



American Chamber of Commerce in Kosovo

Kosovo in the Eyes of Foreign Investors

November 2010

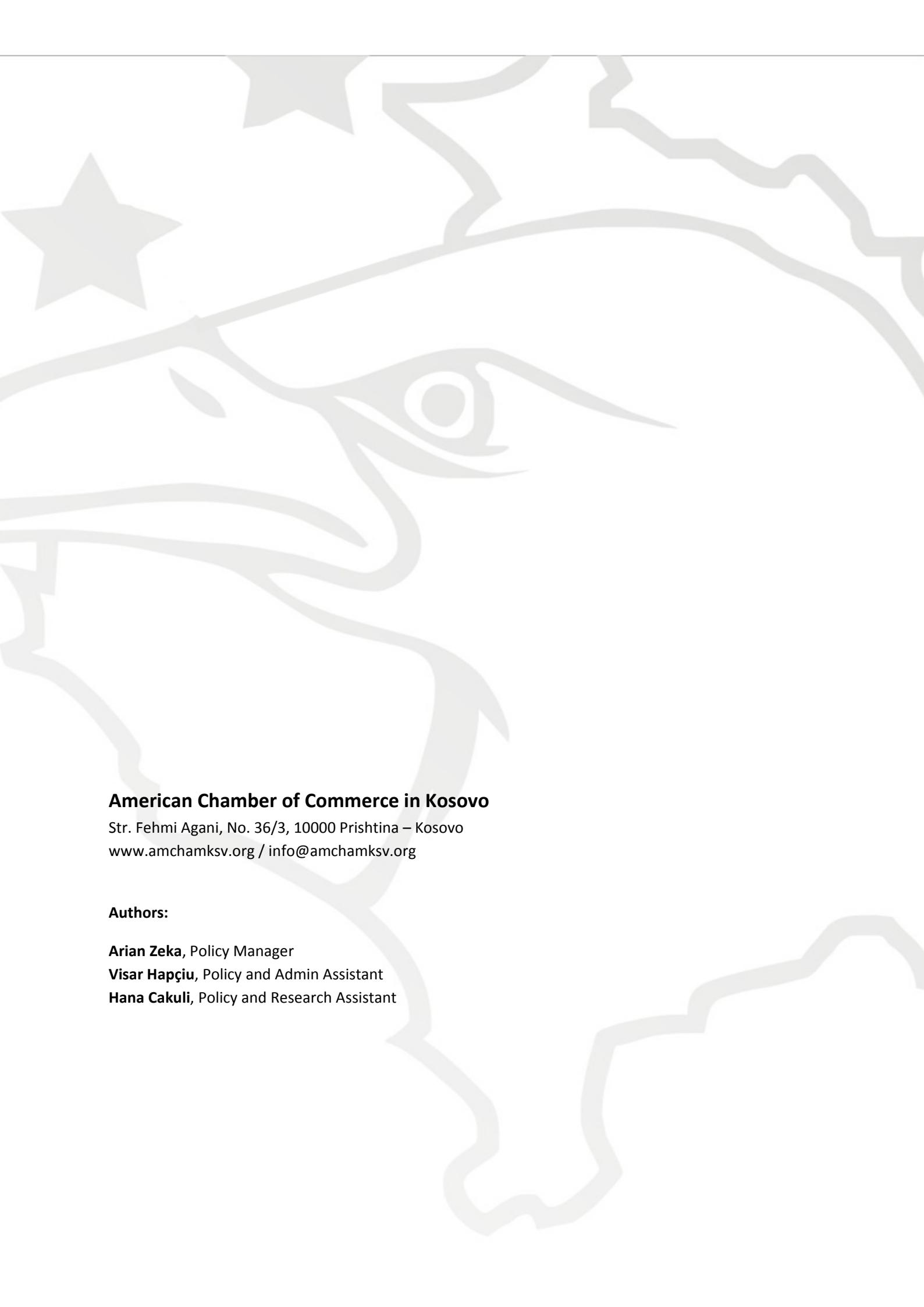
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Introduction

American Chamber of Commerce in Kosovo is a leading business association, which represents and protects the interests of American, foreign and local companies in Kosovo. In addition to the regular services that it provides to its members, AmCham is very persistent in its advocacy and lobbying efforts, with a main objective of improving the overall business environment, that would ultimately increase country's economic prospects and reduce the very high unemployment rate.

