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MSc Program

International Engineering Management



**“Investments from foreign financial institutions during the period
2000-2008 and their impact in the job creation by SMEs in
Kosovo”**

A Master Thesis submitted for the degree of
“Master of Science in International Engineering Management – MSc.IEM”
to the University for Business and Technology

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ABSTRACT

Considering that our country's final status is recently finalized and access to International Financial Institutions is still very important, the subject of this research makes it even more interesting and worthy to read. In this paper, I am going to discuss the impact of foreign financial institutions in creation of new job positions in post war Kosovo. The focus shall be on financial institutions which have had impact on job creation through their direct investments.

Financial Institutions play an important role in any economy by facilitating and intercession of local and international financial transactions, by facilitating the flow of money in and out of a country, and facilitating or enabling the access on International Financial markets. Also, foreign financial institutions seem to have a special aim to provide better and more qualitative services to SMEs.

Commercial banks, in best cases are usually known as accelerators of a country's economic development but unfortunately in some cases they might be considered as prohibitive or they might prolong the desired development. In that context, commercial banks as the most important financial institutions and probably most widely present in any country have a crucial role for a country's economic development in general, GDP growth and unemployment rate in particular.

No one can really disregard the role of foreign investments in our country and in any economy which is in transition phase as we are. This emphasizes even more the importance of foreign investments.

Based on the results of this study, I have come to the conclusion that financial investments in Kosovo have not been enough significant to decrease the high unemployment rate in Kosovo, and there is still a need for direct foreign investments in order to push down the unemployment rate in order to improve the living standard of Kosovo's inhabitants.

CHAPTER # 1

1. INTRODUCTION

Methods and ways for any paper preparation are usually set after defining the objectives or aims. Therefore the need for using primary and secondary data was obvious because of the nature of the topic. By primary data I mean the official data from different publications and by secondary data I mean the data collected from different analyses during my research study.

During this research, necessary data for the analysis have been collected using questionnaires and research through existing books and scientific publications. The analysis of this data has been done using the knowledge gained during the master studies.

The use of questionnaires has shown to be of great importance as it allowed me to collect the most up to date information and foresee the investment system and its role in Kosovo. The questionnaires have been sent to middle management responsible persons of Small and Medium Enterprises (SMEs), financial institutions and foreign investors which are operating currently in Kosovo.

During this study, I have searched and collected related information which was necessary to analyze and complete the study with the conclusion about the impact of the foreign direct investment in job creation by SMSs in Kosovo during the period 2000 – 2008. Reports and publications are also used for possible comparisons. In detail, how many people are employed, what were the advantages/disadvantages from these investments, in which sector investments have happened, which industries were developed from those investments and what was the role of SMEs in new job creation.

I have developed two attached questionnaires about the direct foreign investments in Kosovo which are presented to foreign investors (EFSE, KFW, EBRD, USAID, etc.), all financial institutions that currently operate in Kosovo and SMEs. The first questionnaire was for investors and financial institutions and the second one for SMEs. All of SMSs have responded fully to my questionnaires whilst the response rate from financial institutions and foreign investors was around 53%.

The information sources for newly created jobs were: “Ministry of Trade and Industry of Kosovo”, “The Statistics office of Kosovo”, the regional employment centers, “Ministry of Labor and Social Welfare”, and different investors and SMEs which operate in Kosovo.

The conclusion of this thesis has come as a result of my research and analysis of actual situation, and data from post war days until now. I believe that this research paper will serve to institutions, future investors and other interested people on this subject for gaining information about the impact of foreign investments on new job creation in post war Kosovo.

CHAPTER # 2

2. FINANCIAL INSTITUTIONS IN KOSOVO

2.1 - Central Bank of the Republic of Kosovo – CBK

CBK is a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo. It was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo (“UNMIK”) regulation no. 1999/20 issued on November 15, 1999.

CBK conducts regular economic and monetary analysis of Kosovo’s economy, publishes the results of their researches, and submits proposals and measures to the United Nations Interim Administration Mission in Kosovo and the Provisional Institutions of Self Government on the basis of such analysis. [1]

Kosovo as a state with an economy of free market allows that economy flow to be managed by supply and demand. In this economy CBK is not controlling the loan or deposit interest rates. Kosovo has imported Euro as currency but CBK is neither member of European Central Bank nor participates in policy making.

The financial sector is dominated by commercial banks, which accounted around 80% of total assets in the financial system. At year-end (2007), there were eight banks with a total of more than 230 branches and more than 3,000 employees operating in Kosovo. [2]

Banking system in Kosovo is growing substantially as we can see from the numbers that in 2000 the deposit amount in banks was 93 million Euros and in June 2008 was 1.2 billion Euros. Also amount of loan disbursed in 2000 was only 3 million Euros and in June 2008 was 943 million Euros. [1]

The CBK supervises the policies and procedures and under its supervision are:

- Commercial banks
- Insurance companies

- Non-Bank Financial Institutions (institutions other than banks which provides financial activities)
- Micro Finance Institutions (lending institutions)
- Money Transfer Agencies
- Exchange Bureaus

In Kosovo, there are operating eight Commercial banks, fourteen insurance companies, five insurance intermediaries, eight pension Funds licensed by CBK, fifteen MFI's, eight Non banks financial institutions, five Money transfer agencies and twenty-one Exchange bureaus.

Under the CBK supervision is also Credit Registry of Kosovo (CRK), which is helping Kosovo's financial businesses check their clients' former performance for their loans if they have any.

Besides, the CBK has, among others, the following specific powers to:

- Recommend broad policy guidelines to the Special Representative of the Secretary-General of the United Nations and Provisional Institutions of Self Government in areas under its responsibility,
- Formulate and implement measures for, and averse and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- Own and operate one or more payments systems;
- Act as banker and fiscal agent to the Ministry of Finance and Economy and, to provide financial advice at its request;
- Hold foreign currency deposits of banks, Ministry of Finance and Economy and other public entities;
- Ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- License, supervise and regulate financial institutions; [3]

Kosovo's banking sector continued to expand in 2007 and 2008. Total sector assets grew by 15%, the combined loan portfolio volume rose by 33%, and customer deposits were up 22%, suggesting that public confidence in the banking system is increasing. [4]

2.2 - Domestic Banks

Currently, there are only two domestically owned banks in the Kosovo market. These two banks have tradition and operate long time in Kosovo.

- Bank for Private Business (BPB)
- Banka Ekonomike (BE)

These two banks have different structure of shareholders, different balance sheet size, different mission and vision, etc.

It is very important to point out the fact that in the recent year's number of domestically-owned banks have decreased year by year resulting to only two banks with domestic ownership out of a total of eight banks.

After the year 2005, number of domestically owned banks was kept constant but the problems begun to appear when people's confidence toward these banks was demolished as a result of some non- professional steps that these banks took in lending business.

As result of liquidity problems, in year 2006 CBK revoked the license of one of the domestically-owned bank and this was the crucial decision that made people's opinion change in benefit of foreign banks and almost caused a chaos in the overall banking sector.

At this stage, domestic commercial banks started to provide high interest rates on deposits and invest on their reputation in order to overcome their liquidity problems. Not all of them have succeeded, therefore, "Banka Kreditore e Prishtines" was out of the market, and "Kasabank" and "Banka e Re e Kosoves" were bought and merged by Nova Ljublanska Banka (NLB), a Slovenian commercial bank.

Domestic banks are having lack of funds and this is determining their product portfolio and the quality of their services. Two remaining domestic banks are trying to remain competitive and offer products and services compatible with requirements and needs of economic agents in Kosovo.

2.3 - Foreign Banks

Currently, there are six foreign commercial banks that operate in the Kosovo market.

- Pro Credit Bank Kosovo (PCB) – German Bank
- Raiffeisen Bank Kosovo (RBKO) – Austrian Bank
- Nova Ljubljanska Banka Prishtina (NLB) – Slovenian Bank
- Turkish Economic Bank (TEB) – Turkish-French Bank
- Banka Kombetare Tregtare – Kosovo Branch (BKT) – Albanian Bank
- Komercijalna Banka ad Beograd – Mitrovica Branch (KB) – Serbian Bank

All of these banks have branches and sub-branches around the Kosovo which operate safely and are organized efficiently to perform all of the banking transaction in order to help Kosovo people.

Financial intermediaries have a critical role to play in evaluating and pricing risk, allocating savings, financing investment, and enforcing appropriate accounting and management practices, thereby bringing the shadow economy into the light. However, Kosovo's financial sector is stunted by lack of confidence in banks, lack of trained, experienced managers and supervisors; and a weak legal framework for private business. In addition, political uncertainty deterred potential foreign investors.

Most of the foreign banks seem to offer services that would fulfill the needs and requirements of the business community and households. The range of products or services that they do offer starts from the simplest ones and continues to more specific and complex ones.

Deposits, loans, bank guarantees, LC, debit and credit cards, ATM (automatic teller machine) and POS (Point of sale) products/services are main products that foreign banks offer. In addition, some specific and innovative products/services that some of these banks are offering such as e-banking.

Furthermore, services of foreign banks are far more professional and more qualitative than those of domestic ones. The responses to the customers are faster, they provide less-bureaucratic services and more friendly environments, they have well-qualified staff and more and better international know-how. They do correspond with some well-known international banks and thus offer better products and services for international transactions.

Both foreign and domestic banks provide a full range of banking services including loans, guarantees, current accounts, savings accounts, term deposits, domestic and international transfers, and safekeeping services.

2.4 - Main differences between foreign and domestic banks

Main differences between foreign and domestic banks can be noticed while looking and analyzing their market share, asset size and their product portfolio. By analyzing the market share, we can clearly see that foreign banks are heavily dominating the market and thus influencing it by larger scales. Asset size is another fact that foreign banks are benefiting on as their asset size in comparison with domestic banks amounts at 80-90% and thus enabling foreign banks to issue more loans and attract more deposits. Two above-mentioned factors determine the product portfolio that a bank is able to offer. Therefore, foreign banks are offering a wider product portfolio and meeting or attracting business community or household needs and requirements.

Table 1: Preliminary results as of the end of year 2008

Bank Name	Loan Portfolio	Loan Portfolio in %	Total Assets	Total Assets in %
	in millions		in millions	
RBKO	394	36.7%	594	35.3%
PCB	424	39.5%	646	38.4%
TEB	35	3.3%	56	3.3%
BKT	3	0.3%	10	0.6%
NLB	137	12.8%	239	14.2%
BE	53	4.9%	86	5.1%
BP	27	2.5%	52	3.1%
Total	1,073	100.0%	1,683	100.0%

*Source of info: <http://www.telegrafi.com/?id=48&a=17>,
<http://www.telegrafi.com/?id=48&a=18>, <http://www.telegrafi.com/ekonomi>
and from answers of questionnaires received from related banks*

As per my research, the results of Table 1 show that the percentage of loan portfolio of the foreign banks in Kosovo's market is 92.6% while the local banks do participate with only 7.4%, and the percentage of total assets of the foreign banks is 91.8% while the percentage of domestic banks' is 8.2%. It shows us that the participation of the foreign banks in total financial market in Kosovo is quite higher than the participation of domestic banks.

Among other advantages that foreign banks possess are well-qualified staff, their more qualitative services, international experience and know-how as well as their friendly environment facilities. Confidence is another value that foreign banks have as so far none of the foreign banks is suffering losses or predicting to face this problem. This fact is increasing people's confidence as their deposits are safe in such a business entity. However, there is a disadvantage that foreign banks have and that is the lack of knowledge on people's mentality and culture. This is sometimes causing problems to them as this makes more difficult for them to predict customers' requirements and their needs.

2.5 - Banks in Kosovo and their investments activities during 2000-2008 period

From the analyses made by the information received from the collected questionnaires and the information taken from the banks' published reports is shown that, foreign banks which came in Kosovo after the war they bring their capital and invest in Kosovo market mostly through SMEs and a part through corporate banking.

According to the responses I have got through my survey, financial institutions have confirmed that the role of SMSs is of utmost importance in new job creation.

