

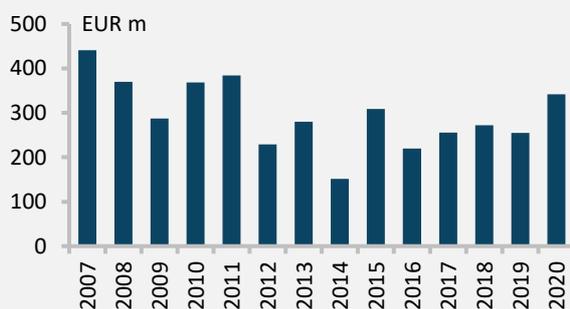
## FDI attraction in Kosovo: potential despite weaknesses

In the recent past, Kosovo could only partly tap its potential in terms of both quantity and quality of attracted investment. Despite several policy measures, e.g. the establishment of economic zones and the introduction of a flat corporate tax at 10%, FDI inflows remained at a rather low level during the last decade. FDI largely went into the real estate sector, while knowledge- and export-oriented industries only accounted for a small share. Current conditions are challenging, but not without opportunities. Kosovo’s key strengths such as the competitive cost structures as well as the integration process with the EU and at the regional level are of high relevance in the context of changes in investment patterns, e.g. for attracting nearshoring projects. Unlocking the potential requires a targeted and coherent approach generating synergies within the policy and institutional framework. Investment attraction efforts need to be intensified and focused on the most promising target groups. At the same time, it is critical to strengthen capacities throughout the entire investment attraction cycle.

### Background

FDI inflows into Kosovo have been at a low level in the last decade lacking a full recovery after the global financial crisis. Recently, the pandemic had a severe impact on global FDI. However, bucking the global and regional trend, FDI inflows into Kosovo increased by 34% yoy in 2020 with a total amount of EUR 342 m. In particular, the real estate sector showed robust investment dynamics.

### FDI inflows into Kosovo



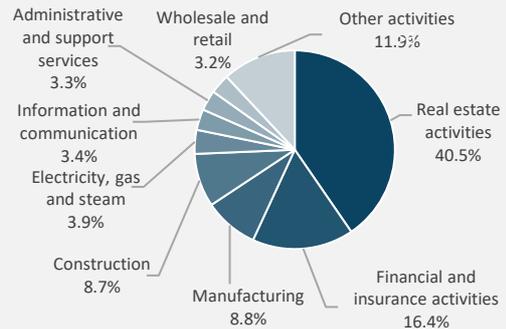
Source: Central Bank of Kosovo

### FDI composition in Kosovo

Despite some successes, knowledge- and export-oriented industries still account for a low share of FDI. In the recent past, Kosovo was able to slightly diversify the composition of FDI, attracting investment projects in industries such as manufacturing (e.g. KIVO LLC), IT/BPO

(e.g. Imbus AG and ABIDAT) and renewable energy (e.g. SOWI Kosovo). However, FDI is still largely going into the real estate sector accounting for more than 40% of total FDI inflows between 2007 and 2020.

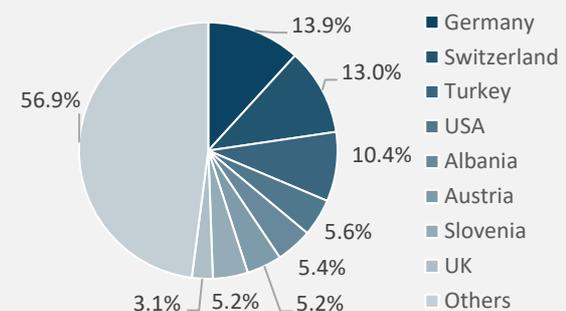
### Composition of FDI inflows 2007-2020



Source: Central Bank of Kosovo

Investments from the diaspora have been an important driver for FDI in Kosovo. The vast majority of FDI in Kosovo originates in Central Europe, Turkey and further Western Balkan economies. Germany is the leading source country of FDI in Kosovo, followed by Switzerland and Turkey.

### Share of total FDI stock as of March 2021



Source: Central Bank of Kosovo

### Challenges and opportunities

The pandemic had a severe impact on international value chains and investment flows. In fact, the current and near-term conditions for attracting investment are challenging. Due to less FDI available globally, competition between locations will intensify. A low level of institutional credibility, fiscal and administrative barriers, and a large informal economy continue to negatively affect the business environment for attracting FDI in Kosovo.

On the other hand, it should be noted that changes in FDI patterns also open up new investment and

development potentials. This includes the possibility to attract nearshoring projects and the advantages from a diversification and regionalisation of value chains. Kosovo's key strengths (e.g. the competitive cost structures as well as the integration process with the EU and at the regional level) are of high relevance in the context of changing investment patterns and investor needs.

### Recommendations

Tapping this potential requires a pro-active, targeted, and coherent approach addressing the entire investment attraction cycle and generating synergies within the policy and institutional framework. We recommend intensifying target-group-oriented investment attraction based on a clearly defined strategy and segmentation. In light of the impact of the pandemic, it is critical to concentrate on the most promising target groups.

In addition to promotional efforts, investment facilitation and aftercare services should be extended. Moreover, the relevant capacities should be strengthened. Effective investment attraction requires adequate structures and specific expertise. The Kosovo Investment and Enterprise Support Agency (KIESA) is understaffed in international comparison considering its wide scope of mandates.

Efforts need to be intensified beyond investment attraction. In this context, it is recommended to increase the effectiveness and alignment of related policy tools and areas, e.g. economic zones, skills development and promoting linkages between investors, local suppliers, educational and research institutions.

### Outlook

As a first step to support the implementation of the recommendations, the German Economic Team has already carried out an assessment of institutional reform paths for KIESA across related mandates. The assessment was based on a review of commonly used organisational models of investment promotion agencies (IPAs) as well as reform trends and practical examples at the international level.

As a next step, an analysis and prioritisation of target groups for future investment attraction measures is foreseen. In line with international good practice, the target group analysis will take into account the three dimensions (1) investment trends, (2) development impact and (3) competitive position.

Drawing on available studies and interviews with existing investors and investment experts in Kosovo, a short-list of potential target groups will be derived. Based on

a comparative assessment, the most promising target groups will be selected and further specified for the implementation of investment attraction measures.

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This newsletter is based on Policy Briefing: [Reviewing Kosovo's investment attraction performance and measures in light of changing FDI patterns](#)

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