In this context, the study Kosovo in the Eyes of Foreign Investors aims at learning what is the perception of foreign companies about Kosovo and its business environment in general, what do they consider to be the strongest potentials that Kosovo provides, and what are the items that need to be improved. The study is different from previous researches as it also targeted the American and European companies that are present in the region of Western Balkans (WB) and Southeastern Europe (SEE), but not in Kosovo. And finally the study includes conclusions from several interviews which were focused on the efforts of the relevant institutions to attract foreign investments.

The project Kosovo in the Eyes of Foreign Investors is implemented by AmCham Policy and Research Department, whereas it was financially supported by Kosovo Foundation for Open Society (KFOS), to whom AmCham is very grateful.

Methodology

This study comprises of two parts, with the aim of rendering both quantitative and qualitative data with regards to Foreign Direct Investments in Kosovo.

The first part of the study includes a survey conducted with a total of 49 foreign companies which operate in the region of Southeastern Europe/Western Balkans present or not present in Kosovo. AmCham used a web-based software application for the surveys. The aim of this section of the study is to collect quantitative data with regards to foreign companies' perception and knowledge about Kosovo.

The second part of the study is comprised of qualitative data from face-to-face interviews with relevant stakeholders working for/or providing assistance to the relevant investment-promoting bodies in Kosovo. The project took roughly 5 months to complete (July-November 2010).

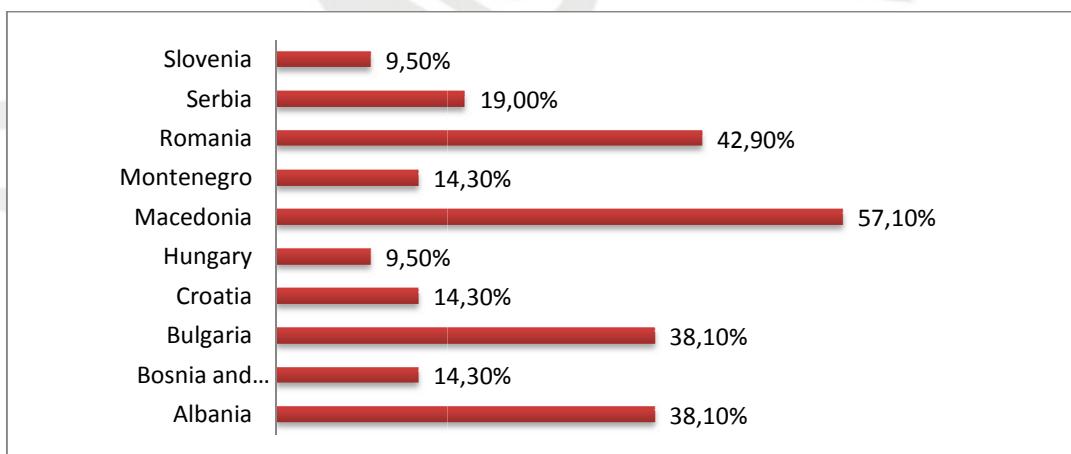
Acknowledgements

AmCham thanks the Kosovo Foundation for Open Society (KFOS) for their financial support to this project. AmCham is also grateful to regional American Chambers, particularly to AmCham Croatia and AmCham Macedonia for their help in the completion of this project by distributing the surveys to their members. Most importantly, a special thanks to all the companies that took their time to complete our survey.

Foreign companies not present in Kosovo

The first section of the report includes the results of the survey conducted with American and European companies that are currently present in the region of Southeastern Europe and Western Balkans but not in Kosovo. More than 50% of respondents come from the sector of professional services and manufacturing, while the remaining portion comes from the following sectors: information technology, pharmaceuticals, wholesale goods and financial/insurance services. The respondents include some of the renowned international companies; however their company names shall not be published in this report for confidentiality reasons.

The chart below shows the investment portion of the surveyed companies in the region of SEE/Western Balkans.

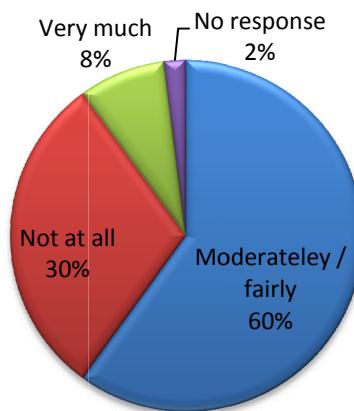


The findings of the survey are neither concerning nor satisfying. They are in line with the overall perception that exists about Kosovo and the overall efforts of the respective institutions to attract foreign direct investments in Kosovo.