As per my findings, advantages and disadvantages of the investments for the banking sector are:

Advantages

- Potential for high investment returns

- Long-term investment possibilities
- Flexible investment options

Disadvantages

- High charges which reduce earnings from investment returns
- Bureaucratic court procedures
- Non-efficient services of cadastre office

This capital coming from abroad was more than welcomed in the period when everything in Kosovo was simply destroyed and people did not have capital to begin their businesses.

Raiffeisen Bank Kosovo has received a lot of loans from foreign financial institutions with the purpose of refinance sub-loans to borrowers in Kosovo for the purpose of housing activities and SMEs. The Bank has received three loans from Kreditanstalt fur Wiederaufbau - KFW and has repaid three installments during 2005 and 2006. The first loan was received during the first part of the year 2005 for the amount of EUR 2 million. The second loan of EUR 2.9 million was received during the second half of 2005. The third loan was received during the first half of 2006 for EUR 8 million. All borrowed funds have a grace period of six months and a five year maturity period. [5]

RBKO has received loans also from other foreign financial institutions such as EBRD and Raiffeisen Bank Albania as following:

Borrowings in thousands EURO

<u>RBKO</u>	<u>2007</u>	<u>2006</u>
EFSE/KFW	10,799	11,806
Raiffeisen Albania	3,314	3,866
EBRD	<u>1,727</u>	<u>2,006</u>
Total	15,841	17,678

Note: Funds of KFW later were transferred to EFSE funds

The Bank signed a framework agreement on 26 June 2006 with the International Finance Corporation (“IFC”) for the purpose of obtaining a loan of EUR 10 million, but the facility is not used as of 31 December 2007. [5]

The Bank signed a guarantee agreement on 30 September 2006 with the US Agency for International Development (“USAID”) for the purpose to partially guarantee certain qualifying loans in the agro business sector, which are made by the Bank. The maximum cumulative amount of all loan disbursements shall not exceed the EUR equivalent of USD 10 million where the guarantee ceiling is USD 5 million (50% coverage). The coverage period is seven years, while the loans have a maximum maturity term 60 months. [5]

Above data show us that, the foreign banks have a lot of investments in millions from foreign investors, which are invested in development of Kosovo economy mostly through SMEs.

ProCredit Bank, Kosovo was the first licensed bank in Kosovo. The Bank was founded through the initiative of several international financial institutions and investment companies, namely Commerzbank AG, ProCredit Holding AG (at the time under the name of Internationale Micro Investitionen AG), the European Bank for Reconstruction and Development (“EBRD”), International Finance Corporation (“IFC”), Kreditanstalt für Wiederaufbau (“KfW”) and Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden (“FMO”). [6]

Procredit Bank is focused on serving very small businesses and SMEs, as they are certain that these businesses will create the largest number of job opportunities and give a vital contribution to the economies where they operate. Its objective is to provide efficient, reliable and easily accessible banking service for all legal entities and private persons throughout Kosovo. [6]

ProCredit bank also has received borrowings which help on such fast growing of their assets and portfolio. Borrowed funds were loans from the European Fund for Southeast Europe (“EFSE” which is promoted by KfW), to provide funding for the Bank’s lending activities. Procredit bank prepaid these loans from KfW and EFSE in amount 3,150,000 Euro and

1.150,000 Euro respectively in May 2007. Growth in lending to medium-sized enterprises was very strong, while loan portfolio growth was driven mainly by business lending in urban areas, agricultural loans also made a significant contribution. [6]

CHAPTER # 3

3. INVESTMENTS FROM FOREIGN FINANCIAL INSTITUTIONS

3.1 - Domestic Investors

- Kosovo Government
- Private Sector
- Local Investment Agencies

3.2 - Foreign Investors

3.2.1 - Foreign Direct Investments (FDI)

Taking into consideration the favorable business climate, stable macroeconomic environment and the excellent opportunities across different business sectors, Kosovo is increasingly becoming a very attractive place for doing business.

As result, the interest of foreign investors has been increasing steadily during the past years and together with it also the inflow of FDI. Kosovo has so far attracted over one billion Euros of FDI. Apart from investment pioneers such as the Raiffeisen Bank and Procredit Bank, which entered the Kosovo market at the beginning of the transition phase, there are many other foreign companies engaged in a wide range of business sectors. The large amount of foreign companies operating in Kosovo are a living proof of the opportunities and benefits that the country offers, and also represents a base of quality products and sufficient service-providing community. [8]

Kosovo faces lack of financial resources for financing investments, while there is constant pressure for resolving the unemployment problem. Therefore, it is considered that FDI will play a positive role in the Kosovo economy, by introducing fresh capital, modern technology,

western experience in the field of marketing and Management. Simultaneously, they will assist the restructuring of the economy, opening up of new working places, increase of export and decrease of the trade balance deficit. [7]

The immediate increase of the GDP until 2002 was fairly affected by the large amount of international donor contributions, which amounted to approximately 900 million Euros and was concentrated in the construction of houses and infrastructure damaged by the conflict of 1999. Afterward, this assistance had decreased considerably and by 2006 it is considered to be two times lower than in 2002. The adoption of Euro as a national currency has been in favor of sustainable monetary policies and exchange rates. [7]

Even though it is clear that Kosovo needs a higher rate of economic growth in order to address the challenges it faces, the level of economic growth in 2006 should be considered encouraging, because it had been achieved notwithstanding the limiting effects that have resulted from the reduction of donor assistance (from 426 million Euro to 343 million Euro) as well as the reduction of government capital expenditures. This growth has been mainly supported by the private sector investments, which were financed by credits of the banking sector and FDI. [7]

Table 2: Investments in Kosovo, 2001-2006, in millions of Euro

	2001	2002	2003	2004	2005	2006
Investments	661	603	572	594	600	618
Donor Sector	245	180	132	65	69	86
General government	6	15	36	169	153	153
Private Investments	409	408	404	357	376	383
Housing	300	258	241	190	195	195
Others	109	150	163	167	181	188

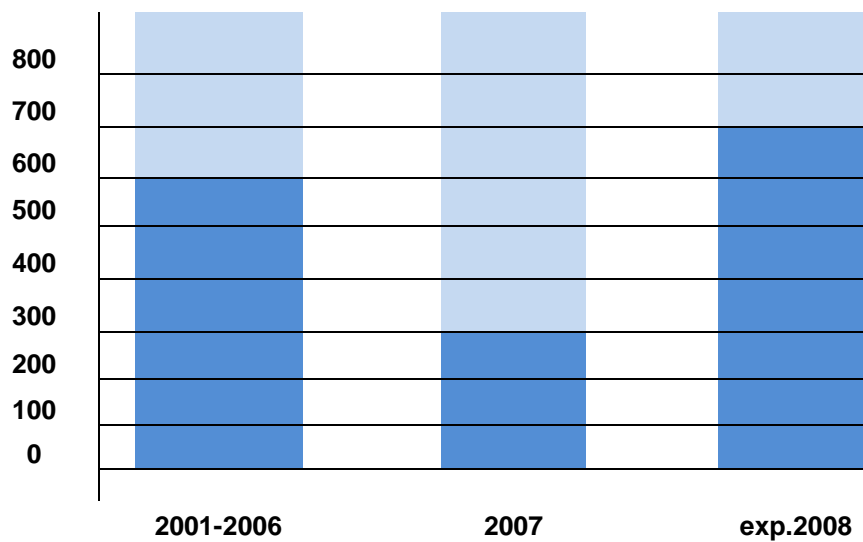
Source: IMF staff estimates, 2006

Table 2 shows that the investments, donor sector, private investments and housing decreased from 2001 to 2006 and only general government and other investments have increased.

According to the Business Registry data for 2007, there are 2,012 companies of foreign and mixed ownership that have already used the opportunity to invest in Kosovo [8].

The level of increase of investments in Kosovo during 2006 – 2008 is depicted in Figure 1.

***Figure 1: Foreign Investments in Kosovo - by year
(million Euro)***



Source: http://www.eciks.org/english/publications/investing_in_kosovo/content/iguide_4.html

Kosovo does not currently have a formalized system for collecting foreign direct investment data. The Investment Promotion Agency of Kosovo – IPAK estimates over 1600 foreign companies are currently operating in Kosovo, compared to just 360 in 2004, 22 of these companies are American, 249 from EU countries, 784 from Southeastern Europe and 36 from Switzerland. Top sector investments for foreign businesses include trading (63%), service industries (18%), manufacturing industries (11.5%) and construction (7.5%). [9]

Table 3: List of foreign major investors in Kosovo

Company	Country	Sector
RAIFFESEN BANK	Austria	Financial sector
PRO CREDIT BANK	Germany	Financial sector
KASABANK/NOVA LJUBLANSKA BANKA	Slovenia	Financial sector
TELECOM SLOVENIA & IPKO NET	Slovenia	Telecommunication
INSURANCE COMPANY “SIGAL”	Albania	Insurance
INSURANCE COMPANY “INSIG”	Albania	Insurance
IMR - ALFERON	Great Britain	Mining
LLAMKOS	India	Metal processing
HARO TRADE AND CONSULTING L.T.U. XELLA	Austria	Construction
KOSOVAPLAST	Macedonia	Construction
ROFIX	Austria	Construction
IMN BRICK FACTORY, GJAKOVA	Kosovo/Macedonia	Construction
SHARR CEM	Switzerland	Production of cement
SILCAPOR/GRAND HOTEL	Kosovo/Macedonia	Construction/hotels
RENOVA	Macedonia	Construction
M& SILOSI – XËRXË	Switzerland and Macedonia	Food industry
RAHOVECI VINERY	USA	Food industry
PEJA BREWERY	Kosovo	Food industry
NEWCO TROFTA ISTOG	Belgium	Food industry
“LUKO”	Luxemburg	Food industry
“SEMENARNA” KOSOVË	Slovenia	Agriculture
BALLKAN BELT	Turkey	Leather and rubber
SCAN COLOR	Norway	Colors

Source: <http://www.invest-ks.org/?cid=2,142>

From 23 of foreign investors listed in Table 3, 6 of them have invested in construction sector, 3 of them in financial sector, 5 of them in food industry and the others in different sectors. The complete list can be seen in Table 3.

3.2.1.1 - Role of foreign banks in promoting FDI

FDI is defined as a long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based.

All foreign banks can be considered as FDI but here we have to look on their role to promote or support FDI sector. There is a direct relationship between FDI and economic development, as measured by increased GDP. Foreign direct investment stimulates economic growth, but also reacts to economic growth and progress of transformation.

Foreign Direct Investment can improve overall economic growth by increasing competition in sectors previously dominated by only one or two local firms. Once a government decides that attracting Foreign Direct Investment is an objective, it must recognize the trade-offs associated with any type of investment. Labor-intensive assembly activities, for example, generate both exports and jobs, but these activities typically rely on imported intermediate goods rather than on local inputs.

Foreign banks are offering products and services that would facilitate the FDI procedures and trying to create a positive atmosphere to attract FDI. Foreign Direct Investment is very important as there is a positive correlation between FDI and GDP growth, increased opportunities for export and, stimulation effects of local businesses and competition improvement, FDI as risk capital offers better prospects for sustainable development than interest-bearing credits, FDI stimulates social and human capital development through transfer of technology, know-how and training. FDI improves budget revenues as a result of tax revenue increase, hence decreasing the need for subsidies of public utilities.

Factors that characterize the current condition of the Kosovo economy and that make Kosovo a specific country that needs FDI is as follows:

- Significant decrease of foreign assistance in the form of donations after 2003,
- Kosovo banking system is still unable to provide adequate financing for business development (long-term loans, low interest rates, greater volume),
- Considerable decrease of remittances from Kosovo emigrants located in various countries of the world,
- Great needs for investment in the public infrastructure,

- Low rate of unemployment,
- Lack of financial markets.[7]

3.2.2 – Department for International Development - DFID

DFID was one of the first donors to establish a presence in Kosovo after the war in 1999. Their work has evolved in line with Kosovo's changing needs, moving away from emergency aid and infrastructure provision to helping the Government to address the needs of its citizens. [10]

This financial year (2008) DFID expect to provide £3 million in aid to Kosovo and a further £3 million for conflict prevention work jointly with the Foreign and Commonwealth Office and the Ministry of Defense. Initially they provided emergency assistance, but over time their program has changed with the changing needs of Kosovo. In February 2008, the Prime Minister pledged up to £23 million in aid for Kosovo over the next three years. [10]

Current priorities include: Promoting higher levels of economic growth and employment, for example through improving the investment climate in Kosovo; Helping the Government decide how best to organize and staff its civil service so its ministries and departments are fit for purpose; Supporting the Government and working with the European Commission, to take forward the Government's agenda of meeting European Union standards, leading to closer integration of Kosovo with the EU. [10]

They work closely with a number of donors in Kosovo, supporting better coordination and increased effectiveness of overseas assistance.

