# Challenges and Problems in the Kosovo Reality Related to Foreign Direct Investment

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**Abstract**

Economic development is a goal aspired by many countries of the world, Kosovo included. In attaining such goals, many countries face numerous difficulties. Amongst the most often taken paths by various countries is the attraction of foreign direct investments to the country. The term investment includes a wide range of human activities in engaging financial means into one of the areas: immoveable property, bonds and shares, manufacturing and service projects, scientific research, technological development, personnel education, etc. Different from internal investment which is engaged by domestic investors in their own territories, Foreign Direct Investment, the topic of our study, is a form of investment which generates revenues by a company in the country and an affiliate branch outside the investor's seat. Foreign Direct Investments generate relations through the local company and its branches outside the country. Foreign Direct Investments (FDIs) are considered to be a strength giving life to economic development of a country, and especially the developing countries. They have an important role to play in a long-term development of a country, and not only as a capital source, but also in increasing competitive abilities of the domestic economy, by technological transfers, strengthening infrastructure, increased productivity and generation of new employment opportunities.

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**Key Words:** Challenges, foreign direct investment, economic development, Kosovo.

## 1. Introduction

Physical equity has always been at the centre of elaboration of economic progress. Countries investing a larger rate of the Gross Domestic Product (GDP) have a higher tendency of growth. For it to invest, a country must either save money or attract foreign savings, by loans or assistance. Apart from the private sector, the Government may also influence the level of national savings, done through its budgetary policies. Apart from using the internal economy, countries may also attract foreign savings to fund investment. A developing country may attract foreign investment in three different ways. One of the options is for the foreign companies to directly invest in the country. A second way in which a country may attract foreign resources is to obtain loans in global capital markets or financial institutions, such as the World Bank. Third, a country may be capable of obtaining foreign assistance from industrialized countries. Nonetheless, foreign resources are more important the lower per capita income is in a country, and such is the case of Kosovo[1].

Having in mind the fact that Kosovo currently is facing various problems and obstacles, which prevent its economic development, foreign direct investment may play an important role in the economic development of Kosovo. Kosovo confronts with scarce resources to finance its investment, while there is a pressing demand to resolve the unemployment problem. Therefore, it is considered that foreign direct investment shall place a positive role in Kosovo's economy, by injecting fresh capital, modern technology, and western experience in marketing and management. Simultaneously, they should help in restructuring the economy, generating new jobs, expanding export and reducing the trade deficit.

In analysing FDIs, one could undoubtedly say that they have had and continue to have an important role in the economic development of most developed and developing countries. The relevance of foreign investment only increases for countries in transition, in which domestic capital is

[1] Badivuku-Pantina, M., (2008), "The importance of Foreign Direct Investments on Economic Development of Kosova", International Review "Lex et Scientia", No. XV Vol.2/2008, Bucharest.

insufficient to cater to the large investment demands of economies transforming from command economies to market economies. Foreign investments guided towards exports are of essential relevance in overcoming obstacles and empowering economic development. Still though, even after many years since the conflict, Kosovo continues to face problems in attracting foreign investment. Amongst the key obstacles are: corruption, lack of guarantees for investors, legal infrastructure, electricity, etc.

The economic development overview in 2012, showed that economic activity in Kosovo had expanded, but at a slower pace compared to 2011. Such slowing pace was contributed largely by developments in the external sector, which are adversely affecting the level of exports, foreign direct investments and migrant remittances. A key source of economic growth in the country was estimated to be the increased consumption, both in public and private sectors. While the investment component had different trends in comparison to previous years, since the FDIs had a negative rate. Nevertheless, such developments with the FDIs were set off by an increase in public investments[2].

It is obviously difficult for an investor to decide to invest his own resources in a certain place. There are though several facts which help, which push to some extent the investors to put the money in a certain country, and some of those are: political stability, macroeconomic stability, clear legal infrastructure, labour costs, young population, low corporate income taxes, tax breaks, special economic areas, etc.