The most positive fact of this survey is that all of the surveyed companies have heard of Kosovo, with 60% of them naming TV news as the main source, which is obvious having in mind the global media coverage that was given to Kosovo in the recent years. Almost 50% of them were personally in Kosovo, while 44% of them heard of Kosovo through business partners/friends. Finally, 16% of respondents claim to have heard of Kosovo from TV commercials, which implies that “Kosovo – Young Europeans” has had some impact on the promotion of Kosovo as a new country.

Contrary to the satisfying portion of companies that have heard of Kosovo, the situation seems to be less satisfying with regards to the level of familiarity that the surveyed companies have of Kosovo. In this regard, 60% of companies have a moderate or fair knowledge of the business environment, while above 30% of companies had no knowledge at all about the business environment in Kosovo. Only a small percentage of companies, that is 8% of them are very much familiar with Kosovo’s business environment.

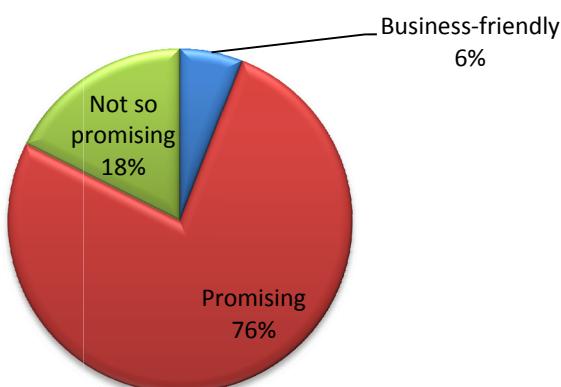
Are you familiar with Kosovo business environment?



The survey results also suggest that not much work has been done by the relevant institutions in presenting to the foreign investors the human and natural resources, geographical position, and other potentials that Kosovo provides. In this regard 30% of respondents have a very good knowledge, followed by another 30% of those who have moderate knowledge and almost 30% of companies that have a fair knowledge of these potentials. The remaining 10 percent have no familiarity at all with the Kosovo's overall potentials.

Another interesting finding of the survey is the ranking of Kosovo's business environment by the surveyed companies. Namely, 76.5% of those companies that had previously claimed to have some knowledge of Kosovo's business environment rank it as promising, followed by 17.6% of respondents ranking it as not so promising and just above 5% of respondents ranking it as business-friendly.