The challenges for Kosovo per DFID are:

- To reduce high level of poverty and unemployment
- Manage political instability and the risk of conflict
- Develop more effective and accountable government
- Realize the opportunity of joining the European Union[10]

As per DFID latest report about the Kosovo's growth and employment is written that policy options to increase the employment intensity of economic growth are to develop the agriculture and small and medium enterprise sectors. In the immediate short term investing in infrastructure will also deliver some short term employment.

The main factors constraining job creation are weak economic growth together with a pattern of economic growth that has not favored growth in employment. In order to increase the rate of job creation in Kosovo, it is necessary not only to increase the rate of economic growth but also to increase the employment intensity of growth; most people will eventually find employment in small and medium sized businesses.

Attracting foreign investment into the agriculture sector in Kosovo will be particularly important issue. [11]

3.2.3 - European Fund for Eastern Europe (EFSE)

EFSE is the largest microfinance investment fund worldwide.

EFSE Loan is a continuation of the Fund's strong support for the micro enterprise sector in Kosovo. The Fund's support not only includes financial investments but also complementary non-financial assistance - including technical assistance, consulting and training - provided to the partner banks and microfinance institutions by the EFSE Development Facility. This allows for capacity building with the aim to increase the outreach of Personal Individuals (PI) to the Fund's target group, ultimately benefiting the entrepreneurs across Kosovo. [12]

EFSE has granted a loan of 2 million Euros to Kosovo's leading microfinance institution KEP Trust (KEP). The proceeds of the loan will be used by KEP to on-lend to SMEs, in particular in the rural areas of Kosovo. The loan to KEP will significantly increase the outreach of EFSE in Kosovo, providing additional refinancing for more than 1,500 new loans to SMEs, particularly to rural entrepreneurs. EFSE provides long-term funds, which are particularly needed in the current situation of an international liquidity crunch; it will also stimulate financial intermediation and the development of the Kosovo financial sector. [12]

Supported by EFSE investments amounting to 9.6 million Euro, KEP was able to provide financing to more than 4,300 businesses situated in urban and rural areas of Kosovo during the last 12 months. [12]

Not only KEP, the loan from EFSE have also FINCA Kosovo, Raiffeisen Bank of Kosovo, NLB, KRK- Kreditimi Rural i Kosoves, and other financial institutions which did the same as KEP so invest this money through SMEs to the businesses and impact in new jobs creation.

As per EFSE, June 2007 — FINCA International, on behalf of FINCA Kosovo, has received a senior loan totaling 3.5 million Euro from the EFSE. The loan consists of 2 million Euro the refinancing of the SMEs portfolio; 1 million Euro for the refinancing of the housing portfolio; and 0.5 million Euro for the refinancing of the rural portfolio. The investment will cover slightly more than 50% of FINCA Kosovo's total funding needs for 2007 and enables the microfinance institution (MFI) to further expand its outreach to micro and small clients throughout Kosovo. [13]

At the end of 2007, the ESFE portfolio in Kosovo amounted to 42.7 million Euros including new investments totaling 28.7 million Euros. EFSE cooperates with seven partner institutions in Kosovo, such as banks and microfinance institutions, which issue loans for Small, and Medium Enterprises and which are supported by means of refinancing programs. Up to 30,000 new jobs have been created through these loans. The fund therefore plays a key role in the sustainable structural transformation of Kosovo's economy. [14]

As of September 30, 2008, the Fund has extended loans to six Kosovar PIs, including the country's leading commercial banks, microfinance banks and microcredit organisations. The Fund is a leading creditor of the microfinance sector in Kosovo. EFSE's outstanding investment portfolio in Kosovo amounts to EUR 43 million, refinancing more than 15,200 outstanding loans to MSEs and low-income private households at present. [12]

3.2.4 - European Bank for Reconstruction and Development (EBRD)

The EBRD was one of the first International Financial Institutions to begin operating in Kosovo in 1999 and across its countries of operations. The EBRD seeks to achieve the goals mainly through project focused work with financial institutions using a variety of financing instruments.

The EBRD is committed to the promotion of SMEs and support of this sector is a cornerstone of the work of the Financial Institutions group. Through local banks, the EBRD mobilizes funding for projects that are too small for it handles directly. Providing access to finance for SMEs is a crucial part of the Bank's efforts to strengthen private sector development and to stimulate competition in the enterprise sector. In addition, these facilities support the development of the banking sector by helping to improve banks' credit appraisal procedures of new projects.

The European Bank for Reconstruction and Development - EBRD announced a second loan of 4 million Euros to Kosovo Enterprise Program - KEP, a leading microfinance institution (MFI) in Kosovo. The loan will help KEP finance loans to local micro, small and medium-sized enterprises (MSMEs) for launching new operations or expanding existing ones. In February 2007, Micro Capital reported on EBRD's first loan to KEP, valued at EUR 3 million. The loan was extended as a part of EBRD's EUR 75 million Micro, SMEs Finance Framework for the Western Balkans and Croatia, which aims at broadening the outreach of financial institutions to small business clients, while strengthening financial intermediation and increasing competition. [15]

EBRD is one of the investors in Raiffeisen Bank Kosovo. EBRD was shareholder of Procredit Bank Kosovo as per end of 2006 annual reports.

The EBRD and the Italian Government allocated a loan of €3 million to the New Bank of Kosovo to enable this bank to finance SMEs. [16]

3.2.5 - European Agency for Reconstruction (EAR)

The European Agency for Reconstruction is supporting a Private Sector Development Program to establish Regional Enterprise Agencies. These agencies will operate in each of the five regions of Kosovo and provide business advice, information and training to local businesses. They will also provide a quality service to improve business management and skills, assist in the growth of business in the region and to improve business plans and projects. They will be useful points of contact to help in the assessment of the business climate in the regions. [17]

The European Agency for Reconstruction manages a cumulative portfolio of some 1.11 billion Euros in different projects and programs across Kosovo, 99% of which has been contracted as of February 2008. [18]

As per EAR Kosovo office in 2008, the EAR Prishtina Centre has transferred all cards programs and contracts to the EC Liaison Office (ECLo). EAR Kosovo has since 2000 managed more than 1,600 Contracts ranging in value from 5,000 Euro to 50m Euro. They said that currently 150 contracts are still open and have been transferred to the ECLo. [18]

EAR hold a workshop with local business associations, entrepreneurs and other involved parties with a view to identifying the current obstacles to the development of SMEs in Kosovo. Local entrepreneurs' share their views on how best to overcome these obstacles based on their experiences and international best practice. The workshop is attended by over 70 representatives of local economic institutions and SMEs. [19]

The Agency is providing a total of €25 million from its 2000 budget aimed at fostering economic development in Kosovo ", said Balduin Zimmer, Head of Operations at the EAR."Our experience within the European Union shows us how significant the SME sector is - SMEs constitute over 98% of all enterprises within the EU creating 65% of all employment and 66% of business turnover. EU SMEs have also demonstrated far greater employment growth rates than larger enterprises. We believe that SMEs can similarly help to create both the employment and economic wealth that Kosovo so clearly needs. [19]

The EAR will be holding another workshop in future with representatives of the NGOs and donors who are supporting or wish to support the SME sector in Kosovo, in order to create a common and coordinated approach to the development of the SME sector. [19]

Since 1999, the European Union has been the largest assistance donor to Kosovo, providing over 1.6 billion Euros to finance reconstruction, economic revitalization, institution building and social development, building on early humanitarian assistance. [2]

3.2.6 - United States Agency for International Development (USAID)

USAID was one of the first investors in post war Kosovo. They stimulate growth by promoting productive investment and integration of Kosovo's economy in the region, whereby value-added goods and services are produced in Kosovo thus creates sustainable employment opportunities. Objectives will be achieved once certain preconditions are met: firstly, institutions, practices and policies are set in place; and secondly, intensive work with businesses creates a dynamic, competitive and expanding private sector. [21]

USAID have played a key role in one of the first substantial and important investments in Kosovo by a foreign firm when it sold the American Bank to Raiffeisen. Today Raiffeisen plays a major role in the economy. [22]

Concurrently, with USAID support, CBK developed and implemented a stringent bank licensing system with tight financial reporting and performance requirements. Gradually, the banking system accumulated some significant assets. Additionally, with USAID assistance in the transition from the deutschmark to the Euro in early 2002, a large amount of cash was taken out of circulation, thereby greatly increasing bank deposit levels.[23]

During and immediately after the 1999 conflict, large amounts of humanitarian assistance were provided to house, feed, and tend to the basic needs of an enormous number of displaced and newly impoverished Kosovars. The humanitarian assistance was followed by programs to restore civil and economic life in Kosovo and assist in creating the institutions of self-government. Since 1999, over \$1.2 billion in U.S. assistance has been committed to the reconstruction of Kosovo and to building self-governing institutions and a viable economy.

USAID has supported UNMIK and Kosovo government institutions and has also helped the private sector develop. USAID remains engaged with Kosovo in the areas of democratic governance, community development, and economic growth. USAID provides assistance to improve the institutional, policy, and legal environment for productive investment, with a focus on building the capacity of government institutions. Support is provided in the areas of fiscal and financial institution building, completing a comprehensive body of commercial legislation, completing privatization of socially-owned enterprises, and improving management of the energy sector. USAID programs support the development and expansion of competitive private sector enterprises and promote small and medium enterprise participation in local and regional markets. Work is directed at improving the competitiveness of Kosovo business, especially agriculture. Support also assists the private sector in becoming an effective advocate for the creation of a positive regulatory environment for business. USAID is also working to improve the reliability of the electric supply.[24]

3.2.6.1 - American Bank of Kosovo May 2001 – July 2003

Total loans: 2,408 SME loans totaling 64.5 million Euro 53% of these loans are in the labor-intensive manufacturing and production sectors, and 10% of loans are to the agricultural sector Number of jobs created as result of SME loans: 5,348, % of SME loans fully current on their payments: 96%, number of bank branches: 16 branch bank locations providing a full range of financial services to SMEs and the citizens of Kosovo. Total deposits were 70 million Euros being mobilized and reinvested into Kosovo through SME lending activity. Number of local citizens employed was approximately 270 local citizens hired and trained to operate and manage the bank. [23]

After the war in Kosovo was not any banking system and it was priority for USAID to establish a regulatory framework for the financial sector. With USAID assistance, Kosovo's financial sector has been overhauled and recreated. Deposits were growing and small but healthy loan portfolios have been established. In addition, insurance institutions are now under regulation, and the implementation of a comprehensive pension system is underway. [23]

Focusing on the insurance and pension sectors, USAID helped the CBK develop and implement sound regulatory requirements for both. A rigorous licensing, financial reporting

and oversight system was established for a nascent but active insurance industry that had been functioning in an improper environment. [23]

A business development activity supported by USAID is helping privately owned businesses emerge into larger markets, run sustainable businesses, and turn a profit. With the help of USAID's Kosovo Business Support (KBS) program, business owners are learning ways to overcome these obstacles. Since October 2000, the KBS program, which is implemented by Chemonics International, has directly supported SMEs that have high potential for rapid growth and employment generation. KBS has worked with over 800 SMEs and has assisted over 260 of its clients to realize a 20% increase in sales. As a result of this USAID supported program, many business owners are finally getting a sense of what it is like to succeed in a free market environment.[25]

3.2.6.2 – Kosovo Business Support (KBS) results to date

KBS is currently working with over 350 active clients. Results of their program to date include:

14 Business to Business events facilitated today, a total of 557 trade and investment linkages facilitated – valued at 20,939,088 Euro, 600 enterprise business plans developed and implemented, over 40% of enterprises have increased their profitability by not less than 5%. KBS Business to Business meetings and Trade Fairs have been attended by over 660 Kosovar businesses so far. Over 635 jobs have been created. [25]

