country, with impacted variables reflecting the whole economy of Kosovo. This approach is chosen in order to come up with reliable estimates and coefficients of each of the indicators. These coefficients will then applied specifically to the German investments in Kosovo.

When estimating the impact on any given economic impact factor, it is important to differentiate between the direct and the indirect effect. The direct effect describes the immediate impact of FDI occurring; for example, the number of employees hired for the functioning of the business, the wages the foreign company pays to their own employees, the amount spent on R&D etc. The indirect effect captures the impact FDI's occurrence has had on all other firms in the sector, either through the competition or the demonstration effect. (*Source*: *Estimating the economic impact of FDI to support the Department for International Trade's promotion strategy; June 2018*)

Our analysis identifies the indirect impact of FDI on each of the variables of interest separately and does not estimate the impact these variables have on each other. Regression analysis provides a powerful tool when estimating indirect effects. Linear regression models were performed on R Programming in order to analyze the impact of FDI on each of impact factors. Detailed summary of regression analysis can be found on Appendix 1.

In order to support the regression analysis performed on the small size sample data of impact factors in Kosovo, a regression analysis is performed on a much larger dataset in a similar country to Kosovo. Analysis for the same factors is performed on historical data of FDI in Albania between 1996 and 2019, in order to have a more complete reference regression model. The results of the regression analysis performed on Albania data were similar to the results of Kosovo data analysis, supporting the conclusions reached in Kosovo models.

Limitations

Due to data limitations, the regression analysis for the impact of FDI on the economy of Kosovo is performed on a small dataset, therefore impacting the credibility of the model. Having performed the same model in a much larger dataset (Albanian data) and reaching similar conclusions, supports the credibility of the model. In addition, having performed a linear regression for the indirect impact of FDI on each of the variables of interest while not estimating the impact these variables have on each other, R-Squared values lower than 90% are expected, because an economic factor is simultaneously affected by a lot of other factors.

[1] Except for GVA, the data for which are available up to 2018.

Results

Regression analysis coefficients (Albania)

Impact factor	P-value	Adjusted R-squared	Interception coefficient	FDI Stock coefficient	Regression equation
GVA	0.000006	0.60	4,758.3506	1.423772	y=1.423772x+4758.350625
GDP per Capita	0.000000	0.86	3,730.5782	1.765284	y=1.765284x+3730.578181
Average w ages	0.000000	0.69	120.9680	0.060845	y=0.06084468x+120.96801808
Employment rate	0.005288	0.24	0.5035	(0.000007)	y=-0.000006597213x+0.5034627

Source: Regression Analysis

Our analysis estimating the indirect effect of FDI, shows that during 1996-2019, a USD 1 mln increase in FDI stock in Albania leads to:

Expressed in USD	Expressed as a % of average factor during the study period
• an increase in average annual GVA of c. USD 1.4238 mln; • an increase in average annual GDP per Capita of c. USD 1.7653; • an increase in average annual Average Wage of c. USD 0.0608; • a decrease in average annual Employment Rate of c. 0.000007%.	• an increase in average GVA of c. 0.0179%; • an increase in average GDP per Capita of c. 0.0243%; • an increase in Average Wage of c. 0.0250%; • a decrease in average Employment Rate of c. 0.0013%;

Our analysis estimating the indirect effect of FDI, shows that during 2010-2019, a USD 1 mln increase in FDI stock in Kosovo leads to a net increase in:

Regression analysis coefficients (Kosovo)

Impact factor	P-value	Adjusted R-squared	Interception coefficient	FDI Stock coefficient	Regression equation
GVA	0.000888	0.79	928.9167	1.000351	y=1.000351x+928.916727
GDP per Capita	0.000303	0.80	412.3716	0.759889	y=0.7598889x+412.3716492
Average w ages	0.000289	0.80	174.8792	0.046542	y=0.04654216x+174.87921996
Employment rate	0.002351	0.67	0.2994	0.000101	y=0.0001006323x+0.2994014083

Source: Regression Analysis

Expressed in USD	Expressed as a % of average factor during the study period
• an increase in average annual GVA of c. USD 1.0004 mln; • an increase in average annual GDP per Capita of c. USD 0.7599; • an increase in average annual Average Wage of c. USD 0.0465; • an increase in average annual Employment Rate of c. 0.0001%.	• an increase in average GVA of c. 0.0223%; • an increase in average GDP per Capita of c. 0.0238%; • an increase in Average Wage of c. 0.0135%; • a decrease in average Employment Rate of c. 0.0151%;

Employment rate coefficient in both cases has shown an R-Squared lower compared to other indicators.

Therefore, this factor is not considered to be representative for the purpose of the analysis, considering that employment indicator might be also related to other trends and variables like labor market policy reforms, seasonal workers outside the country etc.

Survey Results*

From the respondents data, the total capital that the companies which were part of the survey have invested in Kosovo, amounts to c. EUR 285mln. These companies have an aggregated number of employees of 1,102. Considering the coefficients resulted from the regression analysis, an approximation of the contribution that these companies have had in the increase of GVA, GDP/Capita and average wage can be indicated.

Total Invested CAPEX	238,584,200			
Total No. of Employees	1,102			
Average Salary (EUR)	311			
		GVA Impact	**GDP/Capita**	**Average Salary**
Factor (EUR per 1 EUR of CAPEX)		1.1965	0.0000015	0.00000005
Total Implied Impact Value (EUR)		**285,458,978**	**354**	**12.19**

Source: Regression Analysis

**The above analysis is an indicator of the expected impact and is based only on the data extracted from the survey. Such data have not been independently verified and are considered accurate for the purpose of the above analysis.*

INVESTMENT OPPORTUNITIES IN KOSOVO

After the independence, Kosovo has made progress in many areas of its development such as raising the level of security, increasing political stability, stable economy with continuous growth etc.
Through regional cooperation initiatives, Kosovo has achieved to be part of a common regional market, to eliminate custom tariffs and to open new perspectives. Kosovo institutions are working continuously to meet the standards required by European Union.
Kosovo has achieved progress on infrastructure, where the most important are connection with Albania and North Macedonia through modern highways. The highway with Albania has a significant importance, considering that Kosovo has its Adriatic port through which it is connected with the sea.
There are many benefits for potential investors from investing in Kosovo. Some of these benefits are low taxes compared with neighbors, young and motivated population where 70 percent in under 35 years old, free access to European Union market and neighboring market, secure banking system, lack of currency risk for EU countries by using euro, modern institutions in support of businesses etc.
By analyzing all these factors there are some sectors with high potential for the future in Kosovo like agriculture and farming, information and communication technology, energy and mines, tourism and textile industry.

Agriculture and Farming

Actual situation

- Kosovo is rich with agricultural land. 588,000 ha or 53 % of total area is cultivable land and currently 260,000 ha is used as agricultural land.
- Kosovo has an agricultural tradition because 60% of the population live in rural areas and mostly work in agriculture.
- The contribution of agriculture to the GDP is 14.5% and is the main source of income for the majority of the population.
- Agriculture contributes by 13% on the value of exports and it is one of the most important employment providers in Kosovo.
- The arable land in Kosovo combined with climate provide good conditions for the agricultural production but still 70% of the local market demand for the agricultural products is guaranteed from imports.
- The most important fields of agriculture in Kosovo are the vegetable and grain sectors.

Future prospective

- Kosovo offers a cost effective labor force and it offers free access to the regional market is compounded by more than 30 mln consumers. This facility is due to trade liberalization within the CEFTA region. There are only few products excluded from this preferential treatment.
- USAID held a study that revealed new opportunities for growth in October 2009. The study showed that a total of 105 crops can feasibly be grown.
- Kosovo is well known as a producer of different types of grapes. The height of 300-400 meters above sea level and the continental climate provide very good conditions for vineyards and the development and growth of grapes for wine.
- There are nearly 200 sunny days annually to help with the growth of the grape. These advantages create very good conditions for the qualitative wine production in Kosovo.
- Kosovo also offers ideal conditions for livestock farming, due to its geographical location. There are two main factors in favor of livestock investments in Kosovo.
  a) Good natural and climatic conditions for many types of livestock farming.
  b) Market demand for livestock farming products is much higher than domestic production.
- The development of the food processing industry will create more opportunities for livestock farming in the future.
- Reopening of export markets is the main obstacle for Kosovo's meat processing companies.
- Geographical location close to non-EU countries such as Albania, Montenegro, Bosnia and Herzegovina and Turkey, can provide a short-term solution with initial focus on meat exports to these destinations, with the possibility of expanding into EU markets.
- The Government of Kosovo has introduced different incentives for farmers and food processing companies in order to improve the competitiveness of the agricultural, food processing sector and to strengthen the local production. VAT exemption for majority of agricultural inputs, the

zero percent customs rate for most agricultural inputs and capital goods, have been provided to stimulate local production.

Source: Kosovo Investment and Enterprise Support Agency, December 2020

Information and Communication Technology

Actual situation
• Access to the internet has grown in Kosovo over the last few years, and a majority of population now have an internet connection. However, 38.7% of the country's population still has no access to any type of electronic computer device. • Kosovar companies in the IT sector offer today the latest technologies and high quality services to their customers. These companies offer their services to local as well as to foreign companies who want to outsource their software development. • Demand for training on IT sector is rising continuously. Public and private education institutions in the IT field, provide education to thousands of young Kosovars while the Kosovar companies offer high quality services at low costs. These services are supported by companies such as CISCO or Microsoft. • The Information and Communication Technology sector is considered as one of the few sectors with a positive trade balance according to the Kosovo Association of Information and Communication Technology's IT Barometer report in 2018. • During 2018, 78% of IT companies in Kosovo exported their services and products, a huge difference compared to 2017 when export of their services from IT companies were only 58%. • Monthly salaries for IT professions increased by 4% over the last years. • A survey carried out by PwC in 2018 for IT businesses showed that 72% of respondents feel that finding skilled workers is a huge challenge, despite an unemployment rate of 31.4% in the country in 2018. • 43% of respondents are unsatisfied with the current policy and regulatory environment and developments. • 58% of the respondents feel that the quality of schools and trainings for people working in the digital technology sector is insufficient. • The main obstacles on IT sector markets according to president of Kosovo Association of Information and Communication Technology, are finding the right business partner, visa requirements and lack of business contacts in target - 88% of businesses in the ICT sector are domestically owned, with only 8% of companies being foreign-owned. • 87% of ICT businesses are owned by males. This is also reflected in the workforce of the sector where there is an 80/20 ratio of male to female employees.
Future prospective
• The development of the ICT sector in Kosovo has become one of the government's top priorities over the last five years. • Universities are underfunded and require considerable investments. They produce around 350 IT graduates a year and 91% of respondents on IT companies survey agree that educational programs are inappropriate and not meet the skills and requirements of the sector. • Kosovo has the youngest population in Europe where 70% of population is under 35 years old. • Many Kosovars who have studied abroad are now returning to Kosovo, bringing with them skills and know-how. • According to BuddeComm research, analyzing Telecoms, Mobile and Broadband in Kosovo it is expected that in 2021 mobile subscribers will reach 2.3 mln displaying an increase by 3.1 % in comparison with 2020. • Penetration rate of mobile subscribers, which represents the total number of SIM card connections in a country, as a percentage of the total population of that country is expected to increase from 117.4% in 2020 to 119.1% in 2021. In long term, during 2024 it is forecasted to be 2.7 mln mobile subscribers and penetration rate 126.2%.

Source: Kosovo Investment and Enterprise Support Agency, December 2020

Energy and Mines

Actual situation
• Kosovo has 14,700 mln tonnes of lignite reserves and possesses the world's fifth-largest reserves of lignite in the world. The reserves of this mineral are estimated to last for the next 650 years. Lignite is used as the main source of the energy production in Kosovo. • At the peak of production in the 1960s and 1970s, Trepca employed over 22,000 workers throughout the former Yugoslavia. • Thermal power plants produce 98% of electrical energy in Kosovo. • Base-metal mining has been important on Kosovo's economy since pre-Roman times and modern mining began in the 1930. • The zinc and lead reserves of Kosovo are estimated to be around 48 mln tonnes, those of nickel to 16 mln tonnes. Chrome reserves are valued to be 89 mln tonnes and bauxite reserves are estimated to 13.2 mln tonnes. • There are different mines that can be acquired through the privatization procedures or can be organized by entering joint ventures with private owners.
Future prospective
• According to the latest publication of Institute for Energy Economics and Financial Analysis with the topic "Beyond Coal: Investing in Kosovo's Energy Future" electricity demand is expected to increase by 20% in 2030, implying an additional 1,200 gigawatt hour (GWh) annual demand in 2030. Estimated growth in electricity demand is driven by gradual electrification of the energy sector and income growth. • At the present, losses in the low voltage distribution network are approximately 1,378 GWh of total distribution network demand, shared between technical losses and unbilled energy. • Kosovo can fulfill this demand by using three potential main sources of energy like lignite, gas and renewables. • Lignite: It is not expected any realistic prospect for financing a new lignite power plant in Kosovo by external sources. Kosovo A, which is the older of the two existing lignite power plants, will have to close soon, causing a loss of 2,100 GWh on annual supply, based on 2019 output. • Contour Global, a London-listed investor, and the World Bank recently withdrew equity and credit support for a proposed new lignite power plant in Kosovo. The main reason was that the offtake price for the project would have been EUR 80/megawatt-hour. Compared with other options coal is no longer the least cost electricity option for Kosovo. • Gas: According to the International Energy Agency, gas-fired generation has a levelized cost of energy approximately to EUR 76/MWh. Kosovo has no gas market or infrastructure, but wants to connect with several pipeline projects, including the Trans-Adriatic Pipeline via Albania. Estimated costs do not include the large cost of new infrastructure that would be required to secure gas supply into Kosovo. • *Renewables plus battery storage*: Kosovo last year revealed the first performance data for first large-scale wind and solar power projects. The results are promising. Electricity generation equals or outperforms peer and neighboring countries, strengthening the case for renewables deployment. Kosovo can develop a cutting-edge supply of electricity from domestic renewables plus storage, totaling an additional 1,500 GWh annually. • According to a cost analysis in 2018 in the region a large-scale project combining solar and wind power with battery storage could be achieved with lower costs than new lignite-fired generation. This analysis estimated a total capital expense of about EUR 650 mln (EUR 0.94 mln per MW), annual operation and maintenance of EUR 9 mln on first year and a combined levelized cost of energy of EUR 70 per MWh.