These are some of the important factors, which urge or convince an investor to think about investing in a country. Meanwhile though, the need for investments is often larger for the country of investment than the investors' desires. Therefore, countries must be careful in making their policies, plans and strategies to attract foreign investments. One of the most striking examples of a country where FDI has been promoted by a strong business and investment climate and has had a major impact is Ireland. In the mid-1980s, Ireland faced an unemployment rate of nearly 20 per cent, and the highest rate of per capita debt in the world. Its per capita GDP was only 63 per cent of its neighbour, the UK. In the 1990s, Ireland underwent a startling economic transformation to become one of Europe's wealthiest countries per capita, coming third after Norway and Switzerland. Ireland's

[2] Central Bank of Kosovo, (2012), Annual Report 2012", Prishtina, page 27.

proximity to the USA, its English-speaking population, and European Union (EU) membership have certainly contributed to its economic growth over the past 15 years. But what makes Ireland's case a special one is that without an established industrial base or significant natural resources it decided to exploit its indigenous advantages by developing an outstanding business climate and through intelligent policy-making. Ireland is consistently rated among the world leaders in international indexes on "openness to foreign investment", "globalization", and "ease of doing business"

Ireland transformed its business environment, and offered the businesses[3]:

- Lowest corporate taxes in Europe - 12.5%;
- Competitive costs, due to young and qualified labour;
- A business environment free of undue government influence and characterized by competition;
- Infrastructure, including a good international airport accessing a large number of destinations in Europe and North America, and a good foundation of universities and technological institutes;
- Partnership between the government, labour and industry;
- A keen interest in development and a concern to attract the best companies to locate in Ireland.

It is clear that the Irish miracle cannot be copied to other countries, but the matter is that all OSCE states may attract FDIs by using their competitive advantages and by establishing a strong business and investment climate. The teachings of the economic wonder of Ireland can be applied in countries of Eastern and Central Europe. Eastern and Central European countries are attractive destinations for the FDIs, not only because of their European location and low costs, but also due to the changes made in respective business climates. For developing and transition countries without the luxury of natural resources, such as oil or gas, what alternative is there in improving the business environment? Case studies in Ireland and the Baltic States have demonstrated that extractive industries are not the only mechanism of economic development. To be competitive, countries without such resources need to improve their

[3] OSCE, (2006), Best-Practice Guide for a Positive Business and Investment Climate, 2006, page 20.

business climate. Almost all indices related to such climate show that the richest and medium income societies have a stronger or rapidly improving business climate, and that the countries taking measures to improve the business climate have been awarded by larger FDIs and better economic rates. Although private companies are responsible for their own success, the governments must provide the best possible frameworks for these companies to successfully perform[4].

## 2. Rate of Foreign Direct Investment in Kosovo

Since the 80s and further, during the last war, Kosovo was faced with an economic collapse, which resulted in great losses, both in human capital and the existing industry, infrastructure and economy overall.

Before the last war, economic activities were concentrated on energy industries, mines and metals, construction materials, agricultural processing, etc.[5] After the war, the country's economy was fully maintained by international donations, strongly also supported by Albanian diaspora remittances. The post-conflict economic development period may be divided into three stages: the first might be the emergency stage, in which the country focused on reconstructing their homes and destroyed infrastructure; the second stage was the development of state institutions, which would then guide economic development by founding small and medium enterprises, law and order, and paving the way for the country to stand on its feet, or the stage in which the country begins to concentrate on its own powers; the last stage, obviously pursuing the completion of the earlier stages, a stage known for meeting conditions and aspiring European integration.

Now Kosovo faces numerous problems, of different nature, which affect the slowdown of economic development; it is confronted with with scarce financial resources, large demand for investment, and the unemployment problem.

Therefore, as in many other countries of the world, Kosovo is expected to yield the positive effects of attracting external capital, modern technology, Western experience in marketing and management, and in

[4] Ibid., page 19.