Because of the critical importance of budgeting and taxation, USAID has been involved since 1999 in providing support in fiscal policy development and implementation. Assistance is provided in all areas by a group of economists and fiscal specialists, through USAID's partner Bearing Point. This program also supports municipal governments in their ability to manage fiscal responsibilities. [26]

3.2.7 - United Nation Development Program (UNDP)

UNDP's operations in Kosovo support the goals of the United Nations and the Kosovo Government in consolidating the peace-building process. The strategy of UNDP aims above all, at restoring confidence – of the people of Kosovo (particularly youth, the unemployed and the vulnerable) - in their future, between different communities within Kosovo, between Kosovo and its international partners and between Kosovo and its regional neighbors. [27]

UNDP's programs for the transition are anchored around three flagship programs: first – security, second - job-creation and minority programming and third - support to local development. [27]

UNDP use its substantial network from three years of programming throughout the emergency phase to these ends. UNDP bring to bear its global development services in support of these programmatic goals, in the areas of information technology, aid coordination, human development analysis, communications and advocacy and civil society and youth. [27]

Since its establishment in Kosovo in 1999 UNDP Kosovo has delivered more than USD 100 million of assistance to Kosovo. UNDP's primary goal is to reduce poverty by helping to promote economic growth. It also strives to improve the strength of Kosovo's institutions, enhance people's everyday security and improve environmental sustainability. These plans are aligned with UNDP's global mandate for poverty reduction as well the Millennium Development Goals. During 2007 UNDP Kosovo has delivered USD 17 million in the projects. [28]

Support to the Kosovo Judiciary - Is a three year project and for the first year (2008) the Norwegian Government has already donated USD 650,000 while the budget for returns amounted to about 8.5 Million US Dollars in 2007.SPARK Individual Returns. [29]

The Active Labor Market Program is supported by Norwegian Government and is implemented in close cooperation with Ministry of Labor and Social Welfare. During 2007, the ALMP project facilitated training/employment of 1,400 jobseekers where 49.5% are female

and 13% are minorities. The project is implemented throughout Kosovo. The total value of the project in 2007 is more than USD 1 million. [29]

In November 2007, UNDP signed a Memorandum of Understanding (MOU) with the Ministry of Labor and Social Welfare for transfer of 96,000 Euros to UNDP to implement Active Labor Market Program. [29]

The project continued with following activities in 2008:

- On-the-Job training – primary education
- Pre-Employment Training – Secondary education
- Employment Subsidy – Vocational training graduates
- Vocational Training (private provider) and
- Internship Scheme – University graduates

UNDP is implementing different projects in training/employing unemployed young jobseekers which will help to young generation to be prepared and qualified for different work places. From 2005 to 2007, 3,500 registered job seekers benefited long term employment from the UNDP employment project. By the end of 2007 UNDP project supports 6500 jobseekers, with employment, training and internships. [29]

USD 2.2 million was provided by the Netherlands Government for initial remediation activities. In 2008 commence the Judiciary Bar Examination Project which is supported by Japan UNDP Partnership Fund with USD 200,000. [29]

Capacity Building Facility Project is funded by UNDP, Kosovo's Foundation for Open Society (KFOS) and the Norwegian Ministry of Foreign Affairs. The total funds spent in 2007: USD 494.000. [29]

3.2.7.1 - Economic Development and Employment per UNDP

Kosovo has arguably the highest unemployment rate in the Western Balkans, over 40%. It also has an extremely young population, half of which is under 25 years old. This means that some 30,000 people join the job market every year with little prospect of employment. UNDP

hopes to promote growth by providing new small and medium size businesses and rural enterprises with access to development services and finance. It also hopes to promote the competitiveness of larger scale enterprises. A range of projects are currently being developed to tackle both these issues. [30]

Rural areas are of particular concern; they are home to 60 % of Kosovo's population. UNDP is helping to bring together agricultural co-operatives and connecting them with new markets in a scheme that promotes employment and boosts Kosovo's productivity. [30]

In an effort to tackle youth unemployment UNDP has devised a scheme that encourages companies to employ young people who have never had a job before. While many employers prefer to take on experienced workers many youths face a disadvantage; without unemployment record they are unlikely to gain a job. The Employment Generation Project pays companies to employ first time workers for six months with an agreement that they will continue to employ them for at least another six months. This way UNDP has helped create more than 2000 jobs. UNDP is also active in projects related to the development of four sectors: Education, Health, Civil Society and minority integration and Local Economic Development in northern part of Kosovo. [30]

3.2.8 – FMO

FMO is the entrepreneurial development bank of the Netherlands, established by the Dutch Government, Dutch private sector and Dutch employers and employee organizations. [31]

FMO is an organization which provides financing solutions for companies and financial institutions in developing markets. FMO finances a broad range of financial institutions, from banks, microfinance institutions to (private equity) funds. [32]

FMO has also contributed in Kosovo with its financial projects which were more than welcomed for Kosovo market. The foreign investors have the largest part in the investing sector. So mainly investments are done by foreign investors because after the war the Kosovo

government doesn't have quite enough budgets dedicated for huge financial investments so first they have to establish the policies and procedures and then to establish the tax regulations and then start to collect, allocate and budget the collections. FMO was shareholder in Procredit Bank Kosovo as per end of 2006 annual reports.

3.2.9 – BMZ

In order to bring progress on Kosovo's economic development which was the aim of all foreign investors and thus contribute to the long-term consolidation of the country's political and social structures the Federal Government pledge a total of 100 million Euros for economic and social development in Kosovo in 2008 and 2009. Germany is the second-largest bilateral donor to Kosovo after the United States. Germany's efforts to promote small and medium-sized enterprises through Financial Cooperation are backed up with Technical Cooperation measures. These are aimed at boosting the economy and employment. In the recent past, Kosovo's economic recovery has been driven primarily by small businesses engaged in trade, farming and crafts, and in some cases, manufacturing. German development cooperation offered specially tailored advisory services for each sector, in order to make these businesses more competitive. [33]

German cooperation with Kosovo focuses on energy supplies, the promotion of energy efficiency, water supply and waste water disposal, promotion of the economy and of employment, administrative reform and the promotion of basic education and vocational training. These areas will continue to be at the centre of cooperation in the years ahead. Germany's engagement is strongly oriented to the Kosovo Development Plan and is closely coordinated with other donors. Since then the German federal government has invested some 280 million Euros in reconstruction. In recent years, it has been possible to shift the focus of German development cooperation towards supporting the sustainable recovery of the Kosovan economy through long-term projects. [33]

Germany has also been involved in improving the urban water supply. Within the scope of Financial Cooperation the German federal government has committed funding of almost 33 million Euros since 2000 to modernize the water supply system in 17 municipalities. [33]

Most recently, in autumn 2007 BMZ made a one year commitment of 30.5 million Euro. Of this, 17.5 million Euros has to be spent on Financial Cooperation measures and 13 million Euros on Technical Cooperation projects and programs. [33]

Cooperation between Kosovo and Germany focuses on the following areas:

- Promotion of public utility infrastructure
- Promotion of small and medium sized enterprises via the banking sector
- Economic policy advisory services
- Basic education and vocational education and training [33]

In addition, 1.5 million Euros will be provided annually up to 2009 from the Stability Pact for South Eastern Europe. [34]

3.2.10 – KFW

As per my survey, KFW is operating more than 8 years in Kosovo and mainly refinance the loans for SME and housing purposes. The advantages of their investments were longer maturity sub-loans as compared to the shorter maturity loans refinanced out of deposits of the banks. Tailor made TA (grant financed) in addition of the credit lines and hence supports to the sector/building capacities of the partner institutions (banks and MFIs).

KFW is founder and shareholder of Procredit Bank Kosovo, also have invested and help the microfinance institutions with long term and cheap loans which were further invested through local SMEs and have influence in created new working places.

Enhancement of competition in the sector and hence impact on improving lending conditions by supporting many institutions. SMEs are playing a crucial role in job creation and hence economic development.

Since inception, approximately 12,000 SMEs and home improvement loans have been granted with a total volume of 68 million Euros. Due to these loans over 27,000 jobs were created (USAID methodology: each 2,500 loan creates/retains a job).

KFW had helped Kosovo's water sector with 43 million Euros since 1999. It had financed

emergency repairs in 17 cities in the first years, but now it supports the water companies in a bid to make them self-sustainable. [35]

German bank KfW invest 9 million Euros (\$12 million) in Kosovo in 2005. More than two thirds of the 9 million Euros financial contribution will be directed for investments exclusively for procurements, priority rehabilitation of urban water supply systems and consulting services for the regional water supply companies. [35]

3.2.11 - World Bank (WB)

As per the World Bank's publications in their web page it is said that the World Bank currently has ten active projects in Kosovo and three more proposed. With these projects the World Bank has supported the region of Kosovo with \$80 million since 1999. The World Bank recognizes challenges in Kosovo's future. According to the bank some challenges ahead for Kosovo include finding new sources for economic growth, guaranteeing progress which has been made is not undone and dealing with social issues such as poverty and unemployment. [36]

THE BUSINESS ENVIRONMENT TECHNICAL ASSISTANCE PROJECT - The World Bank hopes through this project, "to improve the business environment in Kosovo by reducing uncertainty of key regulatory processes, improving delivery of related services, strengthening property rights, and increasing transparency and accountability of implementing institutions. [36]

The World Bank has committed around \$170 million to Kosovo since the end of the conflict, with all assistance provided on a grant basis. World Bank funded projects also attracted some \$70 million of other donors. Reflecting Kosovo's post-conflict situation, the Bank has focused on providing opportunities for the poor and for those most affected by conflict, as well as on improving critical social services and ensuring that poor people have access to those services. [36]

The World Bank has ensured that opportunities were provided to all communities in Kosovo, including the ethnic Serbian population along with other minority groups. Assistance has also been directed towards building the capacity of local institutions, which is becoming

increasingly more important as they assume an increasing number of responsibilities from the international community. [37]

Since the end of the conflict, support to Kosovo was outlined in three Transitional Support Strategies (1999, 2002 and 2004) and one ISN (2006). Twenty five grants, for a commitment of about \$119 million, were provided in: economic reform and institution building; private sector development; education, health and social protection; the energy and mining sectors and associated environmental cleanup; basic infrastructure and community development; and avian flu. These grants were financed by: two allocations from net income to the Trust Fund for KOSOVO; totaling \$60 million, as well as almost \$3 million in investment income from the Trust Fund; six grants from the post-conflict fund totaling \$9.9 million to support post conflict social cohesion activities; an IDA post-conflict grant allocation of \$15 million over the 18 month period from the beginning of IDA-I3 in July 2002 through December 2003; an IDA grant allocation of \$15 million over the period January 2004-June 2005. [38]

IDA GRANT AMOUNT of US\$7.0 million was the project approved in June, 2005 by World Bank for Kosovo. The overall objective of this project is to improve the business environment in Kosovo by reducing uncertainty of key regulatory processes, improving delivery of related services, strengthening property rights, and increasing transparency and accountability of implementing institutions. [38]

Also, IDA grants allocation of \$21 million (plus \$3 million for the Avian Influenza Control and Human Pandemic Preparedness and Response Project) over the period July 2005-June 2007. [39]

In addition to investment and adjustment policy support, the Bank has also played a lead role, together with the European Commission, in donor coordination and the provision of policy advice and support. World banks program of support is the Interim Strategy for Kosovo for Fiscal Year 2008 covers the period from July 1, 2007 to June 30, 2008, [37]

As Kosovo moves from post-conflict reconstruction to longer-term economic development, the Bank's program will need to respond to this shift. Under the current Interim Strategy Note, \$12 million are approved to support two projects:

- i. Institutional Development for Education project (\$10 million) aimed at mobilization and guidance of donor support to the implementation of two education sector strategies: Strategy for Development of Pre-University Education in Kosovo (2007-2017) and Strategy for Development of Higher Education in Kosovo (2005-2015)
- ii. Financial Sector Technical Assistance which will also build on a program of coordinated donor assistance to support regulation, supervision and capacity building in the financial sector. [37]