Source: Kosovo Investment and Enterprise Support Agency, December 2020

Tourism

Actual situation
• The touristic potential of Kosovo is connected with the geographical position of Kosovo. It is the in center of Balkan, is surrounded by mountains, and it has potential for winter tourism. • One of the most interesting opportunities for foreign investors in this sector, located between 1,700 and 2,500 meters above sea level is the ski resort Brezovica in the Sharr Mountains. It offers excellent weather and snow conditions, as well as long ski seasons from November to May. • Assets of Brezovica include three hotels with 680 rooms, two restaurants and nine ski lifts with the capacity to transport 10,000 skiers per hour. • Kosovo is generally rich with artificial lakes and rivers and offers possibilities for hunting and fishing. • Tourism is assumed to contribute directly to more than 1% to Kosovo's GDP and the industry employs more than 9,000 people, which comprises 3.5% of total employment, while the world average contribution of tourism to GDP is 3.3%.
Future prospective
• The resort is a possible destination for international tourists through short distance to Pristina Airport (60 km) and Skopje Airport (70 km), and has the potential to become the most preferable winter tourism destination in the Balkans. • Kosovo has the potential to develop cultural tourism with many religious and other sites with extraordinary cultural and historical value. • Thermal springs of Kosovo are well known in the region for their healing effects. This area offers great potential for development. Foreign investors in this field will find high demand in the regional and domestic market. • According to the World Tourism Organization, Europe receives 41% of the total international tourism receipts, making South East Europe one of the fastest growing regions. Tourism is ranked as the 6th highest source of exchange in international trade for developing countries. Kosovo could benefit particularly from being a part of Balkans tours.

Source: Kosovo Investment and Enterprise Support Agency, December 2020

Textile Industry

Actual situation
• With over 200 years of tradition textile industry was the second biggest sector in Kosovo. • Products from Kosovar manufacturers targeted the local market, Western and Eastern Europe markets and the United States market in the past. • During 1990, 15 socially owned enterprises had more than 1000 employees in textile production and sales totaled 35 mln Euro. • Recent developments in the region have stopped the trading links of the textile industry, implying lower production rates and resulting in a lack of competitiveness with foreign products. • There are over 450 private companies engaged in textile production and 90% of them are final product manufacturers. The majority of businesses are still small businesses. As a result, a major share of former SOE workers have become unnecessary. A minor part has established on private textile companies.
Future prospective

- Assuming that trading links with former partners can be re-established, estimations indicate that EUR 55 to 65 mln in exports could be reached,
- There is considerable scope in this sector for investors to recreate a vertically integrated manufacturing cluster so that Kosovo would once again produce finished clothing from thread.
- Kosovo offers three major benefits for investors who want to invest in the existing small owned enterprises.These are:
    - a) A cost effective, well skilled and experienced work force
    - b) A solid base of technology that can be acquired through the ongoing privatization process
    - c) Numerous subcontracting and outsourcing possibilities
- With cost effective labor force, the existing know-how, the friendly business and investment environment and other comparative advantages that the country offers, Kosovo has the potential to become highly competitive internationally.

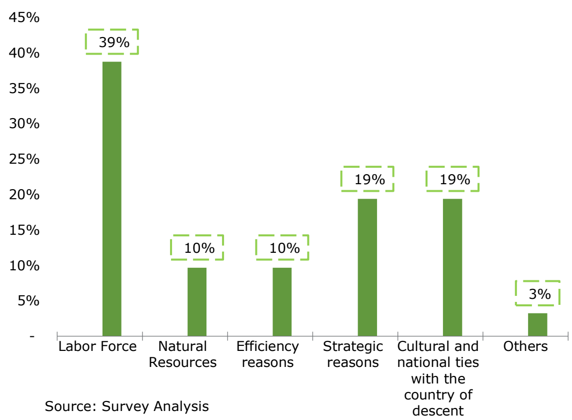
Source: Kosovo Investment and Enterprise Support Agency, December 2020

Survey results on opportunity and threats

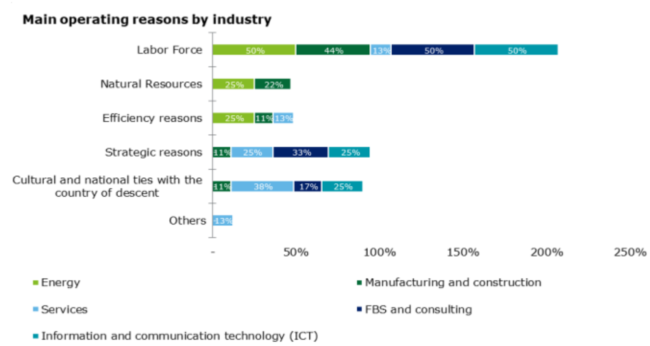
Main reasons for investing in Kosovo

As part of the research, the companies were asked through the survey regarding the main reasons of investing in Kosovo, where 39% of the respondents, showed the labor force as the main reason for investment in Kosovo, followed by strategic reasons and cultural ties.
From a sector point of view, labor force was the primary reason for investing in Kosovo for all the operating sectors (Energy, Manufacturing and Construction, FSI and ICT) besides Services, the majority of which have chosen cultural and national ties.

Reasons of investing in Kosovo



Source: Survey Analysis



Source: Survey Analysis

Benefits obtained during years active in Kosovo

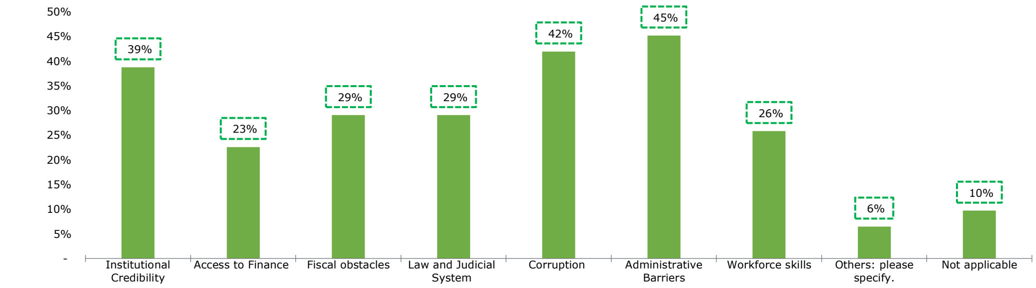
The survey indicated positive response to this question only in 55% of cases, while 45% of respondents indicated this factor as "Not applicable". However, in the limited pool of 17 respondents, the majority of respondents indicated to have benefited the most from taxation factors, followed by infrastructure benefits.

Obstacles faced during years active in Kosovo

Following survey results, 45% of the investors indicated "Administrative Barriers" (45%), as the main obstacle faced during their active years of investing in Kosovo, followed by "Corruption" (42%) and Institutional Credibility (39%).

Interestingly, companies with 1-4 years active in Kosovo market, have selected “Administrative Barriers” as their main faced obstacle, 5-10 years indicated “Fiscal Obstacles”, while companies with more than 10 years of presence in Kosovo market, have faced corruption as a main obstacle. (Please see Appendix 4 for more details).

Obstacles during active years of investing in Kosovo

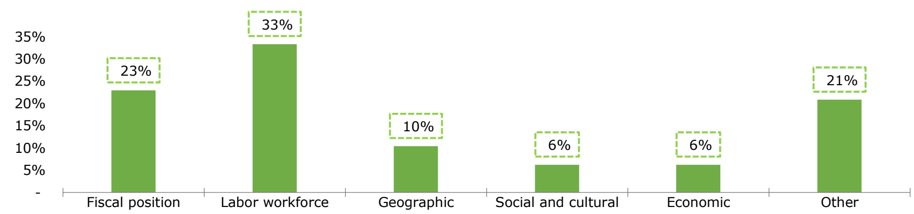


Source: Survey Analysis

Future expected opportunities in investing in Kosovo

As the survey results showed, 33% of the respondents declared the labor workforce as the main opportunity regarding the future expectations of investing in Kosovo, followed by fiscal factors with 23%.

Main opportunities regarding the future expectations of investing in Kosovo

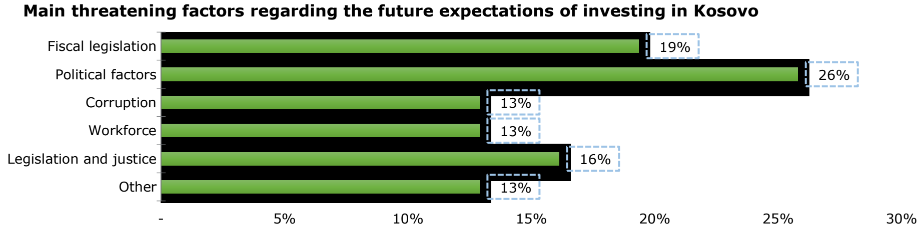


Source: Survey Analysis

Future expected threats in investing in Kosovo

According to survey results, the investors appear to be more threatened by political factors, followed by fiscal factors, when projecting their future of investing and being present in Kosovo market.
However, from a sector point of view, companies operating in the Energy sector have selected the political factor as the main threat for the future, while respondents operating in the FSI and ICT sector indicated legislation and justice factor.

Main threatening factors regarding the future expectations of investing in Kosovo



Source: Survey Analysis

BEST PRACTICES IN ATTRACTING FDI

The Organization for Economic Cooperation and Development (OECD) developed a framework of successful approaches and listed the following as indicators that influence a firm seeking to establish operations in a foreign country: (1) regional attributes, and (2) nondiscriminatory policies and few bureaucratic impediments. These two factors, coupled with a "stable macroeconomic environment," have been judged by academics as the conditions necessary to establish international relationships that lead to FDI [2].

Regional Attributes	R&D Capability	Entrepreneurial Culture	Workforce Characteristics
Regional characteristics provide important signals to firms looking to invest in an area. Studies have found that entrepreneurial ability and the quality of the social environment have a direct impact on where firms decide to invest. (Presutti et al., 2011)	A region's R&D strength is a major contributing factor influencing a firm's decision on where to locate operations. (Dunning, 1998, Chung and Alcacer, 2002)	Research suggests that there exists a strong and positive relationship between entrepreneurial activities and the rate of foreign investment. (Majocchi and Presutti, 2009)	Foreign firms are especially interested in regions with high levels of unemployment (Billington, 1999, Coughlin et al., 1991b). The pool of labour, and the host's desire to invest in an economically depressed area, signals to investors that the locale has potential for success.
FDI attraction policies	**Labour Quality**	**Foreign Trade Zones**	**Infrastructure Investments**
State intervention in the form of directed policy provides another method of attracting FDI (Cantwell, 1987). Open trade policy, which does not favor MNCs over local firms, tends to attract more FDI. (Mody, 2004, Balasubramanyam et al., 1996).	The availability of new knowledge and skilled labour has a direct relation to FDI. Firms are more likely to be drawn to areas having a well-developed workforce with sample opportunities for educational advancement. (Fitzgerald, 2002, Harrison, 1998, Lowe, 2007)	Foreign trade zones (FTZs) are commonly established to provide a supportive business environment for companies engaged in international trade. Companies can bypass customs payments on goods brought into the zone for various activities during the production cycle.	Well-developed physical infrastructure has been found to have a strong positive relationship to a foreign firm's decision to locate in a given area. Source: OECD

Source: OECD, 2017

Special Economic Zones (SEZ)[3]

The Western Balkan region is an attractive location for FDI due to its prospective EU membership, location, diverse economies, taxation, low labour costs and relatively educated population [4]. Despite these advantages, the inflow of FDI has been less than could be expected given its level of development and geographic closeness to EU markets.[5] Even though the investment attraction environment has improved over time, businesses still face high transaction costs, resolving insolvency, starting a business and enforcing contracts[6]. In response to this situation, some countries in the region have created special economic zones (SEZs) to provide a more hospitable environment for FDI. According to Bartlett et. al (2019), **Serbia and North Macedonia** particularly have both implemented policies to establish networks of SEZs that have attracted a relatively large amount of new FDI, mainly into the motorcar and components industries. Governments have used SEZ policies as an alternative to regional and local development policies based on smart specialization.

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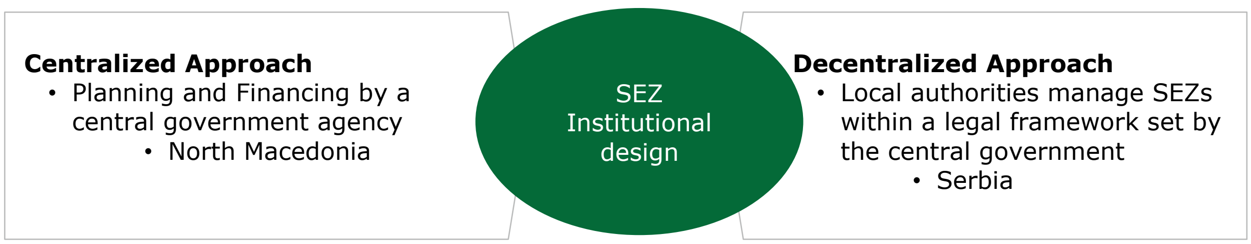
[2] (OECD, 2003, Billington, 1999).
[3] **Section adapted from**: Will Bartlett, Besnik Krasniqi and Jasmina Ahmetbašić Attracting FDI to the Western Balkans: Special Economic Zones and Smart Specialisation Strategies, Croatian Economic Survey : Vol. 21 : No. 2 : December 2019 : pp. 5-35 **and** OECD, Tracking Special Economic Zones in the Western Balkans: Objectives, Features and Key Challenges (2017)
[4] (Sanfey, Milatović, & Krešić, 2016).
[5] (Estrin & Uvalić, 2014).
[6] (Murgasova, Ilahi, Miniane, Scott, & Vladkova-Hollar, 2015)

Smart Specialization Strategies (S3)

Smart specialization is an integrated, place-based economic policy designed to shift resources into sectors with high economic potential [7]. It aims to upgrade the knowledge base and other complementary resources to support the integration of local production networks into global value chains[8]. The key focus is on identifying "smart" regional strategies that would enable specialization in areas that encourage complementarities with the productive capabilities of a region. From the perspective of smart specialization, the SEZs in the Western Balkans could be used as a device to build smart specialization strategies by helping the businesses in local economies to specialize in selected sectors supported by demand from the foreign companies based in the SEZs.