[5] Badivuku-Pantina, M. (2008), "The importance of Foreign Direct Investments on Economic Development of Kosova", International Review "Lex et Scientia", No. XV Vol.2/2008, Bucharest, Romania

parallel, influencing economic development, opening new employment opportunities, increasing export, reducing trade deficits, etc.

Amongst the key factors demonstrating that FDIs have a positive impact on development of our economy are:[6]

- A positive relation has been noted between the FDIs and GDP growth, due to increased export possibilities and their incentivising effects on local businesses and improvement of competition;
- FDIs provide for better effects on sustainable development when compared to loans in the form of credit; also, through FDIs, investors are directly involved in management, and their own aim is to maximise own profits, thereby proportionally generating domestic revenues in the country of investment; another reason is that FDIs provide the investment without the burden of a debt;
- The effect of induced social development and development of human resources as a result of technological transfers, new skills and experiences, training which were not known earlier to the place;
- They have also a good effect on the Kosovo Budget, by increasing budgetary revenues obtained as a result of tax incomes increasing and reduced public subsidies.

Having all these reasons in mind, Kosovo needs an active policy, which would improve possibilities of cooperating with foreign investors, and would increase competitive capacities in the FDI market, and increase absorbing ability for partnership and joint investment.

Although a small country in surface area, Kosovo possesses large resources and numerous investment possibilities. Foreign investors may find a place in many sectors of Kosovo, amongst them:

- Financial and banking services;
- Wood processing;
- Mining and energy sector;
- Metal and metallurgy industry;
- Tourism;
- Construction industry;
- Agro-business
- Information technology, etc.

[6] Instituti RIINVEST, (2002), Foreign Direct Investment in Kosovo (“Investimet e huaja direkte në Kosovë”), Research Report.

**Financial and Banking Sector –** has been identified as the most common destination of FDIs in Kosovo. Commercial banks provide a full range of banking services, including loans, guarantees, current accounts, savings accounts, time-bound deposits, local and international transfers, and asset saving services. The structure of the banking sector continues to be dominated by foreign-owned banks, where out of a total of ten licensed banks, eight are under foreign ownership, and holding 90.5 per cent of all sector assets, and 92.8 per cent of the total capital. German and Austrian seated banks continue to possess the largest share of the banking sector assets (51.3% together)[7].

**Wood Processing –** Over 40% of the landmass in Kosovo is covered in forest, which means a surface area of around 465.000 hectares.[8] The wood-processing sector in Kosovo is basically built upon raw wood matter production. Kosovo has a long-standing tradition of producing high quality windows and doors. The vast majority of wood processing and furniture producing companies are privately owned, notwithstanding the international capital share. The wood-processing sector is considered to be amongst the most dynamic and promising sectors.

**Mining and Energy Sector –** Kosovo possesses an enviable mix of natural resources. With its 14.7 million tons of lignite, Kosovo takes the fifth place in the world.[9] Considering the high energy demand in the region, the Government of Kosovo has already engaged in developing larger projects related to lignite use for energy generation. These projects offer unique opportunities for companies wishing to get involved in energy and mining sector of the region.

**Metallic and Metallurgy Industry –** Kosovo has a long history of metal processing, and the sector has gone under major changes in the last twenty years. In general, larger socially-owned enterprises have almost all been privatized and are substituted with new companies. The sector offers opportunities for foreign investors to invest into domestic production of metal products, and thereby to substitute the import of such products.

[7] Central Bank of Kosovo, (2014), Financial Stability Report ("Raporti i Stabilitetit Financiar"), no. 106. Prishtina.
[8] Ministry of Trade and Industry, "Investment Kosovo-Food Processing Industry", Prishtina.
[9] Abrashi, A. dhe Kavaja, B., (2000), Kosovo's natural resources in the function of economic and social development ("Resurset natyrore të Kosovës në funksion të zhvillimit ekonomiko-shoqëror"), Prishtina.