The Financial Sector Technical Assistance Project, financed by a US\$2 million IDA grant, contribute towards greater financial sector stability and development by supporting stronger prudential regulation and supervision by the CBK for bank and non bank financial institutions; the institutional strengthening of CBK; and the strengthening of the banking and microfinance industry through capacity building. [37]

These projects are consistent with the two pillars of the previous ISN, supported with \$19 million: Developing new sources for, and a higher quality of, economic growth and Ensuring macroeconomic stability through sound fiscal policy and public financial management. [37]

3.2.11.1 – World Bank investments in lending

The World Bank investments in lending program were done through different projects. The Community Development Fund (CDF) has granted some US\$15 million in grants to 320 projects in Kosovo. All funding has been provided on grant terms. Financing has come from a variety of sources. Immediately after the conflict, grants were provided from the Bank's Post-Conflict Fund. In 2000, a Trust Fund for Kosovo was established with financing from the Bank's net income. With the introduction of post-conflict grants under IDA-13, recent funding has also come from this source. Under IDA-14, grants to Kosovo will continue until there is any change in status. [37]

In addition to financing from these sources, the International Finance Corporation (IFC), private sector arm of the World Bank Group, has been active in Kosovo, especially in providing equity investments in the Pro-Credit Bank to support small and micro-credit to Kosovo businesses. [37]

Table 4: Funds for Kosovo as of June 30, 2005 (by fiscal year, in US\$ million)

As of June 30, 2005 (by fiscal year, in US\$ million)

Source	2000	2001	2002	2003	2004	2005	Total
Post Conflict Fund	2.0			0.6	-		2.6
Grants from Trust Fund for Kosovo	39.0	23.8			-		62.8
IDA-13/14 grants			6.5	8.5	-	15.0	30.0
Total	41.0	23.8	6.5	9.1	-	15.0	95.4

Grants by Sector

*Fiscal Year from July 1 to June 30

Figure 2: Lending by Volume in Millions of US Dollars – Kosovo

For the current Fiscal Year the chart shows total commitment amount to date. Data update frequency: monthly

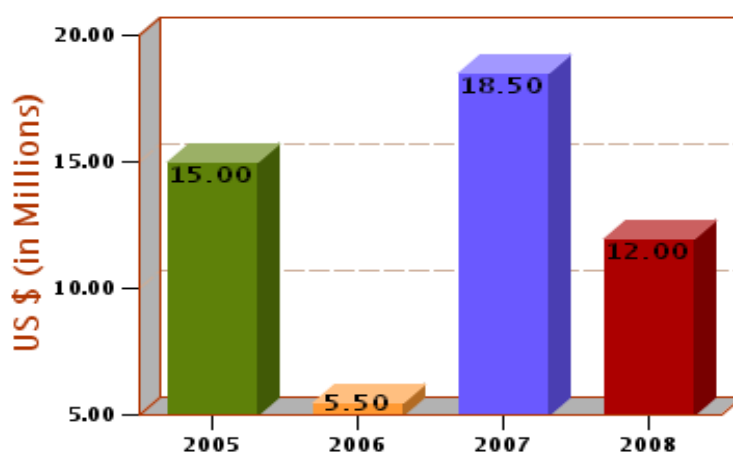


Table 4 presents the flow of grants categorized by sector in Kosovo during 2000 – 2005 in

millions of US Dollars which were granted by WB and have had positive effect in development of Kosovo's economy.

Figure 2 shows us the volume of lending per year presented by WB. The figure depicts that 2005 and 2007 were very productive in comparison with 2006 and 2008.

3.2.12 – Danish International Development Agency – DANIDA

Danish Grant for Private Sector Development is supporting private/business sector development in Kosovo through the “Private Sector Development Project, Kosova” in an effort to promote economic development and job creation, and improve access to financial services of SMEs and refugees/returnees of ethnic minorities. The Project is implemented through four selected MFIs, viz. Agency for Finance in Kosovo (AfK); Beselidhja/Zavet Micro Finance (BZMF); FINCA Kosovo; Kosovo Enterprise Program (KEP); and the Association of Microfinance Institutions of Kosovo (AMIK).⁴⁰

Table 5: MFI DANIDA Funds disbursement and job creation

Institution	Amount Received (€)	On-lending of Danida Funds	Danida Funds Revolved	Jobs Created
AfK	578,382	1,746,714	1,168,332	832
BZMF	752,863	2,227,018	1,474,155	862
FINCA	1,509,037	4,666,250	3,157,213	2,896
KEP	2,729,940	8,244,419	5,514,479	2,628
Total	5,570,222	16,884,401	11,314,179	7,218

Source : Report of 7th Monitoring Visit January 2008 - Monitoring of Private Sector Development Project, Kosova

Monitoring Visit mentioned above is done by representative of DANIDA who has visited all of these institutions and reported his evaluation for these funds.

As shown from the table above, from the 5,570,222 Euros received from Danida a total of 16,884,401 Euro has been on-lent to clients, showing that a total of 11,314,179 Euros has been revolved, and that it is estimated that 7,218 jobs have been created. [40]

Statistics, taken from clients' business plans at the time of application for loans, shows that a total of 2,896 jobs have been created from a total lending of 4,666,250 Euros, indicating that the cost per job created by FINCA clients have been €1,611. [40]

Using the assumptions made by the above mentioned institutions it is estimated that KEP has created 2,628 jobs from the Danida Credit Funds and AfK has created 832 jobs from Danida Credit Funds. [40]

As commented from various quarters in Kosovo, the impact of Danida's support to private/business sector development in Kosovo through the "Private Sector Development Project, Kosovo" has been a considerable success. [40]

With its injection of funds for on-lending, the Danida intervention provided a boost for the sector, and enabled it to play an important role in promoting economic development and job creation and improve access to financial services of SMEs and ethnic minorities, as demonstrated by the statistics and information presented above. [40]

The Project is planned for a 3-year period 2005 - 2007, after which it is proposed that credit funds to MFIs will be converted into equity for the respective MFIs. [40]

It is fair to conclude that the Danida support has made a successful contribution to establish the MFI sector in Kosovo as a strong player in the development of Kosovo, recognized by the Government, UNMIK, and donors – as witnessed by the fact that World Bank has now made arrangements to provide a support, similar to that provided by Danida, to AMIK, and that SIDA is considering a similar intervention. The Kosovo MFI sector is very thankful for the help from Danish Government. [40]

3.2.12.1 Association of Microfinance Institutions of Kosovo - AMIK - supports the development of strong and effective Kosovo-based microenterprise programs to assist underserved entrepreneurs in starting, stabilizing, and expanding businesses.

Generating income and employment, Small and Medium Enterprises account for the majority of economic activity in Kosovo. By providing access to microcredit and business training, microfinance institutions (MFIs) in Kosovo play a major role in the economic development of the Region. [41]

In an effort to enable MFIs to better support the needs of Kosovo's small and micro businesses sector, and in order to facilitate growth in the industry, several MFIs in Kosovo go together to form AMIK, to facilitate sustainable economic development and job creation by supporting the microfinance sector in Kosovo. [41]

3.2.13 – Swedish International Development Cooperation Agency - SIDA

A new strategy for development cooperation is being prepared in 2008. Sweden has contributed a total of more than SEK one billion in assistance to Kosovo. In 2007, assistance totaled about SEK 80 million. In addition to this, Sweden has devoted SEK six billion to financing KFOR soldiers, police officers and the services of international organizations in Kosovo. [42]

Table 6: SIDA - Development cooperation with Kosovo in 2007

Costs	SEK
Health	2 746 000
Education	961 000
Research	0
Human rights & democratic governance	41 522 000
Conflict, peace & security	5 325 000
Humanitarian assistance	0
Infrastructure	9 302 000
Trade, business & fin. system	-105 000
Natural resources and environment	5 273 000
Budget support poverty red.	0
Other	3 953 000
Total	68 978 000

Source: 2007 SIDA Annual Report.

Table 6 shows us the investments done by SIDA in different sectors in 2007 in Kosovo which deeply increased cooperation between Kosovo and Sweden.

The banks in Kosovo do not lend money to small rural borrowers very easier. Sweden therefore supports a microfinance project that provides poor people in rural areas with the opportunity to borrow the money they need for small investments. [42]

On both the local and the central level, Sweden has contributed to developing institutions for surveying and land registration. Kosovo's government has had a limited command of budget and financial issues. Through cooperation with the Finance Ministry, SIDA has contributed to putting in place a modern budgeting and financial system in all the 30 municipalities of Kosovo. SIDA provide support in different fields as: Human Rights and democracy; Return of refugees; Economic growth; and Natural resources and the environment. [42]

3.3- Small & Medium Enterprises (SMEs)

Due to war destructions and losses incurred in this process, most of the business and infrastructure have been destroyed. In the immediate post war period there were simply no big companies in Kosovo. On the other side, due to high risk after the war in Kosovo, it was very hard to invest in newly established companies and most of the foreign direct investments were focused to invest in small and medium enterprises which were thought to be the largest potential of the economic transformation engines.

The origin of the SMEs in Kosovo dates back to the beginning of last decade of the previous century. After the breakdown of former Yugoslavian state, state-owned factories were experiencing bankruptcy due to the collapse of the centrally planned economies in the communist countries. As a result of these bankruptcies many Kosovars were laid off from their jobs and without a secure future which fact was crucial for some individuals that had entrepreneurial spirit to start up new private business initiatives.

Due to lack of Legal environment and experience in private sector of the Serbian Government, the special laws were implemented only in Kosovo by official Belgrade, also due to massive destruction of houses and other infrastructure, institutions were not established yet as a result of which there were no duty customs and tax obligations for companies operating in Kosovo after the war and the demand for everything were very high.

With all these difficulties, private sector in Kosovo started to flourish and first Small and Medium Enterprises were established mainly in trading sector. Due to all of these difficulties, Kosovar companies have not been able to follow new trends of development in technology and management. Many of Kosovar SMEs do not have access to the Internet, which is considered, as a main source of information in today's world and which helps a lot and makes the business environment easier. Many technologies that have not been foreseen to be produced in the past, have taken place in the recent world and it was possible only with the transfer of know-how and training of staff, which is part of the information revolution.

Everywhere, the first issue is to explain that what small, medium and what big company means. There are several limits dividing companies into categories but two main criteria's are: the number of employees and the the annual turnover. In Kosovo, they are mostly divided by number of employees.

Table 7: SME categories

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

Table 7 depicts SME categories per turnover and number of employees.

Micro, small and medium-sized enterprises are socially and economically important, since they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship and innovation. However, they face particular difficulties which the EU and national legislation try to redress by granting various advantages to SMEs. A legally secure and user-friendly definition is necessary in order to avoid distortions in the Single Market. [43]

SMEs in Kosovo start to flourish after the war, when people tried to create some business environment. This category of entrepreneurs was most popular and grows very fast thanking

the foreign investments. Most of the investors determine to invest in development of economy of Kosovo through SMEs because it was easier to be in contact with them through financial institutions, non-financial institutions and microfinance institutions.

FDIs had the key role for SMEs during 2000 - 2001, as they were only source for establishment of their businesses whereas lending from banks was quite expensive.

One of the critical impediments to the development of a solid private sector with growth potential in higher value-adding activities is private sector capacity and ability to upgrade technologies and production processes to boost productivity and comply with international quality standards. Upgrading technologies and meeting the international quality requirements is a stringent process but the level of expertise in this sector remains low in Kosovo.

A very large number of private businesses have opened up in Kosovo since 1999. That is in itself proof of a supportive business environment. Approximately 43,000 private businesses have been registered. The majority of them are active in trade, but as shown in the table below, nearly half of them are distributed across many other, quite diverse business sectors. [44]

Table 8: Registered private businesses classified by economic activity

SECTION OF ECONOMIC ACTIVITY	NR OF ENTERPRISES	PERCENTAGE OF TOTAL NUMBER %
RETAIL & WHOLESALE TRADE	21.431	49,84%
TRANSPORT AND COMMUNICATIONS	6.138	14,28%
MANUFACTURING	4.042	9,40%
HOTELS & RESTAURANTS	3.711	8,63%
CONSTRUCTION	2.289	5,32%
PERSONAL AND SOCIAL SERVICES	2.133	4,96%
REAL ESTATE SERVICES	1.247	2,90%
HEALTH AND SOCIAL WORK	770	1,79%
AGRICULTURAL CULTIVATION, HUNTING AND FORESTRY	477	1,11%
EDUCATION	432	1,00%
MINING & QUARRYING	154	0,36%
FINANCIAL SERVICES	70	0,16%
PUBLIC ADMINISTRATION AND SOCIAL CARE	49	0,11%
ELECTRICAL ENERGY, GAS AND WATER	32	0,07%
FISHING	20	0,05%
DOMESTIC SERVICES	2	0,00%
TOTAL	42.997	100,00%

Source: <http://www.unmikonline.org/archives/EUinKosovo/uk/invest/invest.php#12>

Table 8 shows the number of registered enterprises in Kosovo in different sectors and percentage of their participation.