SEZ in the WB Region

Special Economic Zones (SEZs) in the WB have mainly been established as export processing zones within duty-free areas that provide infrastructure and facilities for manufacturing activities aimed at export markets.



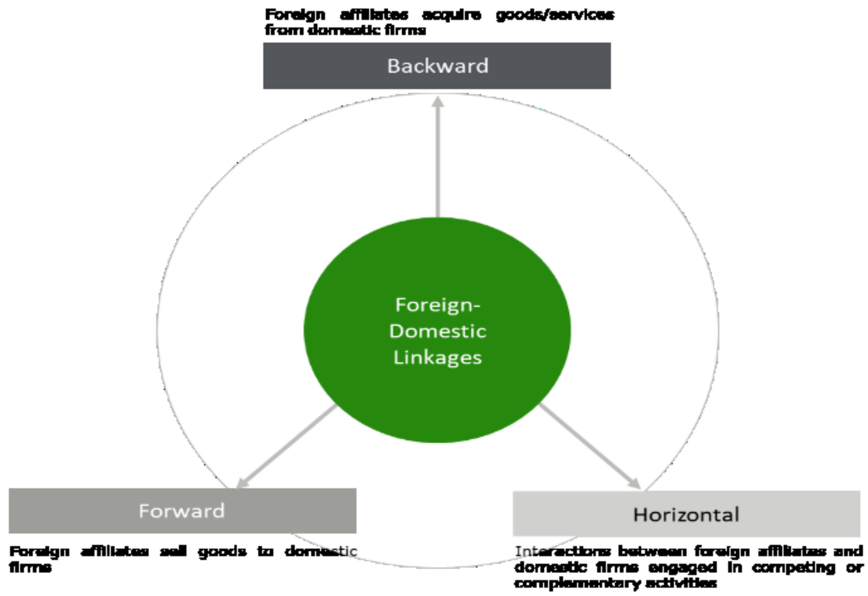
Source: Research article, "Attracting FDI to the Western Balkans: Special Economic Zones and Smart", December 2019

For instance, the establishment of SEZs in North Macedonia and Serbia has enabled foreign companies to sidestep the difficulties of dealing with poor infrastructure and unwieldy bureaucracies in the domestic markets and has become an important tool for attracting FDI. Investment in SEZs in the Western Balkans has been especially significant in the motorcar components industry [9]. In Serbia, particularly, the focus on motorcar components reflects the integration of Serbian SEZs into the EU and global value chains in this sector. Most SEZs specialize in the production of one or a few export products. The high degree of specialization can also be seen from the fact that only three product groups account for about two-thirds of exports from all SEZs in Serbia. The successful integration of local firms into global value chains requires broad support to the local business sector aimed at developing its production capacity[10].

Foreign- Domestic linkages[11]

Foreign direct investment (FDI) can enhance local SME development through linkages between foreign affiliates and domestic SMEs.

[7] (Foray et al., 2012).
[8] (Georghiou, Elvira Uyarra, Saliba Scerri, Castillo, & CassingenaHarper, 2014; Radosevic & Stancova, 2018).
[9] (Shimbov, Alguacil, & Suárez, 2016).
[10] (Farole & Akinci, 2011).
11 Section adapted from Bartlett et. al (2019), WorldBank and OECD publications.



Source: Research article, "Attracting FDI to the Western Balkans: Special Economic Zones and Smart", December 2019

Potential Benefits of Foreign-Domestic linkages

For affiliates of transnational corporations (TNCs)	• Lowered transaction costs. • Greater flexibility • Spurring local adaptations and fostering corporate social responsibility.
For local SMEs	• Increased local market opportunities • Upgraded Management skills • Benefits from new technology • Facilitated access to capital • Increased possibility for business internationalization
For the host economy	• Simulation of economic activity • Strengthening of domestic firms can lead to spillover effects. • Absorptive capacity determined by technological and managerial capabilities of existing domestic firms

Source: Research article, "Attracting FDI to the Western Balkans: Special Economic Zones and Smart", December 2019

Linkage-related benefits to domestic firms and the local economy are not automatic. The ability of a host country to fully benefit from linkage-related spillovers (i.e. the economy's "absorptive capacity") is determined to a great extent by the technological and managerial capabilities of existing domestic firms. When domestic firms are characterized by weaker capabilities, foreign affiliates often decide to use preferred foreign suppliers within or outside the host country.

Implementation challenges in WB

In **North Macedonia**, local businesses are only slowly developing their capacity to supply foreign companies based in SEZs. Most business services, such as legal services, are procured locally, but the supply of inputs to the production process is far less well-developed. However, although many SEZ-based companies would like to purchase more inputs directly from local suppliers, due to their cost and location advantages, such suppliers are mostly unable to provide the required quality and quantity of inputs.

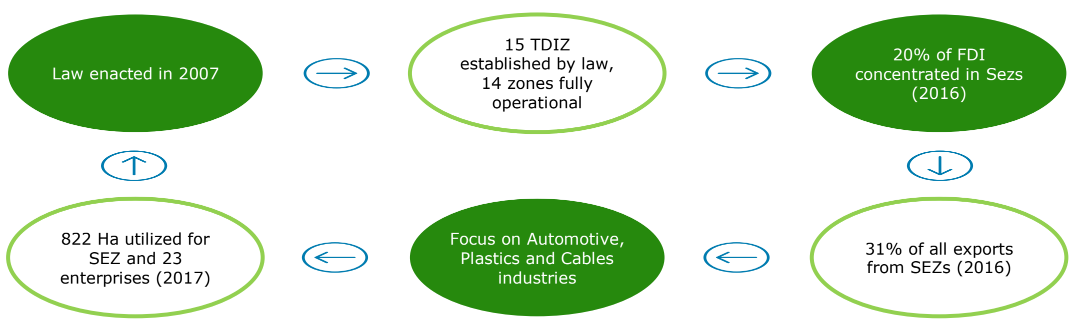
Some initiatives have been taken to try to boost the linkages between the SEZ companies and the local economies. In Ilinden municipality for example, in Skopje, the mayor established a "Forum for Business" to bring together local and foreign companies, schools, and the community. In response to the scarce availability of local suppliers, some foreign companies aim to develop the local supply chain themselves in order to meet their needs for reliable high-quality supplies from local sources.

In **Serbia**, in response to the limited local supply capacity, the Serbian Development Agency has made an effort to provide support for the development of local supply chains alongside support for SME exporters, clusters, networks, and quality standards.

Overcoming implementation challenges
Beyond the national level, in order to overcome the implementation challenges and obtain the full foreign-domestic benefits, the Western Balkan countries should work together to develop a regional smart specialisation strategy to replace existing national industrial policies based on employment subsidies. Although there will inevitably be competition between individual economies to attract FDI, there is a role for cooperation to increase the regional supply base. Smart specialisation strategies should aim to develop support programmes and packages that would link SMEs to SEZ-based foreign investors on a regional basis, prioritising measures to increase in labour productivity. [12]

SEZ Country Profiles

1. North Macedonia - Technological Industrial Development Zones (TIDZ)[13]
North Macedonia currently has 15 free economic zones in various stages of development throughout the country. The Directorate for Technological Industrial Development Zones (TIDZ) is responsible for establishing, developing, and supervising 14 of them, including seven fully operational TIDZ: Skopje 1 and 2, Prilep, Stip, Kicevo, Struga and Strumica. The Tetovo TIDZ is a public-private partnership.



Source: OECD 2017, Bartlett et. al 2019, UNCTAD 2019

[12] 12 Section adapted from Bartlett et. al (2019), OECD (2017)
13 OECD, UNCTAD, Bartlett et. Al 2019

Incentives considered in North Macedonia TIDZs:

Investment policy and competitiveness area	Incentives considered in North Macedonia
Business Environment benefits	• Business opportunities analysis: identification of project-specific location factors, cost analysis, identification of supplier base and • Detailed due diligence; • Aftercare: support with relevant tax and customs issues, assistance with acquiring visas/work permits, co-ordination and support in contacts with other state and local authorities. • Contacts with other state and local authorities. • Shortened administrative procedure for establishing a company, the procedure lasts 4 hours. • Linkages: university linkages, reference company linkages, recruitment agency linkages, and the organization of meetings with legal • Advisors and financial partners.
Fiscal Incentives	• Tax exemptions (personal income tax and corporate tax) for the first 10 years. • Exemptions from payment of value-added tax on goods, raw materials and equipment (18% elsewhere). • Exemptions from paying utility taxes to the local municipality or fees for land building permits. • The user of the zone, the tenants and the owners of the land in the technological industrial development zones are exempt from paying the fee for arranging the construction land (communal fee), in accordance with the provisions of the Law on Construction Land. The amount of this fee is determined by the municipality in which the TIDZ is located.
Trade Promotion	• Exemption on customs duties for goods, raw materials, equipment and machines (5-20% elsewhere). • Exemption from customs duties for equipment and spare parts used for zone activity (5-20% elsewhere); • Other customs exemptions and incentives determined by the Customs Law.
Infrastructure, administration and other incentives	• Land in economic zones under long-term lease for a period of up to 99 years at concessionary price; • Free connections to the natural gas (where available), water and sewage network; • A one-stop shop: design and infrastructure approvals, issuing building and operational permits, customs outpost in the zone, and • Zone infrastructure maintenance and upgrades; • Free connection to electricity and water supply infrastructure, in the zones, • The user of the zone that carries out production activity and activities in the field of information technology, scientific and research activity and production based on new technologies with high environmental standards is

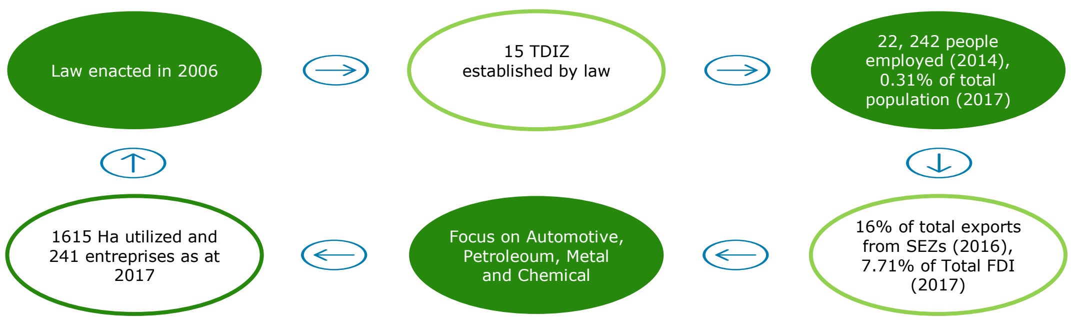
	exempted from the obligation to submit a guarantee as an instrument for securing the customs debt.

Financial Incentives	• Financial support is also awarded to business entities for:
	    • Purchasing tangible assets from business entity in distress;
	    • Increasing their competitiveness in the market,
	    • Conquering new markets and achieving sales growth;
	    • Growth of capital investments and revenues
	• Up to EUR 500 000 of the construction costs of users of economic zones depending on the number of the new employees and amount invested;
	• Subsidizing 50% of the eligible investment costs or of the salary costs for newly created jobs for a period of two years,
	• The Government of the Republic of North Macedonia can support the growth of capital investments and revenues by returning 10% of the investment costs in new machinery and equipment, or investments in buildings and land up to a maximum of EUR 1 mln over a period of 5 years.

Labour Environment	• Financial support for new employment • A financial aid between EUR 2k and EUR 4k is awarded to business entities for significant investments that create new job opportunities, for a period of 4 years, depending on the number of created jobs.
Other	• Support for investment projects of significant economic interest for the Republic of North Macedonia such as a return of 10% of investment costs in new machines and equipment, or investment in buildings and land up to a maximum of EUR 1m per annum, during a 5 year period.

2. Serbia – Free Zones [14]

Serbia maintains 15 designated customs-free zones: in Apatin, Belgrade, two zones in Kragujevac (the second one was established on October 1, 2019), Krusevac, Novi Sad, Pirot, Priboj, Sabac, Smederevo, Svilajnac, Subotica, Uzice, Vranje, and Zrenjanin. The zones, established under the 2006 Law on Free Zones, are intended to attract investment by providing tax-free areas for company operations. Businesses operating in the zones qualify for benefits including unlimited duty-free imports and exports, preferential customs treatment, and tax relief in the form of value-added tax (VAT) exclusions. Companies operating within a free zone are subject to the same laws and regulations as other businesses in Serbia, except for their tax privileges.
Number of people employed by SEZs according to OECD (2017) and Gulbis (2018)[15] was 0.31% of total population (0.86% of total employment) in 2017.