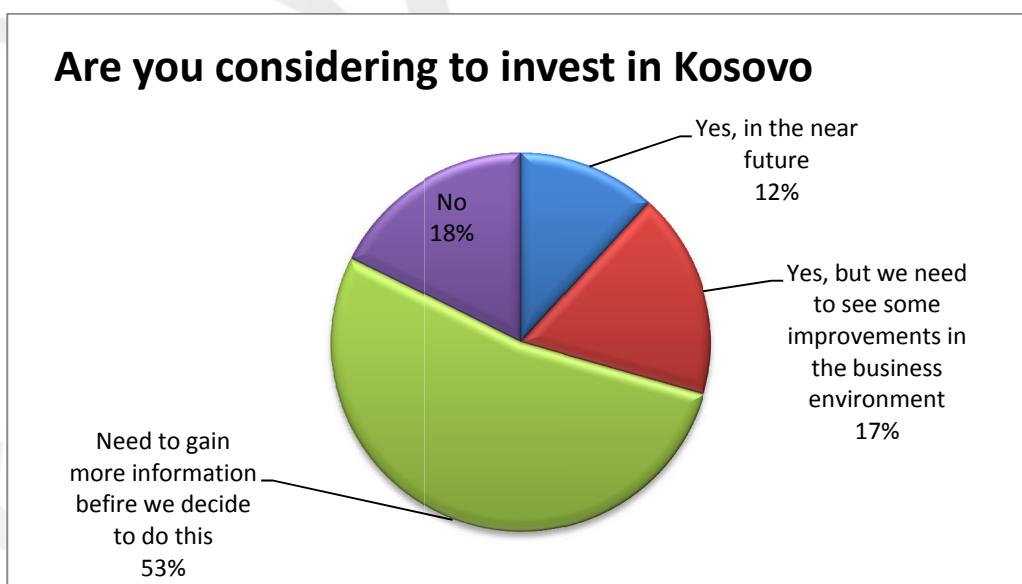
Kosovo business environment ranking



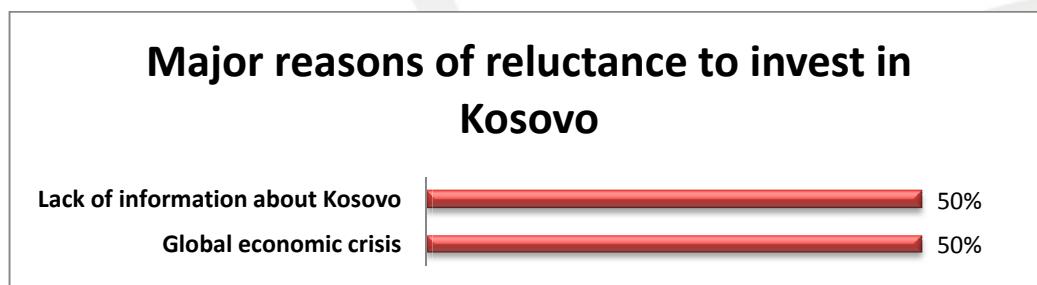
The other positive result is that 70.6% of respondents have already tried to gain information about Kosovo and its business environment, implying that some of them are considering investing in Kosovo in the near future. In this regard, 83.3% of the companies who have sought information about Kosovo have done it through their friends and 50% of them through online surfing, whereas only 25% of them have referred to Kosovo official sites for information on Kosovo.

All of respondents claimed not to have ever been approached by any respective Kosovo institution/organization/agency.

Information seems to be of a great significance for 52.9% of surveyed companies who said that only when they have more information they will decide whether they will invest or not in Kosovo. Around 17.6% of respondents said that they want to invest in Kosovo but initially they would like to see some improvements in the business environment. This is then followed by 11.8 % of foreign companies that have already decided to invest in Kosovo in the near future. And finally, there are another 17% of companies who are not considering investing in Kosovo. In total, the rate of potential investors that consider investing in Kosovo is around 80%.



There are two main reasons behind the reluctance of the foreign companies that are not interested in investing in Kosovo, and these include the current global economic crisis and the need for gaining more information.



The reluctant investors name the improvement of legal environment and fighting of bureaucracy as the main changes that need to be undertaken before they consider investing in Kosovo. Still speaking about the reluctant investors, it should be emphasized that all of the surveyed companies would consider investing in Kosovo in case that the global economy/financial conditions improve.

1	Improvement of legal infrastructure
2	Fighting of bureaucracy
3	Tax incentives

With regards to gaining more information about Kosovo and its business environment, 88.9% of respondent companies, are interested in receiving informational and promotional materials, whereas 70% of these companies would like to have more information on the legal environment in Kosovo, followed by around 53% of the companies that are interested in having more information about the human resources in Kosovo.

AmCham Kosovo in the Eyes of Foreign Investors

The results of the survey also show a positive perception of the American Chamber of Commerce in Kosovo among the foreign companies, given that 95.2% of them would like AmCham help them set up their business in Kosovo, in case they decide to do so, and some 85.7% of them who would like AmCham Kosovo help them find local business partners in Kosovo.

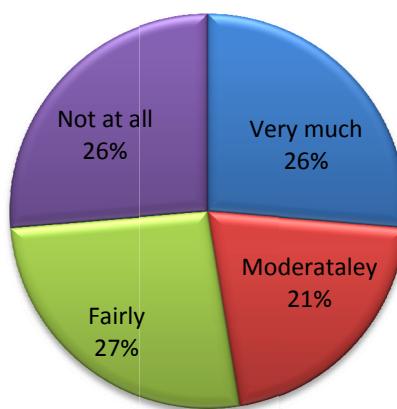
Foreign companies present in Kosovo

The second part of the survey focuses on the foreign investors who have invested in Kosovo, in order to find out their current opinion and perception of Kosovo's business environment. The survey also aimed at finding out what are the current plans of these investors – will they expand their investments, or eventually plan to leave Kosovo in a near future.

The surveyed companies mainly represent the professional services sector at 31.6%, followed by information technology sector at 15%, retail goods at 15%, manufacturing 15%, bank/microfinance/lending sector at 10.5%, wholesale goods at 10.5%, financial/insurance services at 10%. The remaining percentage of around 30% includes, wine production, construction and mining.

With regards to the level of knowledge of Kosovo business environment that the surveyed companies had before deciding to invest in Kosovo, only 26% of them had very good knowledge before deciding to invest in Kosovo, while around 48% of them had moderate or fair knowledge, and the rest had no knowledge at all.