**Tourism –** is a rather lucrative area for both domestic and foreign investors. Natural values of Kosovo represent a high resource for tourism development, but due to their poor utilization, the sector remains undeveloped. A description of Kosovo potentials in tourism would be closely related to the geographic position of Kosovo. One of the most interesting opportunities for foreign investors in the region is the Brezovica mountain. Other areas include the Sharr Mountains in the south part of the country, the bordering areas with Macedonia and Albania, etc.[10]

Apart from the tourist sites mentioned above, Kosovo is largely endowed in mountains, artificial lakes and rivers, and they would provide prime possibilities of hunting and fishing.

**Construction Industry –** In the last years, the construction industry became one of the most important sectors contributing to the economic growth of Kosovo. Funded mainly through foreign assistance, private and public sectors, the construction sector in Kosovo has so far utilized several hundreds of millions of Euros, mainly used in building new homes, or rehabilitation and construction of road infrastructure and residential facilities. The construction industry remains a promising sector for the economic development in Kosovo.

**Agro-business –** With around 60% of the population living in rural areas, and mainly involved in agriculture, Kosovo has a long-standing tradition in agriculture. Agriculture is the main source of revenue for a majority of the population. The agro-business and food-processing sector has traditionally been one of the strongest sectors in Kosovo's economy. From a total surface area of 1.1 million hectares, around 588.000 hectares are fertile agricultural land. Around 90 per cent of the agricultural land is assigned to stock-breeding activities, such as pastures, meadows, forager plants, and animal-feeding cultures. The remaining area is used for wheat, vineyards, potatoes, fruits and vegetables. Rural residents of Kosovo deal in dairy products, planting fruits and vegetables, etc.

**Information Technology –** According to the recent records of the Telecommunications Regulatory Authority (TRA), app. 15,3% of Kosovans use Internet regularly. Compared to the EU average of 38 per cent, Internet

[10] Ministry of Trade and Industry, "Investment Kosovo-Food Processing Industry", Prishtina.

usage in Kosovo may be considered visibly lower than the EU. This gap represents an existing potential for the sector waiting to be utilized.[11]

**Table 1**: FDIs by economic activity in %

| Description | 2007 | 2008 | 2009 | Q1 | Q2 | Q3 | 2010Q4 | Q1 | Q2 | Q3 | 2011Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Financial services | 23.1 | 34.9 | 25.5 | 16.8 | 27.1 | 22.0 | 11.8 | 9.4 | 10.6 | 14.8 | 12.0 |
| Manufacturing | 9.0 | 6.0 | 17.1 | 18.4 | 18.7 | 2.7 | 39.3 | 10.3 | 17.2 | 10.2 | 12.6 |
| Real estate | 7.0 | 16.8 | 14.9 | 19.0 | 9.7 | 10.5 | 14.3 | 17.5 | 10.1 | 14.7 | 21.5 |
| Transport & Telecommunications | 29.3 | 13.8 | 7.4 | 10.2 | 0.0 | 5.0 | 0.8 | 4.7 | 9.0 | 9.6 | 0.3 |
| Electricity | 0.6 | 4.5 | 2.9 | 0.0 | 0.1 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Mining | 9.4 | 4.7 | 2.4 | 1.0 | 0.2 | 9.6 | 0.3 | 0.2 | 2.7 | -2.1 | 0.1 |
| Construction | 1.2 | 3.7 | 12.0 | 17.5 | 15.9 | 38.4 | 27.8 | 32.4 | 30.4 | 28.7 | 39.8 |
| Processing Industry | 8.0 | 8.5 | 2.4 | 10.5 | 11.0 | 5.6 | 0.3 | 0.6 | 1.2 | 0.1 | 0.0 |
| Agriculture | 1.8 | 2.3 | 4.4 | 1. 5 | 0.1 | 0.1 | 0.8 | 0.1 | 0.1 | 0. 1 | 0.0 |
| Trading services | 2.9 | 2.7 | 5.5 | 2.6 | 5.7 | 2.4 | 2.5 | 2.5 | 3.4 | 2.1 | 0.0 |
| Counselling, operations | 1.0 | 0.6 | 0.9 | 1.4 | 4.8 | 1.8 | 1.3 | 1.1 | 1.7 | 2.5 | 0.0 |
| Sanitary activities | 2.9 | 0.6 | 0.8 | 0.9 | 1.9 | 0.0 | --- | 0.0 | 0.0 | 0.1 | 0.0 |
| Others | 3.8 | 0.9 | 3.8 | 0.3 | 4.8 | 1.8 | 0.7 | 21.1 | 13.8 | 19.1 | 14.0 |