Source: OECD 2017 and Gulbis 2018

Types of incentives considered currently or in the past in Serbian SEZ Areas are as follows:

Investment policy and competitiveness area	Incentives considered in Serbia
Business Environment benefits	• One stop shop administration
Fiscal Incentives	• VAT exemption on the entry of goods into the free zone, as well as the provision of transport and other services in connection with the entry of goods. • VAT exemption on the supply of goods between the users of two free zones. • Local Government Incentives - exemption from certain local fees and taxes. • Investors who perform production activities in the zone are exempted from paying VAT on energy consumption. • For investors who employ more than 100 workers and invest more than 8.5 mln euros (1 billion RSD), tax exemption from corporate income tax for a period of 10 years is available.

[14] OECD, Bartlett et al 2019, UNCTAD
[15] GULBIS, 2018, FOREIGN DIRECT INVESTMENT AND SPECIAL ECONOMIC ZONES IN LATVIA, Baltic Journal of Real Estate Economics and Construction Management.

Trade Promotion	• Simple and fast customs procedures (each zone has a Customs Administration Office); • Exemption from payment of customs duties and other import duties for goods intended for carrying out activities and construction of facilities in the free zone. • Customs duties and VAT are not paid for the goods entering the zone no matter what type of imported goods or their purpose in the zone, including goods imported by the operator and users for the construction and maintenance of facilities, infrastructure and equipment in the zone, and for improving working conditions and development of zone. • The transfer of goods from the zone to the other parts of Serbia triggers customs duties and VAT and other possible import limitations, but customs duties are paid only on the foreign component. Import restrictions do not apply if the domestic component of the goods makes more than 50% of their value • Exports of goods and services from the zone and imports of goods and services into the zone shall be unrestricted and shall not be subject to quantitative restrictions. • Goods imported or exported from a free zone are treated as customs goods. • Control of goods is carried out by the customs authority, and zone users are obliged to ensure the implementation of customs controls as well as keeping proper records of goods. • Goods from the free zones which are released for free circulation on the territory of the Republic of Serbia, shall be subject to payment of customs duties and other import duties.
Infrastructure, administration and other incentives	• Local subsidies for using free zone infrastructure (community offers low prices and service cost); • A set of services is available to users under preferential terms (transportation, loading, reloading, freight forwarding services, insurance and banking services).

Financial Incentives	• Financial benefits (free movement of capital, profits and dividends).
	• Serbian Investment subsidies:
	    • Investment subsidies funded through the Serbian Development Agency (RAS) irrespective of SEZ location
	    • Subsidy is % of 24 months gross salaries, with % depending on level of municipal development
	    • Subsidy of % of investment cost depending on size of investment
	    • Additional subsidy depending on number of employees
	• Financial support by the Government of the Republic of Serbia for projects Brownfield and Greenfield in manufacturing and services sector.

- On the basis of the Regulation on the conditions and ways of attracting foreign investments, the following types of grants can be awarded:
  - Grants for justified expenses of gross earnings of 20-40% (depending on the level of development of the local government), or maximum amounts from 3.000 to 7.000 EUR for each new job position
  - Possibility to increase the amount of non-refundable funds in the amount of 10-30% of the amount of the eligible costs, depending on the level of development of the local government
  - Additional grant for work intensive projects of 10 - 20% of the amount of gross salary costs for opening 200 to 1000 new jobs positions,
  - The funds can be allocated for investment projects in the manufacturing sector, where the eligible costs for investing tangible and intangible assets amount to 100,000 Euros - 500,000 Euros, which enables an appropriate opening of 10-50 new jobs in the units of local government. The condition for obtaining the funds is that the direct investment is held on the same site for a period of at least 5 years for large company or for a period of at least 3 years for small and medium companies, and for the same period not to reduce the achieved number of employees.

3. Albania - Technological and Economic Development Areas (TEDA) [16]

Albania has no functional duty-free import zones, although legislation exists for their creation. The May 2015 amendments to the Law on the Establishment and Operation of TEDAs created the legal framework to establish TEDAs, defining the incentives for developers investing in the development of these zones and companies operating within the zone. The Ministry of Finance and Economy has announced two investment opportunities that seek private sector developers to obtain, develop, and operate fully serviced areas located in Koplik (61 hectares) and Spitalle (200 hectares).

The Government of Albania has taken significant steps towards Technological and Economic Development Areas (TEDA). The technology zone can be developed on private or state-owned land. The free zones are foreseen to be subject to exemptions from the customs taxes and from VAT of all the goods, raw materials and machines for developers, users. Additionally, based on the decision no. 647, dated 22.07.2015, for legal benefits for licensed developers of TEDA, The Ministry of Economy also approved the criteria procedures for obtaining fiscal facilities from developers and operators of the following areas of technology and economic development:

[16] OECD 2017, Albanian Investment Development Agency

Investment policy and competitiveness area	Incentives considered in Albania
Business Environment benefits	• Provision of various expedited government services; • Promotional support through AIDA and various different ministries.
Fiscal Incentives	• Developers/users are exempted from paying 50% of the tax on profit for the first 5 years. • To developers, within 3 years from the date of commencement of works, or to users within 3 years from the commencement of the business, is granted the right to deduct expenses of the tax period, in the amount of 20% of annual capital expenditure, for 2 years. • The constructions realized in the zone based on the project of the developer are exempted from the real estate tax for 5 years. • Developers/users are exempted from the tax on the transferring of the ownership title.
Trade Promotion	• The supply of Albanian goods/products destined to settle in the zone shall be considered with zero scale as to the export. • Goods that are brought into the free zone from another part of the customs territory and are not for transit in the free zone, benefit from the convenience of goods which are to be exported • Products shipped from one technology zone to another within the territory of the Republic of Albania are not subject to customs and/or tax duties.
Infrastructure, administration and other incentives	• The developer project is exempted from the infrastructure impact tax. • Infrastructure services, provided by the rest of the customs territory to developers/users within the free zone, benefit from services export facilities. • The package of non-tax incentives includes clean usage and long term lease rights; • Adequate infrastructure (water, power, communication, sewer and drainage facilities) to the borders of the TEDAs;
Labour Environment	• Salaries and social costs are 150% deductible for the first year, and new expenses for wages and social costs compared to the previous year are 150% deductible for the subsequent years and are considered as expenses at 150% of their value. • Employee training costs as well as research expenses are recognized as tax expenses and duly recognized at double the value for a 10-year period from the commencement of economic activity.

Kosovo Overview – Key FDI Environment Success factors

In 2014, Kosovo established three economic zones in the municipalities of Mitrovica/e, Gjakovë/Djakovica, and Prizren. Currently only the economic zone of Mitrovica/e has completed the legal and administrative procedures for building infrastructure. Three business parks and one business incubator are operational. Kosovo announced its intention to establish an American Special Economic Zone in January 2018, but operational details are still undetermined.

**For an overview of the Serbia and North Macedonia's, please refer to* Appendix 2.

Investment Environment

- Kosovo welcomes FDI. Kosovo's laws do not discriminate against foreign investors.
- Kosovo Investment Enterprise and Support Agency's (KIESA)'s mission is to promote and support foreign investments. The agency is tasked with offering a menu of services, including: assistance and advice on starting a business in Kosovo, assistance with applying for a site in a special economic zone or as a business incubator, facilitation of meetings with different state institutions, and participation in business-to-business meetings and conferences.

Business Environment

- Kosovo currently ranks 57 out of 190 economics surveyed and was recognized as one of the top 20 most improved economies in the world. Foreign firms operating in Kosovo are entitled to the same privileges and treatment as local businesses
- The government has taken steps to remove barriers to facilitate businesses' operations and improve related government services. As per the European Commission (EC), Kosovo has made limited progress and is at an early stage of developing a functioning market economy. Private sector development remains constrained by a widespread informal economy, a slow and inefficient judiciary, a high prevalence of corruption and the overall weak rule of law.
- Efforts are ongoing in Kosovo to update the legal framework in relation to road safety audits, inspections and safety management related to road transport. Kosovo's legal framework is partially aligned with the EU acquis on common rules for access to the international road haulage market.
- EC outlines that there was some progress on alignment with the EU acquis and on the increase of renewable energy investments. However, energy sector diversification is slow and Kosovo remains heavily reliant on coal.
- Kosovo's private banking sector remains well capitalized and profitable. Difficult economic conditions, weak contract enforcement, and a risk-averse posture have limited banks' lending activities, although marked improvement occurred in the past several years.

Trade

- Some progress over the past year was made in Kosovo in strengthening the administrative capacity of the Ministry of Trade, however efforts need to continue in view of Kosovo's international and regional trade commitments.
- In April 2020, the 100% tariffs on goods imports originating in Serbia and Bosnia and Herzegovina, which were in violation of the Central European Free Trade Agreement (CEFTA), were lifted and replaced by gradual trade reciprocity measures, which were subsequently abolished by the new government in June.
- The Customs agency has enacted an administrative instruction that reduces the number of documents required for export and import. Only two documents are needed to export (a commercial invoice and a customs export declaration) and only three are now required to import (a commercial invoice, a customs import declaration, and a certificate of origin).
- The Kosovo Customs and Excise Code is compliant with EU and World Customs Organization standards, and addresses topics such as bonded warehouses, inward and outward processing, transit of goods, and free-trade zones. The Customs Code permits the establishment of zones for manufacturing and export purposes, and the Law on Economic Zones regulates their establishment.

Intellectual Property Rights

- Kosovo according to EC exhibits some level of preparation in the area of IPR. Some progress was made by aligning the legal framework on IPR with the EU acquis, adopting a National Strategy to Strengthen the Copyright System and reducing the backlog of applications.
- However, the lack of cooperation between policy-making and enforcement institutions continues to hinder effective enforcement of intellectual property rights.

Labor Environment	• Emigration of skilled workers in Kosovo poses a significant challenge to medium-term economic prospects. Active labor market policies, pre-qualification schemes and vocational training programs remain inadequate to labor market needs. A number of structural obstacles, including high social transfers, creates disincentives to join formal employment. • According to EC, around 6% of GDP is allocated to social services, but only 0.5% of this amount is linked to poverty and reduction of unemployment. The bulk is spent on untargeted transfers for war veterans which undermines the soundness and fairness of the social benefits system and motivates other specific groups to request similarly generous allowances. • Relatively high public wages reduce the attractiveness of private-sector employment. The lack of childcare and elderly care facilities hinders female employment.

Source: OECD, Doing Business 2020, US Department of State, European Commission

Future Focus: Where should the government concentrate efforts?

Given the current's investment and business climate in Kosovo, and the need to improve investors perception on the country with regard to attracting future FDI, the "Group for Legal and Political Studies, 2017" [17] outline a set of recommendations and solutions that would further enhance Kosovo's performance.

Investment Environment	• Relevant institutions and agencies in Kosovo should raise awareness, promote Kosovo's investment climate abroad, and inform prospective foreign investors about human and natural resources and other investment potentials in Kosovo • Drafting a proper and sound government FDI-oriented strategy. • The process of reforming the investment climate must be accelerated in order to improve Kosovo's business environment, image of Kosovo to foreign investors, and overall ranking in the Doing Business Report.
Business Environment	• Kosovo needs to improve its current image; Political instability, corruption and unfair competition, improper implementation and weak law enforcement, lack of financial incentives and poor infrastructure, poor business climate, and high poverty rates are reported to be some of the obstacles deterring foreign investors from investing in Kosovo. • Given the current state of the investment climate in Kosovo, relevant institutions and agencies should dedicate their financial resources and institutional capacity towards creating an enabling business environment and infrastructure in order to successfully attract foreign direct investments • Increase the attractiveness of investing in core sectors, by offering well designed, innovative policies and regulations and modern infrastructure; • Focus on targeting specific types of FDI with greater potential for benefiting the country, especially in less developed regions.

[17] Group for Legal and Political Studies ,How 'friendly' is Kosovo for Foreign Direct Investments: A Policy Review of Gaps from a Regional Market Perspective, 2017

Fiscal Incentives	•	The government should consider enriching the fiscal incentive package by introducing other incentives such as tax holidays for investors, tax allowances and tax havens, or Export Processing Zones. This approach may affect tax revenues, at least initially, but could attract additional investments and an increase of revenue in the long-run.
Financial Incentives	•	Kosovo has based its FDI 'incentive' program only on investment protection agreements and some fiscal relief measures, and even those incentives are far less robust than those offered by the majority of SEE countries. As such, it would be recommended for Kosovo to introduce various financial incentives in the coming years in order to compete with neighboring countries and to gain competitive advantage in attracting FDI.
Smart Specialization Strategy	• • • •	It would be advisable for Kosovo to push forward several broad policy proposals, focusing on the already identified core sectors considered to have the greatest potentials to attract foreign investors, including a) Energy and mines; b) Agriculture and Farming; c) Construction; d) Textiles; and e) Tourism. To attract greater FDI in these sectors, the government should develop sound and innovative policies and regulations and infrastructure to increase the competitiveness and attractiveness of these core-targeted sectors. In addition, the government must increase its efforts to anticipate and respond to investors needs in these sectors and reduce obstacles in doing business and perceived risk. FDI should be promoted more selectively, focusing on activities, technologies and investors that could be particularly beneficial for the aforementioned core sectors.
Labour Environment	•	To increase the competitiveness of the labour force, Kosovo needs to improve the quality of education and provision of skills needed for sectors with large potential for investment.

*For the latest (2020) European Commission recommendations on Kosovo, please refer to the Appendix 3.