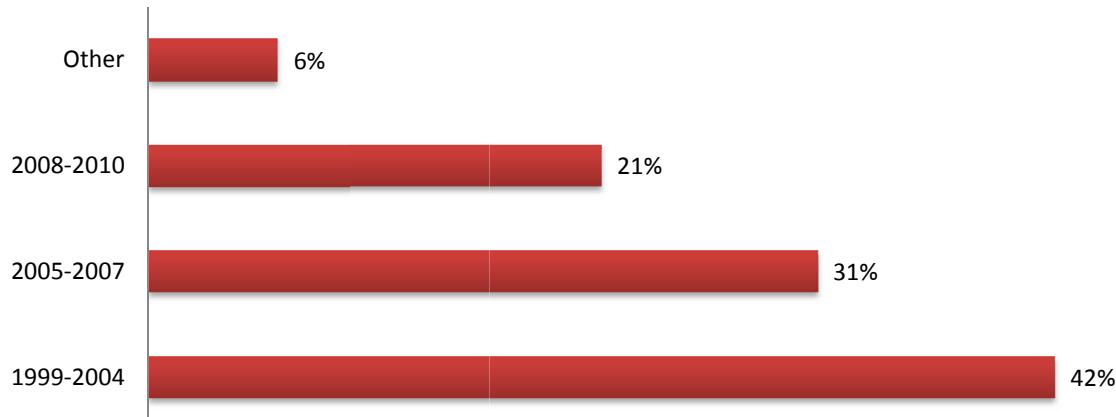
Were you familiar with Kosovo business environment before investing in Kosovo?



Speaking about the channels used by the foreign investors to get information about Kosovo, friends, media and Kosovo official sites are the most dominant channels with around 60%, followed by the internet surfing at around 37%.

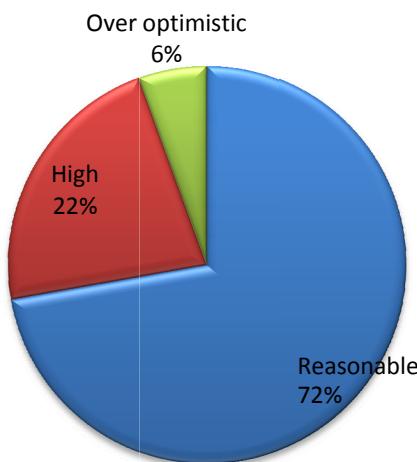
42% of the surveyed companies invested in Kosovo in the 1999-2004 period, whereas 31.6% of the respondents invested within a three-year period of 2005-2007, and 21.1% of respondents invested in Kosovo from 2008-2010. And finally it should be noted that the other surveyed companies invested before 1999.

Period of investment in Kosovo



Speaking about the initial expectations prior to investing in Kosovo, 72% of respondents had reasonable expectations, followed by 22% of respondents who had high expectations and 6% of respondents who had over optimistic expectations.

Initial expectations prior to investing in Kosovo

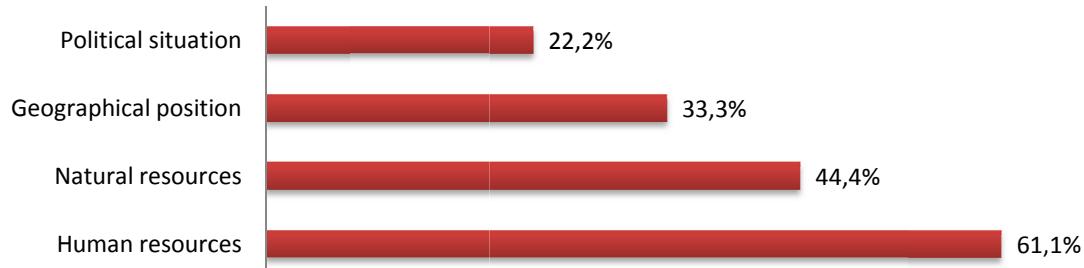


With regards to the fulfillment of respondents' expectations, 42.1% of respondents claim that their expectations were met moderately, 31.1% of respondents claim their expectations were met well, followed by a 15.8% of respondents who claim that their expectations were met very well. There is a

10% of those who claim that their expectations were not met very well and another 10% who claim that their expectation have not been met at all.

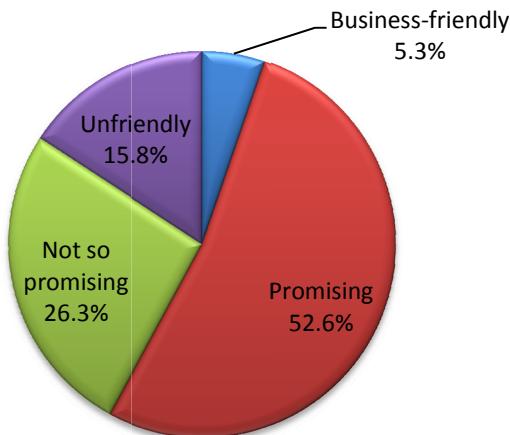
More than 60% of respondents consider human resources to be the strongest potential that Kosovo provides to foreign investors. The chart below shows the ranking of other strongest potentials according to the foreign investors in Kosovo.