**Source:** Central Bank of Kosovo (2012), Monthly Statistical Bulletin

Kosovo can become an attractive place for business. It has attracted more than 1 Billion in FDIs in the last five years. This culminated in 2007, with 440 Million Euros in FDIs, mainly as a result of privatization, while a decline was recorded in 2008 and 2009, mainly due to the global financial

[11] RIINVEST Institute, (2002), Foreign Direct Investment in Kosovo ("Investimet e Jashme Direkte në Kosovë"), Research Report.

crisis. In 2010, Kosovo had a positive inclination in FDIs, getting to € 311.2 Million, hence in 2010 up to 20%, and an inclination of 24% in 2011. According to the CBK, the value of foreign direct investment in 2011 was 394.6 Million Euros. Thus, the average rate of net FDIs to GDP was 5% (2012), compared to 5.8% in the same period in 2011. In individual countries, Montenegro, Kosovo and Macedonia marked a decline in ratios between FDIs and GDP (4.5, 4.2, and 1.6%), while Croatia, Serbia, Bosnia and Herzegovina and Albania marked an increase (an average of 1.2%).[12]

The economic growth in 2014 is believed to be mainly a result of growing consumption, while investment and net exports contributed to the negative. The main component in GDP remains consumption, with a participation of 105.2 per cent. The investment in 2014 marked a real decline of 10.0 per cent, compared to the previous year (2013). Overall, the deterioration in investment is estimated to be a result of a considerable decline in public investment, caused by delays in consolidating institutions in the country, while private investment marked an increase. Increased private investments are generated by a considerable increase in investment loans, which offset, to some extent, the effect of the decline of foreign direct investment (FDI) through the period. The net exports for 2014 were characterized by deterioration, both in real and nominal terms. In real terms, net exports deepened the deficit for 2.2 per cent in 2014, thereby contributing negatively in economic growth. Despite the expectation of goods and services growing with around 9.6 per cent, their effect was neutralized by an increase in imports of goods and services by 4.9 per cent[13].

Capital and financial accounts of the payment balance continue to be characterized by a positive balance, deriving mainly from foreign direct investments (FDI) and other investments. The positive account balance, although positive, has been reduced by 56.7 per cent in the first half of 2012, compared to the same period of the previous year (2011). Such a reduction was mostly contributed by FDIs and other investments. The FDI balance (FDIs in Kosovo minus FDIs of Kosovo residents abroad) during the first half of 2012 reached the value of 78.5 Million Euros, which is a rather steep decline when compared to the same period of the previous

[12] Central Bank of Kosovo, (2012), Financial Stability Report ("Raporti i Stabilitetit Financiar"), no. 103. Prishtina.

[13] Central Bank of Kosovo, (2012), Financial Stability Report ("Raporti i Stabilitetit Financiar"), no. 106. Prishtina

year (2011), when the balance had reached the value of 180.3 Million Euros. FDIs received in Kosovo, an important component in private sector investment, marked an annual decline of 53.3%, thereby scoring the value of 86.6 Million Euros. The balance of other investments was cut in half, in comparison to the same period of the previous year, from 161.7 Million Euros it fell to 79.8 Million Euros. Most preferred economic activities in newly established enterprises were trade (31.8% of total enterprises), followed by processing industry (10.7%), hotels and restaurants (10.3%), construction (9.9%), real estate (9.6%), etc. Furthermore, newly established companies are mainly micro-enterprises (99.01% of all companies), while the remaining are small enterprises (0.84%), medium enterprises (0.11%), and large enterprises (0.04%). Public investments in the reference period gave an important input to the economic growth, when considering capital investment projects continuously increasing. Government expenditure in capital investment, until June 2012, marked annual growth rates of 32.4 per cent. Capital expenditure represents the key category in budget expenditure, with a rate of 35.9% of total expenditure (224.8 Million Euros).[14]