Appendix 1

Data used in regression analysis (Kosovo)

Year	FDI Stock (USD mln)	GVA (USD mln)	GDP per Capita (USD)	Average Wage (USD)	Employment Rate
2010	2,620	3,581	2,471	280	*55%*
2011	3,010	3,845	2,692	309	*55%*
2012	3,331	4,068	2,788	338	*69%*
2013	3,914	4,359	2,926	349	*70%*
2014	3,595	4,519	3,068	352	*65%*
2015	3,543	4,734	3,246	354	*67%*
2016	3,590	4,859	3,405	359	*73%*
2017	4,220	5,082	3,580	359	*70%*
2018	4,227	5,373	3,746	378	*70%*
2019	4,459		3,944	370	*74%*

Source: Central Bank of Kosovo, ASK, World Bank, December 2020

Data used in regression analysis (Albania)

Year	FDI Stock (USD mln)	GVA (USD mln)	GDP per Capita (USD)	Average Wage (USD)	Employment Rate
1993	78.0		2,057.0	30.2	*53.5%*
1994	131.0		2,289.3	50.5	*52.9%*
1995	201.0		2,665.1	69.1	*52.0%*
1996	291.0	2,993.5	2,979.4	82.7	*51.7%*
1997	339.0	2,077.1	2,716.7	60.8	*52.3%*
1998	384.0	2,243.7	3,021.0	72.3	*52.1%*
1999	425.0	2,868.1	3,471.7	88.0	*51.6%*
2000	568.0	3,070.2	3,862.3	92.9	*51.4%*
2001	800.0	3,506.1	4,301.4	103.3	*50.9%*
2002	807.0	3,865.8	4,661.4	118.0	*50.5%*
2003	814.2	4,935.0	4,994.6	152.0	*49.6%*
2004	821.5	6,307.0	5,422.8	185.2	*48.8%*
2005	828.8	7,044.1	5,865.3	200.2	*48.0%*
2006	836.5	7,698.7	6,558.6	222.6	*47.4%*
2007	1,232.1	9,303.5	7,275.8	302.4	*46.9%*
2008	1,387.8	11,167.8	8,228.3	408.6	*47.9%*
2009	1,626.6	10,421.3	8,821.5	379.8	*47.1%*
2010	2,005.3	10,366.7	9,635.2	334.7	*46.6%*
2011	2,184.2	11,210.8	10,207.8	361.3	*47.6%*
2012	3,017.8	10,673.9	10,526.3	348.6	*48.4%*
2013	3,092.8	11,145.1	10,571.0	350.1	*44.0%*
2014	3,431.2	11,545.7	11,259.2	431.7	*43.7%*
2015	4,488.0	10,000.9	11,662.0	380.3	*45.6%*
2016	5,114.7	10,401.0	12,002.9	382.8	*47.1%*
2017	5,713.4	11,372.7	13,037.0	411.1	*48.2%*
2018	6,318.0	13,248.3	13,834.0	468.5	*49.0%*
2019	7,274.6	13,334.0	14,496.1	476.8	*48.9%*

Source: Bank of Albania, World Bank, OECD, UNECE, Research Article "Foreign Direct Investments (FDI) and Productivity in Albania (Arber Demeti, Erjona Rebi), December 2020

*Data on FDI Stock for the period 2002-2005, were missing so we used extrapolated data between 2001and 2006 data.

Linear Regression summary performed on R Programming (Kosovo)

FDI impact on GVA

```
lm(formula = GVA ~ FDI, data = ent.data)

Residuals:
    Min      1Q  Median      3Q     Max 
-484.96  -94.97   -6.35  215.81  339.10 

Coefficients:
            Estimate Std. Error t value Pr(>|t|)    
(Intercept) 928.9167   651.7605   1.425 0.197114    
FDI           1.0004     0.1812   5.519 0.000888 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 271.7 on 7 degrees of freedom
  (1 observation deleted due to missingness)
Multiple R-squared:  0.8131,  Adjusted R-squared:  0.7865 
F-statistic: 30.46 on 1 and 7 DF,  p-value: 0.0008882

> coefficients(reg_model)
(Intercept)         FDI 
 928.916727    1.000351 
```

FDI impact on GDP per Capita

```
lm(formula = GDPperCapita ~ FDI, data = ent.data)

Residuals:
    Min      1Q  Median      3Q     Max 
-460.78  -66.93   30.09  136.33  265.03 

Coefficients:
            Estimate Std. Error t value Pr(>|t|)    
(Intercept) 412.3716   462.9184   0.891 0.399029    
FDI           0.7599     0.1254   6.059 0.000303 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 216.2 on 8 degrees of freedom
Multiple R-squared:  0.8211,  Adjusted R-squared:  0.7987 
F-statistic: 36.72 on 1 and 8 DF,  p-value: 0.0003027

> coefficients(reg_model)
(Intercept)         FDI 
412.3716492   0.7598889 
```

FDI impact on Average wage

```
lm(formula = Av.wages ~ FDI.stock.USD.mln, data = ent.data)

Residuals:
    Min      1Q  Median      3Q     Max 
```

```
-16.820 -11.227   0.208   9.373  17.034

Coefficients:
                 Estimate Std. Error t value Pr(>|t|)
(Intercept)      1.749e+02  2.815e+01   6.212 0.000256 ***
FDI.stock.USD.mln 4.654e-02  7.626e-03   6.103 0.000289 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 13.15 on 8 degrees of freedom
Multiple R-squared:  0.8232,  Adjusted R-squared:  0.8011
F-statistic: 37.24 on 1 and 8 DF,  p-value: 0.0002886

> coefficients(reg_model)
      (Intercept) FDI.stock.USD.mln
     174.87921996        0.04654216
```

FDI impact on Employment rate

```
lm(formula = Employment.rate ~ FDI.stock.USD.mln, data = ent.data)

Residuals:
      Min        1Q    Median        3Q       Max
-0.056305 -0.019845 -0.009648  0.012975  0.064329

Coefficients:
                 Estimate Std. Error t value Pr(>|t|)
(Intercept)      2.994e-01  8.482e-02   3.530  0.00773 **
FDI.stock.USD.mln 1.006e-04  2.298e-05   4.379  0.00235 **
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.03962 on 8 degrees of freedom
Multiple R-squared:  0.7057,  Adjusted R-squared:  0.6689
F-statistic: 19.18 on 1 and 8 DF,  p-value: 0.002351

> coefficients(reg_model)
      (Intercept) FDI.stock.USD.mln
     0.2994014083      0.0001006323
```

Linear Regression summary performed on R Programming (Albania)

FDI impact on Average wage

```
Call:
lm(formula = Average.wages. ~ FDI, data = ent.data)

Residuals:
   Min      1Q Median      3Q     Max
-95.51 -63.36 -36.88  47.38 203.19

Coefficients:
            Estimate Std. Error t value Pr(>|t|)
```

```
(Intercept) 1.210e+02  2.285e+01   5.294 1.74e-05 ***
FDI         6.085e-02  7.968e-03   7.636 5.43e-08 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 84.77 on 25 degrees of freedom
  (1 observation deleted due to missingness)
Multiple R-squared:  0.6999,  Adjusted R-squared:  0.6879
F-statistic: 58.32 on 1 and 25 DF,  p-value: 5.427e-08

> coefficients(reg_model)
 (Intercept)          FDI
120.96801808   0.06084468
```

FDI impact on GDP per Capita

```
Call:
lm(formula = GDP.per.Capita.USD. ~ FDI, data = ent.data)

Residuals:
    Min      1Q  Median      3Q     Max
-2076.1 -1157.2  -493.7  1375.5  2621.5

Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept) 3730.5782   401.9580   9.281 1.41e-09 ***
FDI            1.7653     0.1402  12.594 2.53e-12 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1491 on 25 degrees of freedom
Multiple R-squared:  0.8638,  Adjusted R-squared:  0.8584
F-statistic: 158.6 on 1 and 25 DF,  p-value: 2.532e-12

> coefficients(reg_model)
(Intercept)         FDI
3730.578181    1.765284
```

FDI impact on GVA

```
Call:
lm(formula = GVA ~ FDI, data = ent.data)

Residuals:
    Min      1Q  Median      3Q     Max
-3163.9 -2075.9  -743.9  1922.4  4433.6

Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept) 4758.3506   731.9852   6.501 1.54e-06 ***
FDI            1.4238     0.2407   5.915 5.94e-06 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 2423 on 22 degrees of freedom
Multiple R-squared:  0.614,   Adjusted R-squared:  0.5964
F-statistic: 34.99 on 1 and 22 DF,  p-value: 5.938e-06
```

```
> coefficients(reg_model)
(Intercept)         FDI
4758.350625    1.423772
```

FDI impact on Employment rate

```
Call:
lm(formula = Employment ~ FDI, data = ent.data)

Residuals:
     Min       1Q   Median       3Q      Max
-0.04392 -0.01774  0.00083  0.01727  0.03313

Coefficients:
              Estimate Std. Error t value Pr(>|t|)
(Intercept)  5.035e-01  6.193e-03  81.301  < 2e-16 ***
FDI         -6.597e-06  2.159e-06  -3.055  0.00529 **
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.02297 on 25 degrees of freedom
Multiple R-squared:  0.2718,  Adjusted R-squared:  0.2427
F-statistic: 9.333 on 1 and 25 DF,  p-value: 0.005288

> coefficients(reg_model)
  (Intercept)           FDI
 5.034627e-01 -6.597213e-06
```

Appendix 2: Countries overview of FDI attraction successful indicators

1. Serbia[18]

Investment Environment

- Serbia is open to FDI, and attracting FDI is a priority for the government. The Law on Investments extends national treatment to and eliminates discriminatory practices against foreign investors
- The Government's investment promotion authority is the Development Agency of Serbia (Razvojna agencija Srbije). RAS serves as a one-stop-shop for both domestic and international companies.

Business Environment

- According to the World Bank's 2020 Doing Business Index, it takes seven procedures and seven days to establish a foreign-owned limited liability company in Serbia. This is fewer days but more procedures than the average for Europe and Central Asia.
- Serbia welcomes both domestic and foreign portfolio investments and regulates them efficiently. The Government removed restrictions on short-term portfolio investments April 2018.
- The NBS regulates the banking sector. Foreign banks are allowed to establish operations in Serbia, and foreigners can freely open both local currency and hard currency non-resident account

Trade

- Serbia is a member of the Central European Free Trade Agreement and signed a free-trade agreement with the Eurasian Economic Union (EAEU – Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) on October 25, 2019.
- Serbia is not a member of the World Trade Organization or the EU. Serbia obtained EU candidate country status in 2012 and opened formal accession negotiations. The WTO accepted Serbia's application for accession on February 15, 2005, and Serbia currently has observer status. No accession dates have been set for Serbia's membership in either the EU or WTO.
- Serbia enjoys duty-free treatment of certain exports to the United States under the Generalized System of Preferences (GSP), valid until December 31, 2020, and has Most Favored Nation status on exports of other goods.

Intellectual Property Rights

- Serbia is a member of the World Intellectual Property Organization (WIPO) and party to all major WIPO treaties.
- For the most part, Serbia's IPR legislation is modern and compliant with both the EU acquis communautaire and international standards. According to the EU's 2019 Progress Report, Serbia has generally aligned its IPR legislation with the acquis.
- Procedures for registration of industrial property rights and deposit of works and authorship with the Serbian Intellectual Property Office are straightforward and similar to procedures in most European countries.
- Enforcement of IPR remains haphazard but is roughly consistent with levels in neighboring countries. The government has a Permanent Coordination Body for IPR enforcement activities with participation from the tax administration, police, customs, and several state inspection services.

Labour Environment

- According to the Statistical Office, Serbia has a total active labour force of approximately 3.2 mln people, of which 2.9 mln are employed (55.7 percent men and 44.3 percent women) and 335,900 are unemployed. In 2019, the formal employment rate was 49 percent, and the informal employment rate was 18.2 percent, with two-thirds of the total informally employed in the agriculture sector. Unemployment in 2019 averaged 10.4 percent, compared to 12.7 percent a year earlier. Youth unemployment remains relatively high at 27.5 percent.
- Emigration of younger high-skilled working-age citizens is a serious concern, and the share of youth in the total population drops from year to year. The role of foreign or migrant workers is extremely limited.
- The leading sector for employment is manufacturing, followed by government and public administration, agriculture and forestry and fishery, trade, transport, construction, and hospitality services.

[18] US department of State, various research publications.

2. North Macedonia[19]

Investment Environment

- Attracting FDI is one of the government's main pillars for economic growth and job creation.
- There is no single law regulating foreign investments, nor a "one-stop-shop" website that provides all relevant laws, rules, procedures, and reporting requirements for investors. Rather, the legal framework is comprised of several laws including: the Trade Companies Law; the Securities Law; the Profit Tax Law; the Customs Law; the Value Added Tax (VAT) Law; the Law on Trade; the Law on Acquiring Shareholding Companies; the Foreign Exchange Operations Law; the Payment Operations Law; the Law on Foreign Loan Relations; the Law on Privatization of State-owned Capital; the Law on Investment Funds; the Banking Law; the Labour Law; the Law on Financial Discipline, the Law on Financial Support of Investments, and the Law on Technological Industrial Development Zones (free economic zones)

Business Environment

- The 2020 World Bank Doing Business Report ranked North Macedonia the 17th best place in the world for doing business, down seven spots from the previous year.
- North Macedonia is a signatory to multilateral conventions protecting foreign investors and is party to a number of bilateral investment protection treaties. The country's overall regulatory environment remains complex and frequent regulatory and legislative changes, coupled with inconsistent interpretation of the rules, create an unpredictable business environment conducive to corruption.
- All legal entities in the country must register with the Central Registry of the Republic of North Macedonia (Central Registry. There is a one-stop-shop system that enables investors to register their businesses within a day by visiting one office, obtaining the information from a single place, and addressing one employee.