In the aftermath of the recent conflict, Kosovo enterprises have shown remarkable resilience by taking advantage of their new freedom to do business coupled with a strong demand for their goods and services. However, enterprises suffer from many structural deficiencies such as antiquated management methods, obsolescence of equipment and human resource skills, excessive reliance on imported inputs, to name but a few of the present constraints. They also suffer from the collapse of minimal business infrastructure including a lack of commercial banks, a not yet fully functioning payments system, and an absence of basic legal and regulatory framework. [19]

For these reasons, external financing to provide the means for enterprise reinvestment is a priority to strengthen economic development which must be complemented by relevant training and advisory services to enable enterprises to assist their financing needs and priorities and, more generally, to develop modern management methods. [19]

World Bank and ICU offer a project for development of SMEs in Kosovo. The Pilot SMEs Credit Line Project, will provide financing to SMEs on market-based terms, re-install production, and economic activity of the private sector, and, reinforce reforms to ignite financial sector development, and institutional framework to re-establish basic credit management capacity, and loan administration. The credit line component will enable emergency financing for needed inputs, and repairs to allow the development of small & medium private enterprises in Kosovo, and re-start/expand operations. Initially, the Interim Credit Unit (ICU) will finance viable private SMEs, to later transfer lending activities to the participating banks, as the banking sector develops in Kosovo. The administration and management of the ICU will be entirely financed by the European Agency for Reconstruction, managed as a turnkey operation. It will monitor the co-financed SME credit line, through a financial management system, consistent with the Bank's requirements, and, will focus on credit management lending to SMEs. Participating banks will be provided with technical assistance, and training in credit risk evaluation. [45]

In 2002 – 2005 as technical assistance providers for the European Fund for Kosovo, Frankfurt School in this downscaling project offered assistance concerning SME lending to three banks in Kosovo: The Bank for private Business (BpB), the second locally-owned commercial bank licensed after the war; Kasabank, currently the third largest bank in Kosovo; and Raiffeisen Bank, second largest and fastest growing bank in Kosovo. [46]

The focus of technical assistance was on implementing innovative SME lending techniques, including loan product development, the reorganisation of the credit department and the adjustment of loan procedures, enhancement of loan tracking systems and MIS as well as training and coaching of loan officers. In addition, banks received specific support to strengthen their management and operations. [46]

All of the Kosovo SMEs are registered in Ministry of Trade and Industry and have their business numbers which can be identified and implement their business.

3.3.1 - Survey of SME sector in Kosovo

Table 9: SMEs analyzes in Kosovo

SMEs	Investments received	jobs created	Satisfied with investments received	Satisfied with jobs created	Sector Invested
SME # 1	1,500,000	375	yes	yes	industry of rubber
SME # 2	-	0	no	no	no
SME # 3	1,500,000	247	yes	yes	property and trade
SME # 4	500,000	20	yes	no	trading industry and retail
SME # 5	200,000	8	yes	no	additional selling point
SME # 6	1,200,000	24	yes	no	production and selling PVC profiles
SME # 7	2,000,000	180	yes	no	bricks production
SME # 8	1,000,000	60	yes	no	production of textile articles
SME # 9	400,000	20	yes	no	wholesale of electrical material
SME # 10	1,000,000	30	yes	no	production of metal items
SME # 11	3,000,000	80	yes	no	production of styropor
SME # 12	1,200,000	150	yes	no	construction of high buildings
SME # 13	1,500,000	55	yes	no	production of concrete cubes
SME # 14	850,000	32	yes	no	wholesale of food items
SME # 15	1,000,000	50	yes	no	wholesale of electrical material
Total	16,850,000	1,331			

According to the responses to the questionnaires, the table above shows that most of the companies/SMEs are satisfied with the investments received. In total 15 SMEs received 16,8 million Euro investments and from these investments 1,331 jobs were created. Their managements think that these investments are still expensive and hope that in future they can receive funds with decreased interest rates/cheaper funds and also to have more funds in equity forms which are more convenient for their businesses because it will be easier to operate without obligation of periodical constant repayments.

The other finding is that they are not satisfied with job creation from these investments because most of them could not invest these investments in opening the new positions or departments but they concentrate their investments in increase of their production capacity and purchasing the raw materials which at certain circumstances not always supports direct job creation.

Interviewed SMEs' main requirements for improving their businesses were to have less bureaucracy in accessing of free capital, to jointly invest in new production plants which would enable them to receive new workers and be more competitive in domestic and foreign market, to have less expensive loans with more flexible repayment rates, to improve the overall credit conditions for SMEs by commercial banks, more long term investments and cheaper capital funds to be provided, better financing conditions in grace period requirements, high concentration on know-how expansion and training in foreign business deals, mixture between debt and equity for some of them is ideal to survive in the market, and participation in joint venture with foreign investors would be a better solution for the interviewed SMEs.

The most important advantages of those investments as per interviewed SMEs were that with foreign capital they have access to the new foreign markets, increase the company capital and profit, provide a liquid capital for ongoing operations, have possibility to participate in the privatization process, purchase a factory, create the new business space and better working environment, import of equipments from EU countries, expansion in production line with higher

capacity and extra product range, acquiring additional representation of foreign companies, and creating more diversified stocks.

Considerable progress is needed in order to establish a business environment that is conducive to SMEs development generate higher levels of investment and thus sustainable economic growth. Further improvement in the business environment, boosting start-ups and expansion, is essential for job creation. Improving the business environment is a continuous process that must respond to changing economic conditions. The volume of loans from commercial banks has increased during the last years; restricted access to credit is most common for SMEs and newly established firms, categories which account for a large portion of total job creation. Commercial loans are mostly short-term in nature and are typically not available for start-ups. Moreover, collateral requirements typically correspond to 200% of the loan amount and currently venture capital does not exist in Kosovo. [47]

The Kosovo Business Finance Project (KBF) was designed to establish a fully functioning, full - service bank in Kosovo, with a specific target market of SMEs. Throughout the project, the project team provided qualified banking and micro and SME personnel with strong technical knowledge and a clear understanding of local financial services in Kosovo to integrate micro-lending techniques into the KBF Project. This included inputs into the credit process, local staff training programs, and loan program documents. This was particularly important during the KBF bank application process, where the team provided key information for the bank charter application. [48]

CHAPTER # 4

4. KOSOVO'S ECONOMIC DEVELOPMENT

In particular, Kosovo has a modern foreign investment legislation (UNMIK Regulation 3/2001), providing for the same investment regime for Kosovo's citizens and foreign investors. It includes measures such as national treatment, guarantees for unrestricted use of income, prohibition of favoritism and discrimination as well as protection against expropriations. There is a notable rise in foreign investors' interest. According to Business Registry data for 2004,

there are 593 companies in foreign and mixed ownership in Kosovo. These investments originate from FYROM, Serbia and Montenegro, Turkey, Albania, China, Germany, Slovenia and Italy. More than 90% of foreign investment goes to enterprises with less than 10 employees. In many respects, Kosovo is already the most attractive business environment in the region. The vast potentials in mining, energy, agriculture and food processing sectors present opportunities for very attractive private investments. The Government and UNMIK are working to improve the investment climate even more. Kosovo is now enjoying sustained economic growth. [49]

Table 10: Economic Indicators for Kosovo 2001-2004

ECONOMIC INDICATOR	2001	2002	2003	2004
GDP (MILLION EURO)	1,625	1,735	1,795	1,895
GDP PER CAPITA(EURO)	870	913	930	964
GDP GROWTH (%)	0	1.2	3.1	3.2
GNDI PER CAPITA(EURO)	1,086	1,119	1,118	1,143
INVESTMENT(MILLION EURO)	40.7	34.5	29.3	27.8
FOREIGN AID(MILLION EURO)	1,144	902	732	624
CONSUMER PRICE INDEX(%CHANGE)	-	1.3	2.9	0.5

Source: http://www.eciks.org/english/invest.php?action=total_invest&main_id=13

During the first four year the table above shows that the GDP increased for 270 million Euros. GDP PER CAPITA increased for 94 million Euros, GDP GROWTH (%) increased for 3.2%, GNDI PER CAPITA increased 57 million Euros whereas INVESTMENTS decreased for 12.9 million Euros, FOREIGN AID decreased for 520 million Euros and CONSUMER PRICE INDEX was variable.

4.1 - Economy indicators – June 2008

Currency: EURO; GDP 2007: €2,378 billion, per capita: € 1.150 [50]

Inflation since 2004 close to 0%, 2007 – 2%, GDP composition by sector: Agriculture 25%, industry 20%, services 55%.Agriculture: Products-Fruits and vegetables, wheat, corn, wine, beef.

Industry: Mineral mining, energy, telecommunications, forestry, agriculture, metal processing, construction materials, base metals, leather, machinery, appliances. Income and employment (2001 est.): 53% of the Kosovo labor force is unemployed; 50.3% of Kosovo's citizens live below the poverty line, and 12% live in extreme poverty.

Financial Sector: Two tier Banking System consisting of Central Banking Authority of Kosovo and 8 private Banks, 9 Insurance companies and 2 pension schemes.

Enterprises: 87,960 SME in 2008, app. 47% of total SME engaged in trade industry. 500 Socially Owned Enterprises of which 300 already privatized.

Budget: In 2008 totaling app. 1,090 € million.

Tariff duties: Customs duties: 10% on imports; Excise tax on fuel, tobacco alcohol and luxury goods. No duties and taxes on exports. - **Taxes in place:** VAT 15%, Corporate Profit TAX 20 %, Wage Tax progressive max. 20% (tax reform in process)

Free trade: Customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime, Central European Free Trade Area – CEFTA

Location factors: Competitive and well educated workforce, enviable natural resources (mining, agriculture), low taxes and a transparent tax system, high purchase power through remittances (app. 400 million € annually), customs free access to the EU market and CEFTA members market. [50]

4.2. - Kosovo's GDP Growth

Table 11 : Real GDP Growth Rates for Kosovo 2004 - 2007

	2004	2005	2006	2007 (est)	2008	2009	2010	2011
Growth Rate (%)	3.4	2.4	3.3	5.4	6.0	5.2	5.1	4.4

Source: MTEF 2009-2011 and IMF staff estimates

In 2007 (while it was still under UN protectorate), Kosovo had a real economic growth of 3.5% due to private investments and economic development in the country. While in the same year, the inflation was recorded at a rate of 4.4%. In 2005 and 2006, there was a controllable level of low inflation; however last year's high rate of inflation is explained by the rapid increase of international energy and food prices. Regardless of inflation, the consolidated budget of Kosovo for the year of 2007 has recorded a surplus balance of 233.7 million Euro (or 9.8% of GDP), which is mainly attributed to the increased sale of assets. [51]

As an important institution of the financial sector, banking continues to remain a dominant factor, reaching a 90% share of the finance industry. [51]

Also, during 2007, there has been a continuous increase in credit loans, mainly in mortgage, business and personal loans, noting a 40% increase. Deposit savings have been increased by 24%. The ratio of loans versus deposits, by the end of 2007, was at 78%. [51]

Economic growth will be mainly driven by strong domestic demand (consumption and investment), and following the production approach by revival of some industrial sectors and the solid expansion of some services sector which will be fuelled by domestic credit growth, private foreign inflows, public investments for some countries (Croatia and Serbia) and investments made by private enterprises. Domestic credit growth is expected to continue its strong pace. Consequently, lending to both enterprises and household will continue to expand boosting consumption and investments. [52]

With banking sector assets accounting for 53.5 percent of GDP in June 2007, Kosovo ranks below the countries of the region that attained an average ratio of 72.8 percent. In terms of lending activity, the Kosovo banking sector compares relatively well with other SEE countries. [53]

Loans granted by the banking sector of Kosovo accounted for 33.9 percent of GDP in June 2007 compared to an average of 38.9 percent for other SEE countries. [54]

4.2.1 - Selected macroeconomic indicators

Table 12: Macroeconomic indicators last three years

Real Sector		2005	2006	2007
	Nominal GDP (in millions of Euro) 1/	3,054	3,182	3,424
	Real GDP growth 1/	3.9%	4.0%	4.1%
	GDP per capita (in Euro) 1/	1,476	1,515	1,611
	Prices (annual average)	-1.4%	1.5%	4.7%
External Sector(in millions of Euro)				
	Foreign direct investments	80.0	245.7	413.7
	Portfolio and other investments	-17.5	-150.8	-18.0

1/ IMF Aide Memoire, September 2008.