An important role in attracting FDIs to Kosovo has been taken also by the privatization process of socially owned enterprises, which is one of the numerous alternatives countries in transition provide for attracting external capital. Privatization is the process in which the enterprises are transformed from public to private ownership. It is already understood that Kosovar companies have not the economic strength to cope with the amounts required to purchase the new companies. These companies are increasingly required to face the absence of fresh capital, which is offered by domestic banks, but at highly unfavourable rates. The only way is to attract foreign investment, which would not only bring about fresh capital, but would also provide for technological and know-how transfers. Amongst the key objectives of privatization are: narrowing down of the state, promotion of wide shareholder ownership, greater efficiency in privatized entities, increased revenues for the government, reduction of state intervention, increased competition.

[14] Central Bank of Kosovo, (2012), Financial Stability Report ("Raporti i Stabilitetit Financiar"), no. 103. Prishtina.

## 3. Challenges and problems in the Kosovo reality related to FDIs

The current situation in Kosovo is one of the least favourable climates for attracting foreign investors. The capital base in Kosovo is rather limited, and therefore, the economy must be grounded upon foreign investment to fully harness its export and development potentials. A survey on foreign investment carried by the World Bank in 2009 showed that foreign investors have more or less the same concerns in relation to investing in Kosovo like the domestic companies. Foreign investors hesitate to invest because of their perception of inefficiency in public administration. Another obstacle for foreign company investments is the perception of high political risk in Kosovo. Foreign companies already located in Kosovo have a much better perception of investment opportunities in Kosovo than the ones that have not entered the market yet, and therefore, to attract more investment, authorities must take all measures to improve the Kosovo's image abroad.[15]

Other obstacles preventing foreign investors from coming are:

- Legal and bureaucratic barriers
- Corruption
- Lack of investment guarantees
- Limited market
- Political stability
- Telecommunications
- Electricity outages

Kosovo has already adopted the Law for Protection of Foreign Investors, based on which, foreign investors have similar rights and duties with Kosovo residents,[16] but in implementing the law, foreign investors need to cope with numerous bureaucratic procedures. Quite a lengthy time is required for completing documents for business registration, although the number of such documents is small, but the poor performance of competent officials renders rather hard the procedure of obtaining and verifying documents. One must go from one office to the other, and then, it is often difficult to find the officer who would pursue further the procedure

[15] World Bank, (2010), A Country Economic Memorandum ("Raporti i Bankës Botërore për Kosovën"), Report no. 53185-XK.

[16] Constitution of the Republic of Kosovo, Article 119, paragraph 2, page 48

for obtaining documents, etc. This is naturally a cumbersome job for potential investors, thereby making investors suspicious of their investment in Kosovo.

The data of the "Transparency International" organization in the Corruption Perception Index in 2012, rank Kosovo in the 105th position in the list of most corrupted states. Except for Albania, which holds the 113rd place in the list of the regional countries, Kosovo is the most corrupt state in the 105th place, then it is Albanian in the 113rd, Montenegro in the 66th place, Croatia in the 62nd, Bosnia and Herzegovina 72nd, Serbia 80th, Macedonia 69.[17] Therefore, one could say that fiscal evasion, informal economy and corruption continue to weigh down on the private sector. According to a report of the UNDP (United Nations Development Program), and the Riinvest Institute, fiscal evasion in Kosovo is estimated at 40%, similar to the rate of informal employment. Informal economy is estimated to be at 25% of the GDP in Kosovo. Fiscal evasion, or taxpayers concealing their income, is a serious problem in countries in transition.[18]

Another challenge in the Kosovo reality of investment is also the high interest rates involved. Even despite the rapid development of the banking system in Kosovo, interest rates have remained high, especially for long-term investment needs, they keep being the highest in the region. Lowering interest rates would have two-sided impact on the economy. First, lower interest rates would cause higher private investment, thereby generating more jobs. On the other hand, lower interest rates would bring about an increased consumption, thereby resulting into a growth of GDP and economic development in general.