Trade

- North Macedonia is a signatory of three multilateral Free Trade Agreements: the Stabilization and Association Agreement (SAA) with EU member-states, giving North Macedonia duty-free access to 650 mln consumers; the European Free Trade Agreement (EFTA) with Switzerland, Norway, Iceland, and Liechtenstein; and the Central European Free Trade Agreement (CEFTA) with Albania, Bosnia and Herzegovina, Moldova, Montenegro, Serbia, and Kosovo. Bilateral Free Trade Agreements are in force with Turkey and Ukraine.
- North Macedonia is not a part of any regional economic bloc. As a candidate country for accession to the EU, it is gradually harmonizing its legal and regulatory system with EU standards.
- As a member of the WTO, North Macedonia regularly notifies the WTO Committee on Technical Barriers to Trade of proposed amendments to technical regulations concerning trade. North Macedonia ratified the Trade Facilitation Agreement (TFA) in July 2015

Intellectual Property Rights

- Responsibility for safeguarding intellectual property rights (IPR) is distributed among numerous institutions.
- As North Macedonia begins to open EU accession negotiations, it will need to harmonize its IPR laws and regulations with EU standards and demonstrate adequate enforcement of those laws.
- The European Commission's 2019 report on North Macedonia confirmed the country's legislative framework was sufficiently aligned with the EU acquis and acknowledged some progress had been made to raise awareness about the threats of counterfeit goods to health, but noted a need for further improvement of North Macedonia's royalty fee collection system. The report recommended North Macedonia increase its efforts in the following areas: to investigate and prosecute IPR infringement, particularly in the area of industrial property and misuse of trademarks; improve its legal framework on copyright and related rights; and improve coordination among law enforcement institutions by establishing an information platform to exchange IPR-related data.
- While North Macedonia has many laws in place to protect IPR, infringement is frequent and the court system should be improved.

[19] U.S Department of State, European Commission, various research publications.

Appendix 3

European Commission recommendations on Kosovo

The European Commission by means of the commission staff working document, country report: "Kosovo 2020 Report" provides an overview of various political, economic, legal and other development factors for the country as well as recommendations for the gaps and areas in need of improvement.

With reference to the factors considered as important for successful attraction of FDI, as per EC, Kosovo should consider the following recommendations:

Economic and labour environment	• Ensure fiscal space to support post-crisis recovery, by containing the Wage bill and respecting the cap on war veteran spending; • Improve financial oversight and accountability of state-owned enterprises; • Implement relevant business environment measures, in particular the simplification, merging and abolishment of licenses and permits; • Implement active labour market measures to support employment, increase labour force participation and motivate workers to join formal employment
Intellectual Property Rights	• Take concrete steps to increase the capacity and coordination of policy-making institutions and law enforcement agencies to enforce intellectual, industrial and commercial property rights and further align with the EU acquis; • Take adequate measures to fight counterfeit goods and digital piracy; • Raise awareness of the protection of industrial property rights.
Trade agreements	• Develop a trade policy to address Kosovo's growing trade deficit on goods and to expand trade on services; • Ratify and implement CEFTA Additional Protocol 5 on trade facilitation, ratify and implement Additional Protocol 6 on trade in services and appoint a negotiator and adopt a mandate for the negotiation of Additional Protocol 7 on dispute settlement. • Implement other commitments under the multi-annual action plan for the development of a regional economic area (REA).
Energy	• Finalize the environmental upgrade of Kosovo B thermal power plant and prepare for decommissioning works of the Kosovo A thermal power plant; • Operationalize the Energy Efficiency Fund and start implementing energy efficiency projects in municipalities. Introduce energy efficiency incentives in residential and private sectors; • Update Kosovo's energy strategy with a main focus on renewables, energy efficiency and decarbonisation targets. Take measures to enable a cost-effective deployment of renewable energy and introduce renewable energy auctions; • Adopt a plan for the gradual adjustment of energy tariffs, reflecting expected increases in costs, and including mitigation measures for vulnerable consumers.

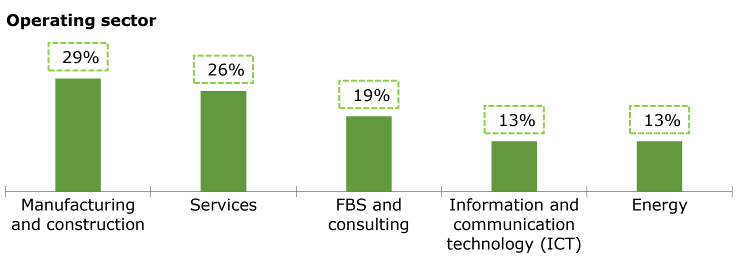
Appendix 4

Data analysis and results of the survey

The survey was distributed to 161 businesses out of which only 31 have been completed by the targeted companies. The survey aimed at targeting companies that have some form of foreign participation and operate in various sectors of activity. The questionnaire contains 22 questions, which will be analyzed below. The current operating status of those who responded resulted: 97% active and 3% (only 1 out of 31 respondents) reported as permanently shut down (withdraw the business activity from the country). The overall operating period of the respondents was between 1-10 years.

Sector and geographic operation

The data of the survey revealed that 29% of the surveyed operate in manufacturing and construction industry and have invested capital in other countries other than Kosovo such as Sweden, North Macedonia, Germany, Croatia, Poland, Switzerland, Germany and France. 26% of the companies surveyed, operate in services industry and invested capital in Albania and North Macedonia. 19% operate in Finance banking and consulting services (finance industry and consulting services) and have invested capital in Austria, Italy, Albania, Serbia and Bulgaria. 13% operate in information and communication technology sector, while the rest in energy sector with an operating activity in other countries such as Abu Dhabi, Albania, France, Bulgaria and Netherlands.



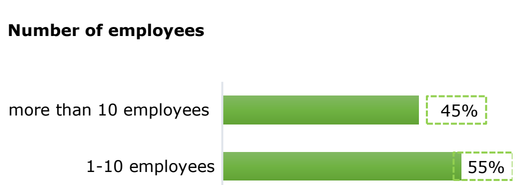
Source: Survey Analysis

Number of employees

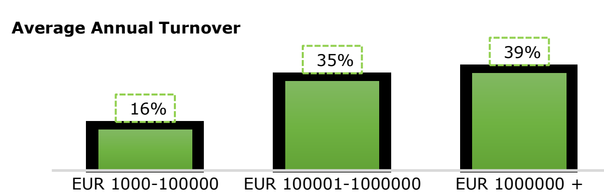
Related to the size in terms of employees, 55% of the respondents have a total staff of 1-10 employees and the remaining 45% of them indicated more than 10 employees.

Turnover – Company Size

Related to the size in terms of turnover (average of the last three operating years), 39% of the businesses have generated more than 1,000,000 euro, 35% indicated an average turnover of 100,000-1,000,000 euro and the rest of 16% have generated a revenue between 1,000-100,000 euro.



Source: Survey Analysis

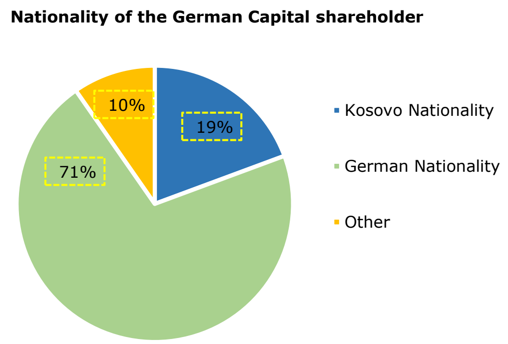


Source: Survey Analysis

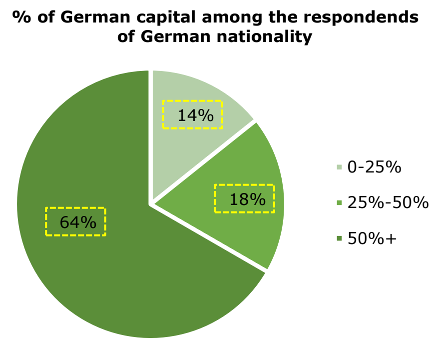
Nationality of the shareholder

As shown in the graphs below, according to the data of the survey, 71% of the respondents have German capital shareholder (nationality), 19% have Kosovo nationality.

Out of which, among the businesses of German nationality, 64% showed that they have more than 50% of German capital invested (majority share), 18% have an invested German capital between 25% to 50%.



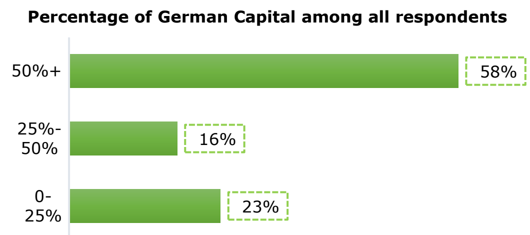
Source: Survey Analysis



Source: Survey Analysis

Country of origin of capital invested

From the pool of 31 respondents, of all nationality, 58% indicated that the German capital invested made up more than 50%.

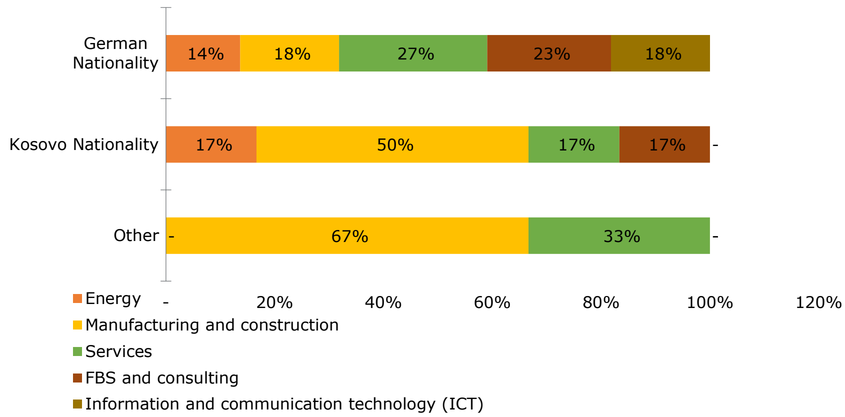


Source: Survey Analysis

Country of origin and sector of investment

As shown in the graph below, among the respondents of Kosovo nationality, the survey revealed that 50% operate in manufacturing and construction industry, while the rest in the energy, services and information technology sector.
On the other hand, among the German nationality respondents, 27% operate in services industry, following by 23% in financial, banking and consulting services.
The other respondents (3 out of 31) indicated manufacturing and construction and services as the main operating industries.

Main operating industry by nationality of German capital shareholder

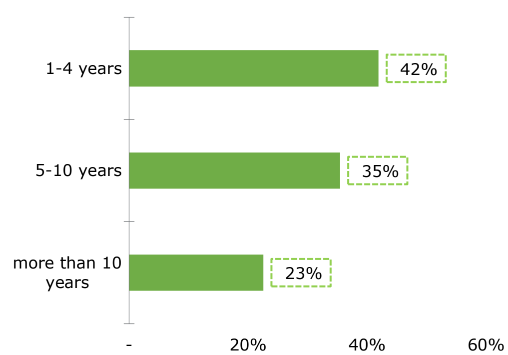


Source: Survey Analysis

Years of operating activity

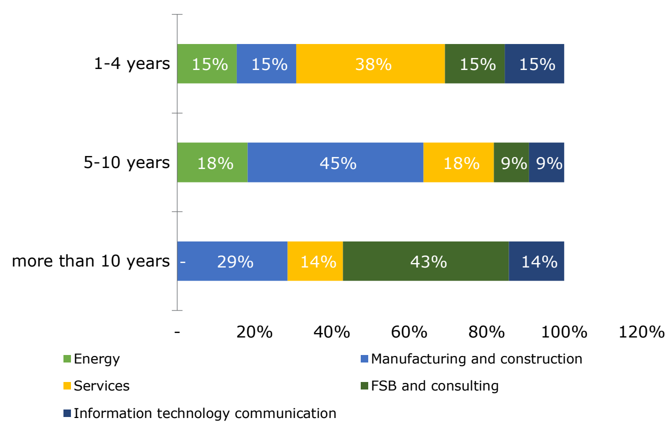
The survey revealed that 42% of the companies had 1-4 years of operating activity in Kosovo, and service sector makes up the largest portion 38% of the newly new companies (1-4 years). 35% of the respondents have 5-10 years of operating active, and manufacturing and construction sector makes the majority of this target companies. The remaining 23% had more than 10 years of investing in Kosovo, focusing mainly in FSI sector (43%).

Years active in Kosovo



Source: Survey Analysis

Years active by industries

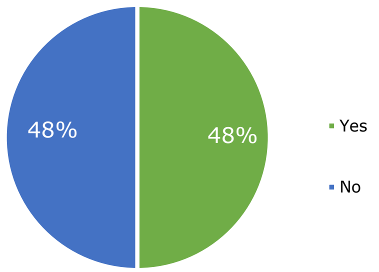


Source: Survey Analysis

Activity in Germany

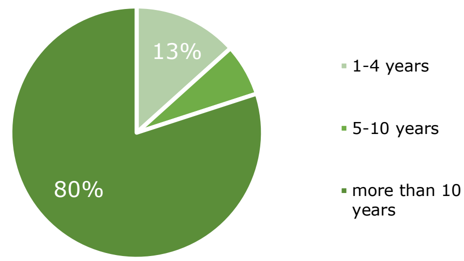
According to the data of the survey, 48% of the responders possessed a business (or business family) in Germany from which most of them (80%) had more than 10 years active of operating, mainly in manufacturing and construction industry (53%) followed by services industry (23%).