The strongest potentials of Kosovo



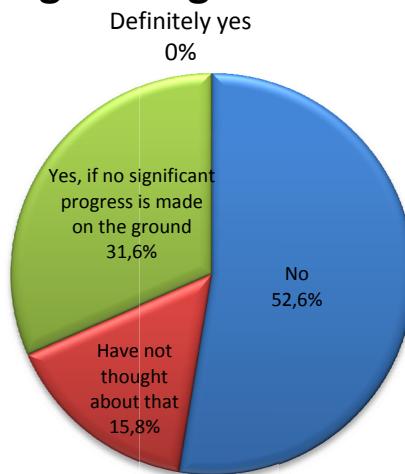
Despite the fact that there is a slight percentage of respondents who claim that their expectations have been met to a desirable level, 52.6% of respondents still rank current business environment in Kosovo as promising. This is then followed by a 26.3% of respondents who rank the business environment as not promising and a 15.8% who seem to see no friendliness in the current business environment in Kosovo.

Kosovo business environment ranking



In relation with the previous question, it is necessary to mention here that more than 52% of respondents are not considering leaving Kosovo and 15.8% of foreign investors who have not thought about this at all, while the remaining 31.6% may leave Kosovo if no significant progress is made on the ground.

Are you considering leaving Kosovo?

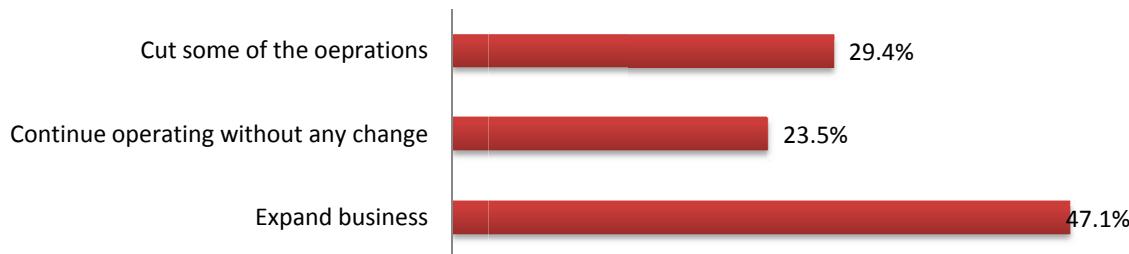


Regarding the progress that needs to be made on the grounds, the respondents have ranked five items that urgently need to be improved by Kosovo's relevant institutions as follows:

1	Rule of Law
2	Legal Framework
3	Skilled labor
4	Tax environment
5	Transportation infrastructure

And the final question addressed to the foreign investors in Kosovo aimed at finding out what are they planning to do with their investments in Kosovo. The responds provided in this question also showed positive findings as 47.1% of respondents said they are planning to expand their business, while 23.5% of them are planning to continue operating without any change. Finally, a remaining 30% said that they are planning to cut some of the operations.

What are you planning to do with your investments in Kosovo



Conclusions

The survey conducted with foreign investors present in Balkans and SE Europe showed that they have heard of Kosovo, and that Kosovo – Young European media campaign might have had a positive impact on this regard. However the situation is different with regards to the knowledge that these investors have of Kosovo's business environment.

Potential investors also seem to have not much knowledge about the main potentials that Republic of Kosovo offers to foreign investors. Another finding of the survey is that none of respondents had been approached by any Kosovo state institution/agency/organization. More than half of respondents confirm their readiness to invest in Kosovo after they had received some informational/promotional materials about Kosovo and its business environment.

An encouraging portion of these foreign companies, around 12% have already decided to invest in Kosovo. Speaking about those who are currently not thinking at all of investing in Kosovo, two are the main reasons behind this reluctance. The first one is lack of information about Kosovo and the current global economic crisis.

Several other respondents say that they want to see improvement of legal infrastructure, fighting of bureaucracy and tax incentives before they decide to invest in Kosovo.

The survey conducted with foreign investors who have already invested in Kosovo rendered almost the same conclusions as the previous survey. The companies lacked the necessary information about Kosovo's business environment before investing in Kosovo. The companies used informal channels to get these information. Most of the companies that have invested in Kosovo had moderate expectations from their investments and are up to an average extent satisfied with the fulfillment of their expectations. The survey also revealed a slight portion of foreign companies that see Kosovo's business environment as unfriendly, whereas half of them seem to have a bit more optimistic view. An important conclusion is that 30% of foreign companies may leave if no significant progress is made by the institutions. In this regard, they name: rule of law, legal framework, skilled labor, tax environment and finally transportation infrastructure as the five key items that urgently need to be addressed and improved.