During 2005 – 2007, Nominal GDP has grown for 370 million Euros and real GDP has grown for 0.2%. GDP per capita have increased for 135 million Euros and Prices increased for 6.1% (annual average), also FDIs have increased for 333.7 million Euros.

4.3. - Unemployment Rate

The unemployment rate in Kosovo is one of the highest economic concerns. As elsewhere, banking sector is very attractive for potential employees and is one of the major employers in an economy. With almost 50% unemployment rate after the war, Kosovo is ranked amongst economies that are facing a big problem with its unemployed population.

In this field, banking sector is helping Kosovo's economy by being one of the major employers and thus softens this rate and maintains economic and social stability. Not only banking sector help unemployment, but also other foreign investors which have deposited their investments in other companies and through their operations open new job positions and increase the staff number.

Currently with over 40% unemployment, getting Kosovo back to work is a primary objective of Kosovo's institutions. Significant efforts are being made by the Ministry of Labor and Social Welfare and its services to address a chronic unemployment scenario including

active employment policy measures such as job mediation, job creation, vocational training and re-training and small business development. Improving the employability of Kosovo's workforce will be a key feature in the country's shift to a market economy, ensuring more competitive enterprises and broader socio-economic development. [55]

Table 13: Registered unemployment (end of period)

Description	2007		2008										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Total	334,047	334,595	335,732	336,290	336,366	336,436	336,319	335,935	335,920	335,767	335,881	335,697	335,561
of which:													
Females (in %)	46.8	46.8	46.9	46.9	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.1	47.1
Education (in %)													
Elementary	63.9	63.9	63.9	63.9	63.9	63.9	64.0	63.9	63.9	63.9	63.9	63.9	63.9
Secondary	34.6	34.7	34.7	34.6	34.7	34.6	34.6	34.6	34.6	34.6	34.6	34.6	34.5
University	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Source: Kosovo Employment Office

Table 13 depicts the registered unemployment figures in Kosovo up to end of 2008 categorized by gender and qualification.

As per June 2008, in Kosovo number of unemployed peoples in absolute figures is 335,935. From this number 90% is long term unemployed, 47% of this number is female and 59.7% of this number is unqualified level of education. [56]

As per regions in Kosovo the highest % of unemployment is as following: Prishtina 19.9%, Mitrovica 18.5% and Prizren 16.9%. [56]

The accumulated number of the free working places in public services in last 12 months is 5971, registered in regional employment offices in Kosovo. [56]

The Ministry of Labor and Social Welfare declare that the number of unemployment in Kosovo is in increase. The main job of this Ministry is opening of new working places but in

recent years there are not any improvements in this area. The opening of new working places is also linked to development of economy which is linked with foreign investments which are improving very slowly. In future projections of Kosovo government the most important field to be invested is the agricultural field which have enough space for investments.

In the economy development of Kosovo have contribute also the privatization of SOEs which help in general decrease of unemployment.

New jobs may require skills not available among the unemployed or the skills of the unemployed fall short of employers' requirements. Finally, scaling up the provision of a wide array of active labor market measures designed to increase the skills, capabilities and provide work experience to the disadvantaged groups at high risk of social exclusion becomes more affordable and feasible once pilot measures have been implemented in order to reverse the negative employment and labor market trends. Action is also required to address employment information and assistance services (normally delivered through employment offices) since the skills mismatch between the jobs created in new sectors and those destroyed in old sectors is one of the key factors behind the current unemployment rate. [57]

UNDP Kosovo and the Ministry of Labor and Social Welfare presented the results and challenges of Employment Generation Project. The Employment Generation Project for two years generated employment for 5500 Kosovars, 3200 in short term employment and 2300 in long term employment. The spent budget for this project until now is 2.6 million dollars. [58]

4.4 - Privatization process

The privatization program is run by the Kosovo Trust Agency (KTA), established on June 13, 2002. The KTA is responsible for executing UNMIK's responsibility to administer Publicly and Socially Owned Enterprises in Kosovo. The KTA has the mandate to grant concessions or leases, establish corporate subsidiaries, initiate bankruptcy proceedings and privatize Socially Owned Enterprises (SOEs). [59]

As a trustee, the KTA is charged with "preserving and enhancing" the value of the SOEs and POEs of Kosovo. The KTA is following two strategies to preserve and enhance the value of these enterprises. [60]

For the POEs – which are public utilities, such as the electric company (KEK) and the post and telephone company (PTK), the KTA is engaging in incorporation, thus creating new joint stock companies and introducing proper corporate governance to these enterprises. [58]

For the SOEs – which are industrial enterprises and many of the best areas of commercial real estate – the KTA is engaged in privatization, via spin-off, or else via liquidation sales when an enterprise is no longer functional. [60]

Privatization is creating numerous investment opportunities in production, trade and services. It is also a signal of our strong will to build a strong private sector in Kosovo as the basis for future economic development. [59]

During the 1990s, Kosovo's economy suffered from years of under-investment and was burdened by the legacy of central planning, which greatly reduced Kosovo's capacity to produce and compete. It was clear that a fundamental reform was needed and KTA was established in order to assist, through appropriate governance, development and privatization strategies, in the transition of Kosovo's economy towards a successful market economy. [61]

Based on the information from UNMIK authorities in Kosovo there are nearly 500 SOEs in Kosovo. Some of them are large industrial complexes, such as the Trepça and Ferronickel conglomerates, which together employed more than 12,000 people. Most SOEs are in the agricultural and trade sectors, but they can also be found in other business sectors. [59]

Liquidations allow an inexpensive exit from the market for those enterprises which clearly have no survival prospects. Proceedings would be out of court following the procedures outlined in the Regulation on Business Organizations (UNMIK Reg. 2001/6). [59]

Foreign banks are playing an important role also in privatization process by enabling funds to potential investors and creating a trusty and secure atmosphere to invest in Kosovo. Since 2006 foreign banks are offering loans with maturities up to 10 years and thus offering the

possibility to businesses to invest in privatization and give them a considerable time to return the loans.

4.4.1 - Socially Owned Enterprises (SOEs)

As per Kosovo Trust Agency (KTA) in Kosovo are privatized Socially Owned Enterprises. Privatization of Socially Owned Enterprises (SOEs) in Kosovo: by the beginning of November, the KTA had launched 29 waves of privatization. 545 NewCos have been tendered for sale and 325 sales contracts signed. The total privatization proceeds now amount to over €345 million, of which over €69 million is eligible to be paid to workers of SOEs. Additionally, the KTA Board has approved a total of 106 liquidations, the proceeds from which currently amount to over €3.5 million. [62]

Until June 15, 2008 – where according to the constitution of the Republic of Kosovo the privatization process was handed over to the Kosovo Privatization Agency – around 300 SOEs were privatized bringing revenues of around EUR 380 million. Currently, there are still 200 SOEs left to be privatized by the KPA. [63]

Privatization of SOEs is the first step right economy development and intend in opening of new stable working places in Kosovo.

After the privatization of the SOEs with regular spin-off has about 25% increase of employment in compare with the faze before privatization while after the privatization of the SOEs with special spin-off which are about 20 SOEs are employed about 7,000 employees. In general, privatization of SOEs in Kosovo was one of productive projects which have effect in overall performance of unemployment rate.

Privatization offers excellent opportunities to both domestic and foreign investors to obtain access to valuable natural resources, production facilities with infrastructure, land, equipment and entire enterprises with trained and skilled employees. [59]

Privatization of the SOEs per business sector is as following:

Table 14: Privatization per sector

<u>Business Sector</u>	<u># of SOEs</u>	<u>% of total nr.</u>
Agriculture	102	21.3%
Wholesale and Retail Trade	55	11.5%
Construction Material	46	9.6%
Metal Processing	43	9.0%
Agriculture or Food Processing	39	8.2%
Textile	36	7.5%
Services	22	4.6%
Tourism and Accommodation	21	4.4%
Forestry	20	4.2%
Wood Processing	19	4.0%
Chemical, Plastic, Paper, Rubber, Glass	13	2.7%
Transport	13	2.7%
Mines	7	1.5%
Pharmaceutical	3	0.6%
<u>Other</u>	<u>39</u>	<u>8.2%</u>
Total	478	100.0%

Source: Kosovo Trust Agency 2003

SOEs are privatized through spin-offs and voluntary liquidation. Most spin-offs are expected in the best performing sectors; these are agro processing, which includes wineries and food processing entities, the construction materials sector, mining, and metal processing. This is a very attractive method, under which only minor liabilities are transferred to the buyer. The 'Spin-Off' is a two-step procedure whereby the assets of the Socially Owned Enterprise are transferred to a joint stock company, which initially will be 100% owned by the SOE. Thus, a new company is created for privatization purposes. [59]

Privatization and private sector investment, and the new technology, new management, and new markets that come with such investment, will lead to the productive use of SOE assets and, over the long-term, the creation of thousands of new jobs for Kosovo's youth and a vibrant private sector-driven economy. [60]

4.5 - Labor Market in Kosovo

The labor force participation rate and employment rate, the measures of utilization of labor resources, are the lowest in the Western Balkan region (49.2% and 28.5% respectively) and far lower than average EU figures. [57]

Kosovo's labor force is also among the most competitive in the region, given that income taxes are very low. Furthermore, wages in Kosovo are unburdened by costly social contributions, unlike the salaries in most neighboring countries. [64]

The only mandatory contributions are those for individual pension savings accounts, financed by employer (5%) and employee (5%) contributions on total gross wages paid. Individual pension accounts are direct and tax-free personal savings for employees. [64]

The Kosovo Government and the international community in Kosovo have established vocational training programs, which benefit workers and employers. These programs continue with generous donor support. Kosovo's education system is undergoing substantial reforms to make its labor force more productive and competitive in an open economy, which Kosovo is increasingly becoming. [64]

The average monthly wage is: Public sector: Euro 168 – Euro 300

Private sector: Euro 250 – Euro 660 [63]

A recent study - by the ILO says at least two-thirds of Kosovo's working-age population is officially out of work, and those with jobs are working in "a vast grey economy" under employment conditions which amount to "a legal vacuum". The report says that since the war, fundamental labor market institutions have declined to a "catastrophic" extent. Journalist Michael Jordan visited Kosovo and filed this report. [65]

Improvements in the business environment need to be complemented with measures relating to the supply of labor. These include vocational educational training and establishing a supportive educational system, which generates the skills and qualifications required in the labor market.

As per *Kosovo Chamber of Commerce* - The level of income, employment and poverty remains largely unchanged in Kosovo even though it is now 9 years since the war. Kosovo faces the highest unemployment rate (over 40%) in the Western Balkans. It also has a very young population, half of which is under 27 years of age. This means that 20,000-30,000 young people join the job market every year but with little prospect of employment. Rural areas are of particular concern as they are home to 60% of Kosovo's population. Moreover, the economy is still dependent on foreign assistance: remittances account for 15% of GDP and foreign assistance a further 23% of GDP. [57]

Access to finance is one of the most crucial issues in terms of reducing poverty and developing regions. Even though Micro Finance Institutions (MFIs) in various countries are going through a process of transition, they have been one of the greatest success stories in reducing poverty. MFIs established with the aim of crediting rural areas and poor people with initially very limited capital have contributed significantly to the fight against poverty. Access to finance for less sophisticated targeted groups has had a considerable impact in starting- up very small family businesses and educating them to save. Supporting poor people can directly contribute to increasing the purchasing power of the general population, thus stimulating economic growth. [57]

CHAPTER # 5

5. FOREIGN BANKS AND ACCESS ON INTERNATIONAL FINANCIAL INSTITUTIONS

The access to international financial institutions was almost impossible because of undefined political status. Foreign banks by corresponding with their parent company or by corresponding with their major shareholders who seemed to be from other international financial institutions, somehow facilitated and made possible the access of these very important financial institutions in Kosovo and thus injecting our financial sector with funds that were necessary to maintain the stability of that sector.