## 4. Conclusions and recommendations

Most favourable developments in the key countries of the Eurozone and the SEE were reflected in the Kosovo's economy as well, when in 2013, economic activities are estimated to have marked a real growth of 3.4 per cent, a higher rate than the one seen in the previous year. The growth in economic activity during 2013, was thought to have been generated mainly by a growth in general consumption, and the decline in deficits in the component of net exports. Meanwhile, the investment had an almost

[17] Transparency International, (2012), "Corruption perceptions index 2012".
[18] UNDP, 2012, Fiscal Evasion.

neutral contribution in comparison to the previous year. Remittances and consumption loans were the key factors financing the consumption growth in 2013, while the declines in imports and inclination in exports reduced the deficit, thereby positively affecting the growth. Low inflationist pressures in Eurozone states, the region Kosovo shares most of its trading exchange with, reflected on the economy of the country, thereby resulting into a considerable reduction of the inflation rate. The poor level of investment in Kosovo is above all a result of a negative legacy, bringing a serious harm to businesses due to numerous bureaucratic obstacles, and especially corruption in institutions, lack of reliability, energy and physical infrastructure. Although state institutions in Kosovo have invested in the physical infrastructure, the latter remains an obstacle to attracting foreign investment.

Developing and transition countries, including Kosovo, face with negative factors in terms of economic development, including: high unemployment rates, high poverty rates, poor per capita GDP, and poor market coverage in terms of import. Therefore, to assure an economic balance between the negative occurrences, and to achieve a macroeconomic equilibrium, lacking domestic capacities, it is more than necessary to attract foreign direct investment.

Independently of the comparative advantages under the possession of a country, primary factors are the business climate and economic circumstances in the country. Good governance, transparency, security and legislation are essential factors to the attraction of investment, because globalization and rapid technological development have brought about considerable development, thereby ensuring that even a single euro is invested upon analysis, design and development of strategies and programs, so that the investors ensure the returns for their invested capital. Political stability is one of the key factors of hesitation of investors to come to Kosovo. A favourable political environment is required for the subsistence and rapid growth of business organizations, and for that, one requires political stability. The rule of law is a key element to political stability, which in Kosovo is estimated to be at a rather low level.

Ultimately, Kosovo institutions must make serious efforts to overcome some of the obstacles identified by foreign investors, such as physical infrastructure, bureaucratic procedures, political environment, corruption and nepotism, reforms in state administration and the education system.

With a view of surpassing the existing challenges in the Kosovo's reality, and improving the environment for attracting FDIs, we recommend:

- A systematic improvement of the political stability and the situation of security and safety. A key condition for economic development is political stability. Rigorous rule of law, strengthening democratic processes, resources for national security and tolerance, are substantial elements with a huge impact in developing an investment-inducing environment.
- Implementation of public administration reforms: creation of a system for providing basic information on investment, investment rates in Kosovo, conditions and facilities offered by the country, best sectors for investment, and also to inform potential investors on the Kosovo's market, competition, tax levels, safety and security, etc.
- Fostering and strengthening relations between the Kosovo Government and the Kosovo's diaspora.
- Promotion of the country's potentials, by TV commercials, internet, through fairs, seminars, etc.
- Provision of maximum support to the Anti-Corruption Agency, and its independence in discovering corruptive cases and submitting them for further proceeding with the judicial bodies of Kosovo. A lower level of corruption shall result in a higher investment rate.

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