Recommendations

Considering that foreign investors lack information about Kosovo's business environment, then AmCham recommends the relevant institutions to replace the Young Europeans advertisement with another advertisement that would focus on Kosovo's potentials for investment.

Kosovo's state bodies, particularly the Economic Sections/Staff of the Embassies of Republic of Kosovo should identify, target and contact the American and European companies that are present within the countries in which they represent Kosovo, and thus present them with investment advantages and potentials in Kosovo, or send them informational or promotional packages.

Finally, Kosovo institutions should make more efforts in improving the items that were identified by the foreign investors, i.e. legal infrastructure, fighting of bureaucracy and tax incentives.

The above recommendations should apply for the conclusions rendered from the survey with the foreign companies that have already invested in Kosovo. Institutions should work hard to convince these investors that their investments will be safe and that Kosovo will become a better place for investments.

Summary of Interviews with relevant stakeholders working for/providing assistance to investment-promoting bodies in Kosovo

The Study Kosovo in the Eyes of Foreign Investors also includes qualitative data rendered from interviews with relevant experts/officials working for/providing assistance to the bodies dealing with promotion of investments in Kosovo. For confidentiality reasons the names of the interviewed experts/officials and organizations they work for shall not be published.

Below, are presented the summarized findings of the interviews with the above-mentioned experts.

Namely, the experts believe that Kosovo institutions have initiated several reforms in improving the overall environment, such as the business registration procedures. But despite these efforts, the interviewed experts believe that Kosovo institutions, particularly the Investment Promotion Agency of Kosovo can do more to promote Kosovo as a business-friendly environment for foreign investors.

However they also say that there is lack of real 'One Stop Shops', regardless of the fact that Investment Promotion Agency of Kosovo is established to serve as one. In this context, they say that investment promotional materials should be more focused on details for specific industries rather than on general and technical information, that do not give the investors the answers they want to have. For example, instead of having the general number of graduates per year, the investors would want to have the number of graduates in each field.

On the other hand, the officials from the Investment Promotion Agency of Kosovo, also interviewed by the project implementation team, say that given the lack of funds that are available to this body, they are satisfied with their performance. In their words, other similar bodies in the region have a much higher budget. They say that in many cases they have been approached by foreign investors and that they have been able to assist them in many aspects, such as business registration process and permit application and other administrative processes. IPAOK officials say that thanks to the support of key donors, they have been able to organize and support networking events and trade enhancement missions abroad. All in all, IPAOK says that it has done the best in fulfilling its objectives.

Experts call on Kosovo's institutions to analyze more the practices used by other countries, particularly the neighboring ones, in attracting the foreign investments, as there is much that can be gained from these countries that have been more successful in their efforts. They name Bulgaria as a good example of a country which provides more detailed information to foreign investors.

Experts also say that the new Law on Companies is expected to make significant improvements. Another 'must do' item, according to the experts, is the adoption of a Law that would provide legal protection to all the foreign investors in Kosovo. What creates delay in the complete business registration process is the need for having several different numbers, such as the business registration number, fiscal number and VAT number. The experts suggest that there should be only one unique number for the businesses.

It is interesting to mention that despite the fact that the experts voice concern over the Kosovo's ranking in World Bank Doing Business Report, some of them claim that the ranking may be a bit negative compared to the real situation on the ground.

Also, these experts say that in addition to advertisements that show Kosovo youth being as modern as any European nation, Kosovo institutions should specify in details the comparative advantages that Kosovo has to offer, such as youth talents, natural resources, etc. They say that Kosovo can serve as a right destination for the outsourcing of some business activities of the foreign companies, adding that so far there are many good examples in this context.

In the view of interviewed experts, the political situation and particularly Kosovo's current position in Central European Free Trade Agreement (CEFTA) might be a serious reason behind investors' reluctance to invest in Kosovo. In this regard, Kosovo, with the help of international stakeholders, should work more in improving relations with Serbia and Bosnia and Herzegovina, two countries in the Balkan peninsula that do not recognize Kosovo custom stamps and other official documents.