Possessing a business activity in Germany



Source: Survey Analysis

Years active for businesses that possess activity in Germany

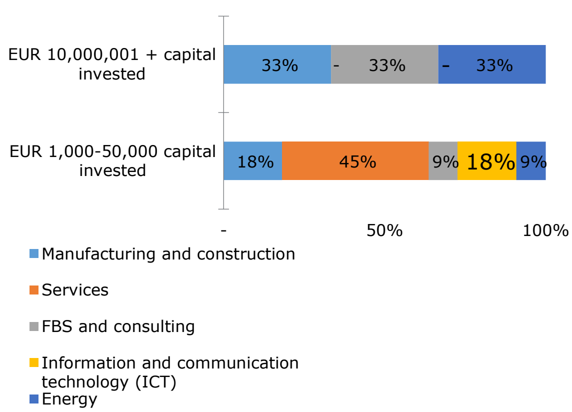


Source: Survey Analysis

Invested Capital, Number of Employees and Sectors of Activity

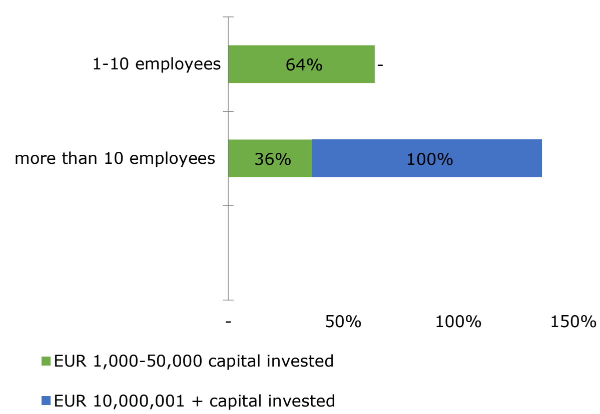
The viewpoints about the total capital invested in Kosovo according to the survey seemed to be linked by a noticeable factor such as the industry where companies operate and the number of employees. As per the survey it was revealed that businesses which have invested a small number of capital, specifically 1,000-50,000 euro, mainly operate in services industry where 64% of them have 1-10 employees. From the other hand, businesses that have invested more capital in Kosovo (more than 10,000,000 EUR), mainly operate in manufacturing and construction, energy and finance, bank and consulting industry, and also operate by a greater number of employees.

Main operating industry by invested capital



Source: Survey Analysis

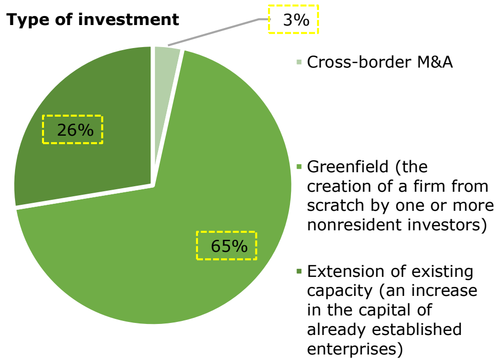
Number of employees by invested capital



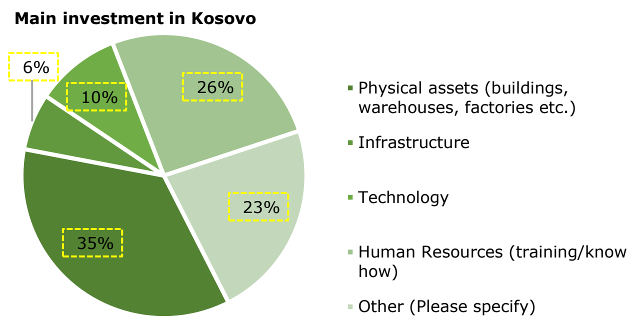
Source: Survey Analysis

Type of investment

Regarding the type of investment, 65% have defined their investment type as greenfield (the creation of a firm from scratch by one or more nonresident investors), 26% as an extension of existing capacity (an increase in the capital of already established enterprises) and the rest of 3% as cross border M&A. Regarding the main investment in Kosovo, 35% of the respondents declared the main investment in physical assets such as buildings, warehouses, factories, 26% in human resources, 10% in technology, only 6% in infrastructure and the rest in other areas.



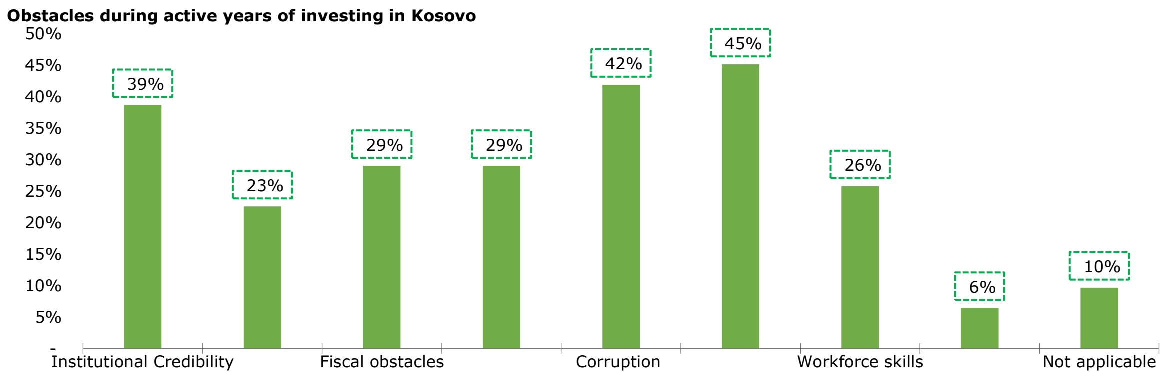
Source: Survey Analysis



Source: Survey Analysis

Obstacles during active years of investing in Kosovo

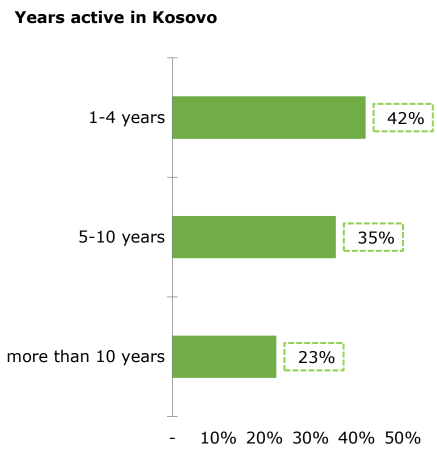
According to the data of the survey, 45% of the companies surveyed indicated administrative barriers as the main faced obstacle, 42% showed corruption, followed by institutional credibility by 39% and other factors shown in the graph below.



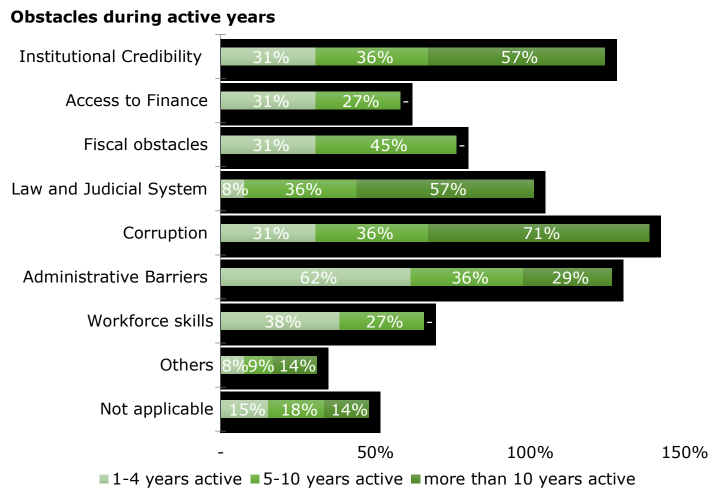
Source: Survey Analysis

Obstacles per years of operating activity

From the active years point of view, it was shown that 42% of the respondents declared 1-4 years active operating in Kosovo from which 62% described the administrative barrier as the biggest obstacle. Meanwhile, 35% of the businesses claimed 5-10 years active in Kosovo from which 45% found the fiscal obstacles as the biggest problem to deal with. The rest of 23% claimed more than 10 years active in Kosovo where 71% found the corruption as the biggest obstacle during their operating years.



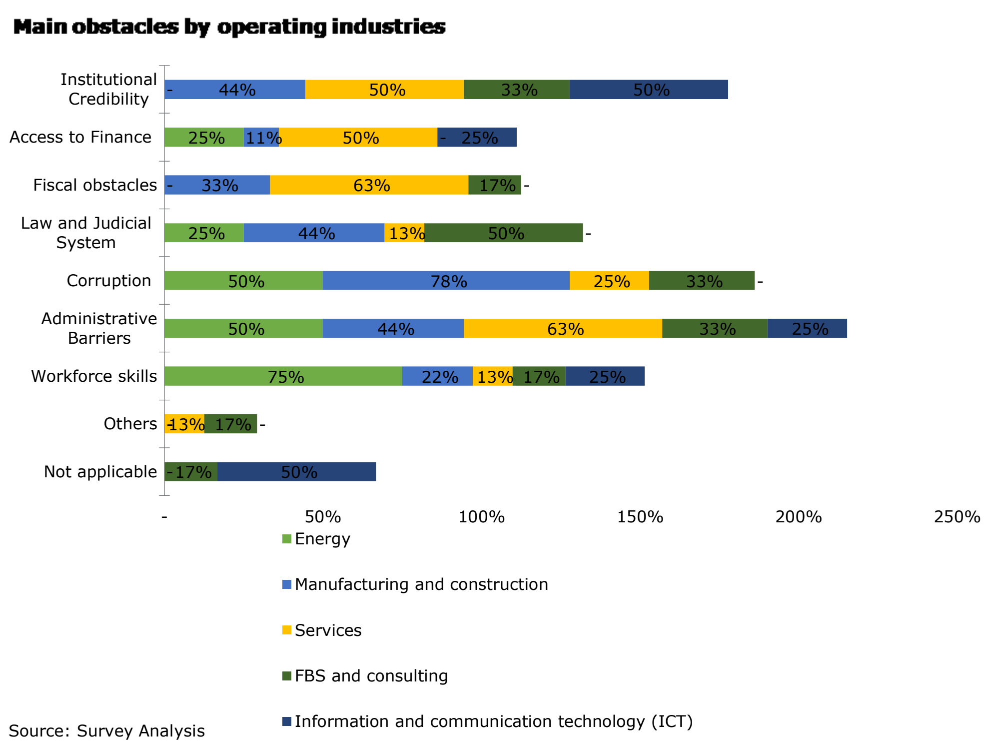
Source: Survey Analysis



Source: Survey Analysis

Main obstacles by operating industries

Each industry faced with different obstacles during their active years of operating in Kosovo. The results of the survey indicated that the majority of businesses which operate in energy industry found workforce skills as the main faced obstacle, in manufacturing and construction industry 78% found corruption, in services industry 63% found fiscal obstacles while for finance, banking and consulting 50% found law and judicial system as the main obstacle. In information technology industry, 50% indicated institutional credibility as the main obstacle.

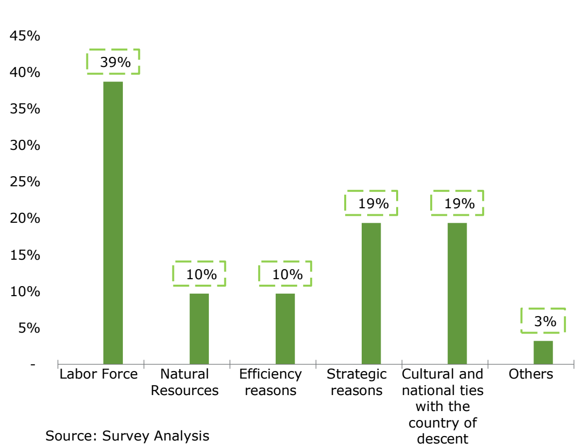


Source: Survey Analysis

Reason for investing in Kosovo

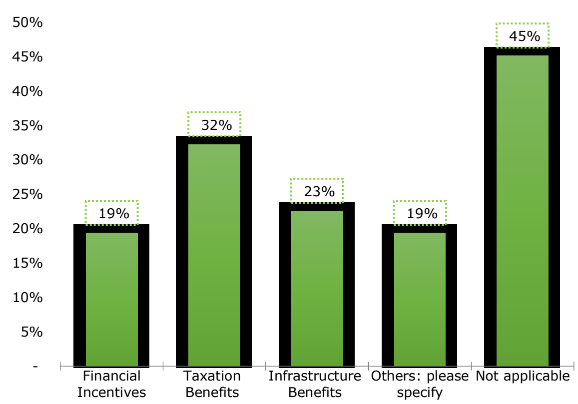
From the other point of view, the survey showed that 39% of the respondents declared the labor force as the main reason for investing in Kosovo. Regarding the benefits of investing in Kosovo, 45% of respondents indicated this factor as "Not applicable". However, in the limited pool of 17 respondents, most respondents indicated to have benefited the most from taxation factors, followed by infrastructure benefits.

Reasons of investing in Kosovo



Source: Survey Analysis

Benefits for investing in Kosovo

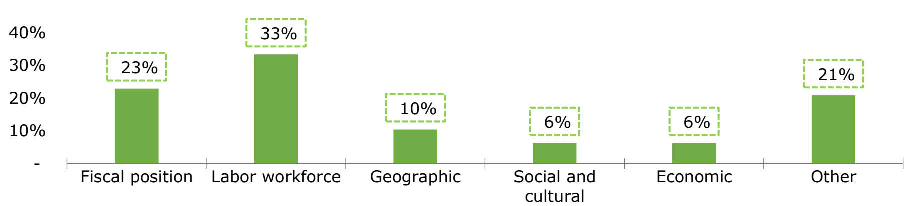


Source: Survey Analysis

Opportunities of investing in Kosovo

Regarding the future expectations of investing in Kosovo, the information analyzed in this report indicated that 33% of the responders showed the demographic and cheap labor as the main opportunity of investing in Kosovo while of the 23% those surveyed showed fiscal position as the main opportunity.

Main opportunities regarding the future expectations of investing in Kosovo

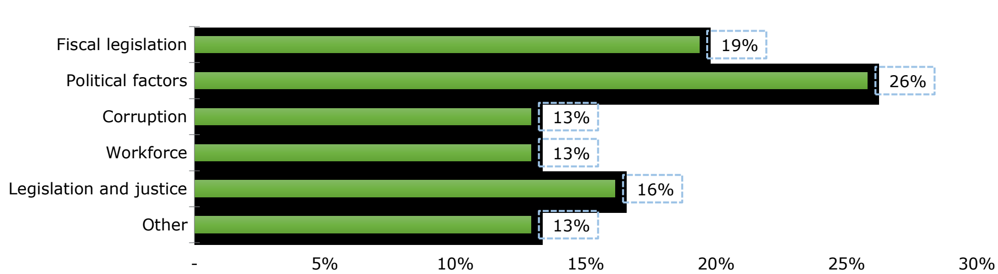


Source: Survey Analysis

Threats of investing in Kosovo

On the other hand 26% of the surveyed, showed political factors as the main threatening factors regarding future expectations of investing in Kosovo. After political factors, the most threatening factor regarding the future expectations were followed by fiscal legislation, legislation and justice, corruption, workforce and other factors.