Some international financial institutions have shell out their money through these foreign banks or through other institutions that were created to manage these funds. However, the main role of foreign banks in this particular segment was the canalization of the funds in the right directions and utilization of this money in the best possible way.

Nowadays, with the political status already solved, the importance and role of foreign banks should be enhanced to facilitate the access on financial institutions by creating a safe and positive climate for those investors or donors.

5.1 - Future Investments in Kosovo

The foreign investors are very interested to invest in Kosovo in the future and they plan to invest not only in financial sector but also in other sectors as transport, agriculture, etc. in order to create new job opportunities for Kosovo people and to increase a living standard and overall economy performance.

Kosovo leaders are thinking that Kosovo have quite secured political and economical environment for foreign investors.

Representatives from 37 countries and 16 international organizations met in Brussels on 11 July 2008 for a Donor Conference in support of Kosovo's socio-economic development. In the meeting was presented Kosovo's economic strategy and investment priorities. [66]

Pledges were made for a total of over €1, 2 billion Euros. This meets Kosovo's financing needs for socio-economic development as identified in the Medium Term Expenditure Framework (2008-2011), including the creation of a reserve for contingent liabilities. This success is even more evident as many donors can pledge only for 2008 and 2009. [66]

As per IPAK, Multilateral Investment Guarantee Agency – MIGA guarantees investments in Kosovo up to the value of 20 million, also US Overseas Private Investments Corporation – OPIC provides political risk insurance for foreign investors in Kosovo. [67]

The Government of Kosovo has approved a package of tax cuts, from 1 January 2009. From the point of view of potential foreign investors, the most important part of this package is the reducing of corporate tax to a flat-rate of 10%. [67]

The government has also reduced the income and salary taxes to 0 - 10 %. It is expected that these tax-cuts, in particular the reducing of corporate tax, will further improve investment climate in Kosovo. With this package of measures, the Government of Kosovo intends to boost the economic growth, support the private sector and create a better environment for foreign direct investment. [67]

The Kosovo Government has drafted the Kosovo Development Strategy and Plan 2007-2013 (KDSP) setting out the future economic and social development path for Kosovo, as well as for meeting the standards and obligations set out by the European Union (EU). [57]

The Kosovo Government is committed to develop policies and programs based on the principle of equal opportunity, taking into consideration the special needs and concerns of women's and minorities. [57]

6. CONCLUSION

With this master study I tried to present the role of foreign direct investments done in post war Kosovo through financial institutions and directly from foreign investors as well as the impact that these investments have had in development of Kosovo's economy and job creation especially through SMEs.

In 1999, Kosovo's economic development was almost destroyed and it could not have recovered without the help of FDIs. Above mentioned investments have provided new business opportunities for Kosovo's SMEs not only in offering direct fresh capital but also helped them importing the know-how which is very important on directing their investments in profit making activities.

Foreign financial investors and especially foreign banks played a very important role in the overall financial sector of Kosovo. Other than supporting and helping the entrepreneurs in running their businesses, foreign banks achieved to establish and re-build the financial sector as one of the best functioning mechanisms in post war Kosovo.

Based on data gathered from my research, as shown in Table 15, direct foreign investments and in particular financial institutions have helped economical progress in post war Kosovo and provided many job opportunities. Therefore, the Kosovo's Government is encouraging and supporting all potential foreign investors who want to invest in Kosovo in sectors they are interested in, and in this way boosting the creation of new employment opportunities for different generations in order to increase economic growth of Kosovo.

There are several reasons why foreign investors should invest in Kosovo. Since it is a part of the Europe and taking into consideration its tendency to be member of EU and UN organizations, Kosovo has many advantages with its economical and natural resources as shown on the next paragraph. These resources should be used in the best possible way, and at this point of time, foreign investments could be the best strategy to make use of them.

The most important reason for investing in Kosovo is that Kosovo still needs foreign investments for development of its infrastructure and overall economy.

Important advantages for investments in Kosovo are:

- Kosovo is centrally located in the region
- Young educated, multilingual, dynamic population with high entrepreneurial spirit
- Cheap, flexible and well skilled labor force
- Modern telecommunications infrastructure
- EU-compatible legislation and IAS, including “National Treatment” for foreign Investors
- Sound banking system
- Free access to EU-market and CEFTA members market
- Great investment opportunities on enterprises and modern business support institutions

Membership of CEFTA allows Kosovo to be part of a regional free trade area of over 22 million consumers. Kosovo has some of the key characteristics for economic growth: sustained macroeconomic stability, a liberal trade regime and a partially established system which allows the market to allocate resources. In addition, Kosovo has a very flexible labor market, a stable and growing financial sector, a favorable geographic location in Europe, natural resource endowment, and a population with strong linguistic skills.

As a result of my findings which I present in this paper work and based on the above mentioned advantages for investments in Kosovo I am convinced that Kosovo has great potential to become a favorite destination for foreign investments. The last two years have shown the first signs of sustainable economic development with the private sector growing at the rate of 10 percent in 2006. The year 2007 marked the highest annual FDIs inflow since the end of the war in 1999. At least 300 million Euros were invested in 2007 in different sectors of Kosovo’s economy. However, key challenges, such as unbalanced trade, existence of informal economy and high unemployment rate remain.

As per my research findings, the table below points out the employment creation level within last eight years through foreign direct investments.

Table 15: Investors In Kosovo and job created analyzes per period 2000-2008

#	Investors Name	Invested amounts (in millions)	Currency	Jobs created	Comments
1	ABK	64.5	€	5,348	
2	BMZ	62	€		Jobs no data
3	DANIDA	5.5	€	7,218	
4	EAR	1,110	€		Jobs no data
5	EBRD		€		Jobs no data
6	EFSE	42.7	€	30,000	Jobs up to
7	FMO	N/A	€		Jobs no data
8	KBS	21	€	635	
9	KFW	111	€	27,000	Jobs over
10	SMEs	16.8	€	1,331	
11	SOEs	380	€	7,000	
	Subtotal in Euro	1,814	€	78,532	
12	SIDA	7,000	SEK	N/A	
13	DFID	26	£	N/A	
14	UNDP	100	\$	N/A	
15	USAID	1,200	\$	N/A	
16	WORLD BANK	250	\$	N/A	
17	WB - LENDING	116.3	\$	N/A	
	Subtotal in other currencies	8,692		0	

In my opinion, the best way to successfully tackle these challenges is by continuing to facilitate FDIs. They bring fresh capital, know-how and create new jobs in our country. They have started to help Kosovo to reactivate and mobilize its resources. At the same time, FDIs strengthen efforts for a sustainable long-term economic development of the country.

By setting economic growth as its first priority, the government of Kosovo is committed to continue economic reforms in order to make the country more attractive place for foreign investors.

As per these analyzes, I do conclude that even though Kosovo had considerable amount of FDIs in the post war period up to know, it still has quite high unemployment rate. Therefore, Kosovo still needs FDIs to create new job opportunities for its young population and to improve its economic development to the level of European standards.

High investment rates are very important driver of sustained economic growth and job creation. However, the impact of investments on economic growth and employment is also determined by the structure of investments.

The engine of growth for Kosovo's economy is private sector development. Therefore, the critical issue is to develop a solid private sector that will generate and fuel sustainable economic growth. Yet, currently the private sector relies on a few, low productivity activities which are heavily dependent on donor assistance and cannot sustain high economic activity in the long-run.

Creating more and better employment will largely depend on firms' abilities to enter markets and expand, as well as to restructure and improve competitiveness. The sectors in which Kosovo is considered to have a comparative advantage and growth potential include agriculture, food processing, light consumer goods, mining and energy. Development of the energy and mining sector will be an important source of economic growth, providing stable energy supply, inflows of FDIs and export opportunities.

Based on my findings I would recommend that FDIs should invest more in production and agricultural sectors (because of the Kosovo's capacities) in order to create new and sustainable job opportunities for the population with no high qualifications who finds hard to find jobs in institutions with high qualifications demand.

7. ACRONYMS AND ABBREVIATIONS

- ABK** – American Bank of Kosovo
AFK - Agency for Finance in Kosovo
AMIK – Association of Microfinance Institutions of Kosovo
ATP - Autonomous Trade Preference
ATM – Automatic Teller Machine
BKT - Banka Kombetare Tregtare
BPB – Bank for Private Business
BMZ – German Government
BZMF – Beselidhja / Zavet Micro Finance
CEFTA – Central European Free Trade Area
DANIDA - Danish Grant for Private Sector Development
DFID – Department for International Development
EAR – European Agency for Reconstruction
EBRD – European Bank for Reconstruction and Development
EFSE – European Fund for Southeast Europe
EU – European Union
FDI – Foreign Direct Investment
FMO – Dutch entrepreneurial development bank
GDP – Gross Domestic Product
IC – Insurance Company
ICU - Interim Credit Unit
IDA – International Development Association
IFC - International Finance Corporation
ILO – International Labor Organization
IMF – International Monetary Fund
IPAK – Investment Promotion Agency of Kosovo
ISN – Interim Strategy Note
KBS – Kosovo Business Support
KBF – Kosovo Business Finance
KEP – Kosovo Enterprise Program
KFW – German Development Bank (Kreditanstalt fuer Wiederaufbau)
KPA – Kosovo Property Agency
KRK- Kreditimi Rural i Kosoves

KTA – Kosovo Trust Agency
MFI – Micro Finance Institutions
NLB – Nova Ljubljanska Banka
PCB – Procredit Bank
POS – Point of Sale
RBKO – Raiffeisen Bank Kosovo
SIDA - Swedish International Development Cooperation Agency
SOEs - Socially Owned Enterprises
SME – Small and medium enterprises
TEB – Turkish Economic Bank
UNMIK – United Nation Mission in Kosovo
UNDP – United Nations Development Program
USAID – United States Agency for International Development
VAT – Value Added Tax
WB – World Bank

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9. APPENDICES

9.1 Questionnaire # 1: for investors & financial institutions

- 1) How long you have invested in the Kosovo market?
 - a) 1-2 years
 - b) 2-4 years
 - c) 4-6 years
 - d) 6-8 years
 - e) More than 8 years

- 2) Why did you choose to invest in Kosovo, Reasons?

- 3) Did you have difficulties to meet Central bank of Kosovo requirements? If yes, please describe what kind of difficulties you have.

a) Yes

b) No

- 4) What kind of investments you did? Which sector?

- 5) According analyzes that you did what impact your investments have on new job creation in Kosovo?

- 6) What were your advantages and disadvantages from your investments?

7) What is the amount that you have invested in Kosovo from 2000 till 2008?

8) What is the number of new jobs created from your investments?

10) To which institutions you invest, financial or Non-financial?

11) Did you invest in SMEs, If yes, how much?

12) What do you think about the role of SMEs in job creation?

9.2 Questionnaire # 2: for SMEs

1) Do you have investments from foreign investors or financial institutions?

a) Yes

b) No

2) If, yes. How much you received from foreign investors or financial institutions?

3) What you did with those investments? Where did you concentrate those investments?

Which sector?

4) How many new job positions you create from those investments?

5) What were your advantages/disadvantages from those received investments?

6) What is the long term of those investments? Is it ok for you?

7) Are these investments expensive?

a) Yes

b) No

8) Do these investments fulfill your requirements? If yes, how much, describe in percentage?

a) Yes

b) No

9) What would be your demand about the foreign investments in SMEs?

10) Are you satisfied with the number of new job created during the period 2000-2008 from your company?

a) Yes

b) No

c) other