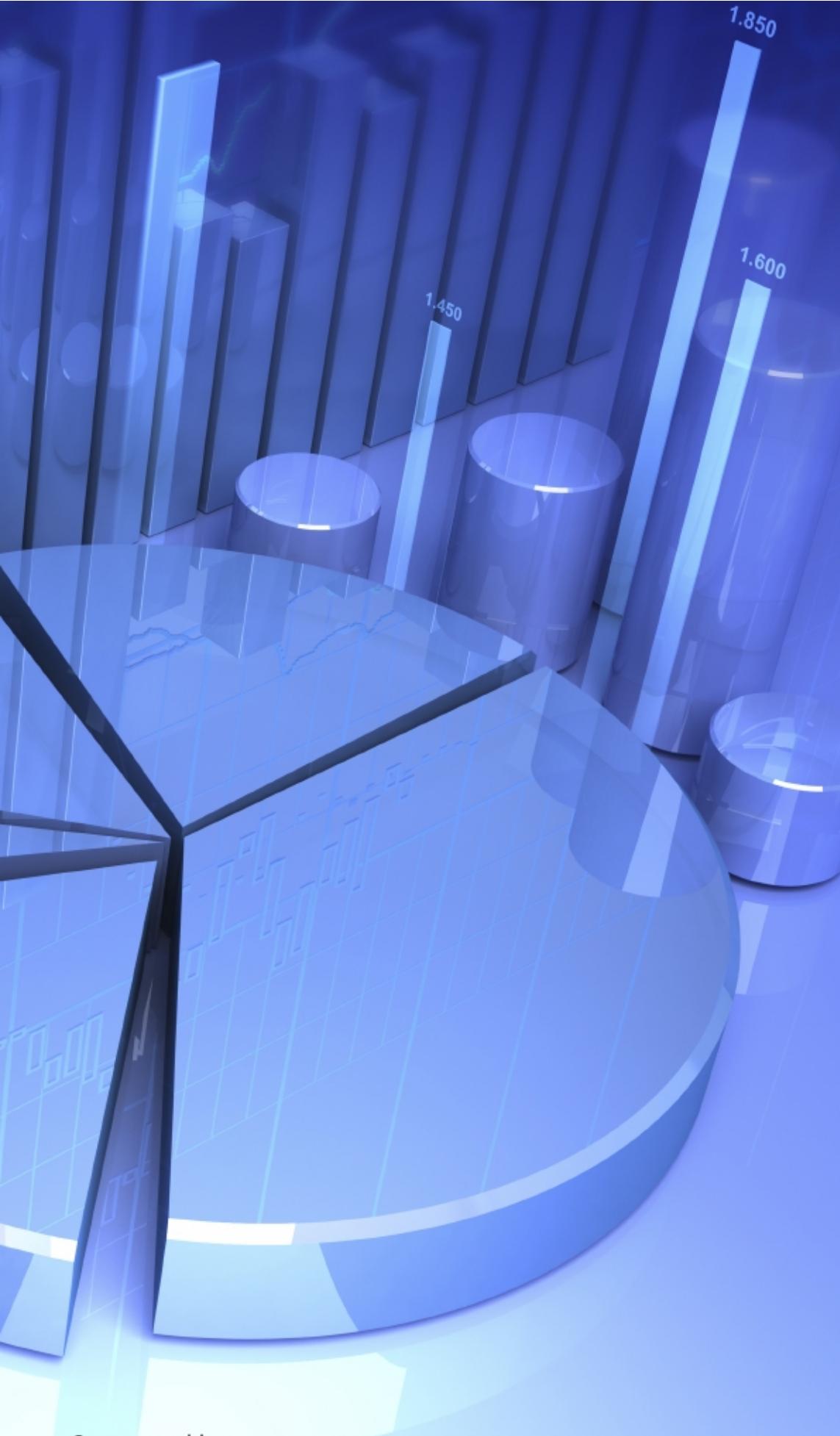
Finally, when speaking about the human resources in general, experts believe that what Kosovo lacks a skilled labor and therefore further professional development and/or specialization of this labor is needed.

Recommendations

Based on the conclusions rendered from the interviews with the experts working for/providing assistance to investment promotion bodies in Kosovo, AmCham recommends the respective Kosovo institutions to make the best use of their capacities for promoting Kosovo's investment potentials.

The so-called One Stop Shops, such as the Investment Promotion Agency of Kosovo, should really make the hardest efforts in offering the foreign investors solutions and answers to all their inquiries. But in order to achieve this, Government and/or donors should maintain and increase their financial support to IPAK. The promotional and informational materials should provide specific information instead of the more general ones. In this regard, the analyzing of regional countries practices would be of great help.

There should be a further simplification in the business registration procedures, such as having a unique identification business number, instead of several ones. This would ultimately have a positive impact in Kosovo's overall ranking in the World Bank Doing Business Report as well. Finally, it is necessary for Kosovo to eliminate the political obstacles that might discourage foreign investors, such as the case of Central European Free Trade Agreement.



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