Main threatening factors regarding the future expectations of investing in Kosovo



Source: Survey Analysis

Projected period of investment in Kosovo

Part of the research was also the perceptions of the German businesses about the planned period of operation in Kosovo. As the survey results show, 61% of businesses interviewed claimed an indefinite period for investing in Kosovo, 32% of them claim that will continue operating for a long time and meanwhile 6% have declared a short-medium term because of the planning on reallocating and shut down operations in Kosovo.

Appendix 5

Main operating industries

Manufacturing and construction	Energy	Services	FBS and consulting	Information and communication technology (ICT)
Production	Renewable Energy	Retail	Consulting Services	Support
Recycling	Energy	Food And Beverage	Finance and banking services	Information and technology
Textiles		International Transport	Accounting	Call Center
Construction		Auto-Import		
		Commerce		
		Education		

Source: Survey Analysis

APPENDIX 6

Respondent no.	Revenues annual	Invested CAPEX	Industry (DT Classification)	Sub/sector (DT Classification)	Industry EBT Margin	Implied EBT	CIT Kosovo	CIT Implied Contribution	VAT	VAT on Sales	VAT on CAPEX
1	-	30,000	ICT	ICT	28%	-	10%	-	18%	-	5,400
2	200,000	200,000	Services	Commerce/Retail	7%	14,000	10%	1,400	18%	36,000	36,000
3	2,400,000	120,000	Energy	Energy	26%	624,000	10%	62,400	18%	432,000	21,600
4	300,000	10,000	Manufacturing and construction	Textile	4%	12,000	10%	1,200	18%	54,000	1,800
5	48,000,000	101,000,000	Energy	Energy	26%	12,480,000	10%	1,248,000	18%	8,640,000	18,180,000
6	218,000	550,000	Manufacturing and construction	Production	24%	52,320	10%	5,232	18%	39,240	99,000
7	1,000,000	500,000	Manufacturing and construction	Construction	34%	340,000	10%	34,000	18%	180,000	90,000
8	4,000,000	6,000,000	Services	Commerce/Retail	7%	280,000	10%	28,000	18%	720,000	1,080,000
9	350,000	200,000	Services	Commerce/Retail	7%	24,500	10%	2,450	18%	63,000	36,000
10	1,100,000	50,000	Energy	Energy	26%	286,000	10%	28,600	18%	198,000	9,000
11	-	20,000	Services	Education	6%	-	10%	-	18%	-	3,600
12	100,000	3,000,000	FBS and consulting	FSI	29%	29,100	10%	2,910	18%	18,000	540,000
13	10,000,000	8,500,000	Energy	Energy	26%	2,600,000	10%	260,000	18%	1,800,000	1,530,000
14	150,000	550,000	Manufacturing and construction	Production	24%	36,000	10%	3,600	18%	27,000	99,000
15	10,000	2,000	Services	Commerce/Retail	7%	700	10%	70	18%	1,800	360
16	2,000,000	40,000	Manufacturing and construction	Production	24%	480,000	10%	48,000	18%	360,000	7,200
17	7,441,346	6,000,000	Manufacturing and construction	Construction	34%	2,530,058	10%	253,006	18%	1,339,442	1,080,000
18	5,270	15,000	Services	Food and beverage	6%	316	10%	32	18%	949	2,700
19	100,000	65,000	ICT	ICT	13%	13,000	10%	1,300	18%	18,000	11,700
20	150,000	50,000	FBS and consulting	FSI	29%	43,650	10%	4,365	18%	27,000	9,000
21	800,000	50,000	ICT	ICT	13%	104,000	10%	10,400	18%	144,000	9,000
22	3,000,000	1,000	Services	International Transport	7%	210,000	10%	21,000	18%	540,000	180
23	180,000	600,000	Manufacturing and construction	Production	24%	43,200	10%	4,320	18%	32,400	108,000
24	400,000	80,000	ICT	ICT	28%	112,000	10%	11,200	18%	72,000	14,400
25	55,000,000	90,000,000	FBS and consulting	FSI	40%	22,000,000	10%	2,200,000	18%	9,900,000	16,200,000
26	1,900,000	1,200	Services	Education	6%	114,000	10%	11,400	18%	342,000	216
27	-	1,000,000	FBS and consulting	FSI	40%	-	10%	-	18%	-	180,000
28	4,000,000	1,000,000	FBS and consulting	FSI	40%	1,600,000	10%	160,000	18%	720,000	180,000
29	2,500,000	16,500,000	Manufacturing and construction	Production	24%	600,000	10%	60,000	18%	450,000	2,970,000
30	350,000	2,000,000	Manufacturing and construction	Recycling	19%	66,500	10%	6,650	18%	63,000	360,000
31	80,000	450,000	FBS and consulting	FSI	29%	23,280	10%	2,328	18%	14,400	81,000
	145,734,616	**238,584,200**						**4,471,862**		**26,232,231**	**42,945,156**

Source: Survey Analysis

Respondent no.	Revenues annual	Invested CAPEX	Industry (DT Classification)	Sub/sector (DT Classification)	Industry EBT Margin	No. of Employees	Average Salary in KS (EUR)	Social Contribution %	Social Contribution Implied Impact
1	-	30,000	ICT	ICT	28%	7	311	10%	2,612
2	200,000	200,000	Services	Commerce/Retail	7%	4	311	10%	1,492
3	2,400,000	120,000	Energy	Energy	26%	4	311	10%	1,492
4	300,000	10,000	Manufacturing and construction	Textile	4%	10	311	10%	3,731
5	48,000,000	101,000,000	Energy	Energy	26%	25	311	10%	9,328
6	218,000	550,000	Manufacturing and construction	Production	24%	9	311	10%	3,358
7	1,000,000	500,000	Manufacturing and construction	Construction	34%	5	311	10%	1,866
8	4,000,000	6,000,000	Services	Commerce/Retail	7%	158	311	10%	58,951
9	350,000	200,000	Services	Commerce/Retail	7%	5	311	10%	1,866
10	1,100,000	50,000	Energy	Energy	26%	1	311	10%	373
11	-	20,000	Services	Education	6%	2	311	10%	746
12	100,000	3,000,000	FBS and consulting	FSI	29%	6	311	10%	2,239
13	10,000,000	8,500,000	Energy	Energy	26%	45	311	10%	16,790
14	150,000	550,000	Manufacturing and construction	Production	24%	6	311	10%	2,239
15	10,000	2,000	Services	Commerce/Retail	7%	1	311	10%	373
16	2,000,000	40,000	Manufacturing and construction	Production	24%	23	311	10%	8,582
17	7,441,346	6,000,000	Manufacturing and construction	Construction	34%	89	311	10%	33,207
18	5,270	15,000	Services	Food and beverage	6%	2	311	10%	746
19	100,000	65,000	ICT	ICT	13%	5	311	10%	1,866
20	150,000	50,000	FBS and consulting	FSI	29%	8	311	10%	2,985
21	800,000	50,000	ICT	ICT	13%	52	311	10%	19,402
22	3,000,000	1,000	Services	International Transport	7%	53	311	10%	19,775
23	180,000	600,000	Manufacturing and construction	Production	24%	6	311	10%	2,239
24	400,000	80,000	ICT	ICT	28%	25	311	10%	9,328
25	55,000,000	90,000,000	FBS and consulting	FSI	40%	260	311	10%	97,008
26	1,900,000	1,200	Services	Education	6%	130	311	10%	48,504
27	-	1,000,000	FBS and consulting	FSI	40%	22	311	10%	8,208
28	4,000,000	1,000,000	FBS and consulting	FSI	40%	95	311	10%	35,445
29	2,500,000	16,500,000	Manufacturing and construction	Production	24%	30	311	10%	11,193
30	350,000	2,000,000	Manufacturing and construction	Recycling	19%	12	311	10%	4,477
31	80,000	450,000	FBS and consulting	FSI	29%	2	311	10%	746
	145,734,616	**238,584,200**				**1,102**			**411,166**

Source: Survey Analysis

APPENDIX 7

Questionnaire

1. Name[20]: _________________
2. Operating Sector: ______________
3. Number of employees: ______________
4. Average Annual Turnover in the last three operating years: ________________
5. % of German Capital: ________________
6. Nationality of the German Capital shareholder:
   a) Kosovo Nationality
   b) German Nationality
7. Current operating status:
   a) Active
   b) Inactive
   c) Divested (transfer the ownership, sale of the business unit)
   d) Permanently shut down (withdraw the business activity from the country)
8. Years active in Kosovo: __________________

9. Do you or your family possess a business activity in Germany?
   a) Yes
   b) No
10. If yes, years active in your home country (Germany): _________________
11. If yes, operating Sector in your home country (Germany): ______________

12. List up to 3 other countries where you have invested your capital *(if applicable)*:
    a)
    b)
    c)

13. Please provide an approximation of the total invested capital in Kosovo (EUR): ____________________

14. Investment Year/Period: ________________________

15. Type of investment:
    a) Cross-border M&A
    b) Greenfield (the creation of a firm from scratch by one or more nonresident investors)
    c) Extension of existing capacity (an increase in the capital of already established enterprises)

16. Your main investment in Kosovo consists in:
    a) Physical assets (buildings, warehouses, factories etc.)
    b) Infrastructure
    c) Technology

[20] Please consider that for confidentiality purposes, company names are not disclosed in this report.

d) Human Resources (training/know how)
e) Other (Please specify)

17. Please select 3 main reasons (*ranking them from 1-3, with 1 being the strongest one*) which made you invest in Kosovo:
    a) Labor Force (i.e accomplishment of business needs with cheaper workforce)
    b) Natural Resources (e.g availability of natural resources such as mineral, forestry, agricultural and other assets in Kosovo)
    c) Efficiency reasons (e.g cost-productivity improvements)
    d) Strategic reasons (e.g specific tangible/intangible assets that complement the business' asset base; geographical position)
    e) Cultural and national ties with the country of descent (in case of diaspora)
    f) Others: please specify.

18. Please select up to 2 main benefits you were awarded for investing in Kosovo
    a) Financial Incentives (e.g subsidies for large projects with high employment potential)
    b) Taxation Benefits (e.g import exemptions on goods; avoidance of double taxation)
    c) Infrastructure Benefits (e.g coverage of basic infrastructure in business location sites)
    d) Others: please specify
    e) Not applicable

19. Please select up to 3 main obstacles you have faced during your active years of investing in Kosovo
    a) Institutional Credibility (i.e level of trust towards main institutions including but not limited to central government, courts, municipalities, administration of Kosovo)
    b) Access to Finance (i.e cost of financing in commercial banks in Kosovo).
    c) Fiscal obstacles (e.g tax rates being perceived as not favorable and posing a barrier to conducting business)
    d) Law and Judicial System (e.g barriers related to execution of contracts)
    e) Corruption (e.g corruption's impact on operational efficiency and increased costs of doing business)
    f) Administrative Barriers (e.g obtaining licensing; lengthy administrative processes)
    g) Workforce skills
    h) Others: please specify.
    i) Not applicable

20. Please list up to 3 main opportunities which you consider today to be more attractive regarding the future expectations of investing in Kosovo:
    a)
    b)
    c)

21. Please list up to 3 main factors which you consider today to be more threatening regarding the future expectations of investing in Kosovo:
    a)
    b)
    c)

22. For how long ***did you stay (closed business)*** / ***are you planning to stay (active business)*** and operate in Kosovo:
    a) Short – medium term (*for active businesses*: already planning on reallocating and shut down operations in Kosovo)
    b) Long term (*for active businesses*: will continue operating for some more time but not invest in new capacities as we will not stay for indefinite time)
    c) *For active businesses only:* Indefinite period (doing business in Kosovo is great and there is a lot potential for it also in the future so will definitely stay and expand)

GLOSSARY

AL	Albania
ASK	Agency of Statistics Kosovo
BA	Bosnia and Herzegovina
BG	Bulgaria
bln	Billion
BMZ	German Federal Ministry for Economic Cooperation and Development
CAGR	Compound Annual Growth Rate
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
DE	Germany
EC	European Commission
EFTA	European Free Trade Agreement
EIU	Economic Intelligence Unit
EUR	Euro
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GB	Great Britain
GDP	Gross Domestic Product
GR	Greece
GWH	Gigawatt hour
Ha	Hectares
HR	Croatia
ICT	Information and Communications Technology
IMF	International Monetary Fund
IPR	Intellectual Property Right
IT	Italy
IT	information technology
KFOR	Kosovo Force
KIESA	Kosovo Investment Enterprise and Support Agency
KS	Kosovo
MD	Moldova
MK	North Macedonia
mln	Million
MW	Megawatt
NBS	National Bank of Serbia
NGO	Non Governmental Organization
OECD	Organization for Economic Co-operation and Development
OEGJK	Oda Ekonomike Gjermane Kosovare
RAS	Serbian Development Agency
REA	a regional economic area (REA).
RO	Romania
RS	Serbia
S3	Smart Specialization Strategy

SAA	Stabilization Association Agreement
SEE	South Eastern Europe
SEZ	Special Economic Zone
SI	Slovenia
TEDA	Technological and Economic Development Areas
thsd	Thousand
TIDZ	Technological industrial development Zones
TR	Turkey
UNCTAD	United Nations Conference on Trade and Development
US	United states
USD	United States Dollar
VAT	Value Added Tax
WB	Western Balkan
WTO	World Trade Organization
YoY	Year on Year

german cooperation
DEUTSCHE ZUSAMMENARBEIT

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