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Facilitating Diaspora Investment in Kosovo:

Assessment and Mapping of Innovative Strategies at Central and Local Level

DEED
Diaspora Engagement in Economic Development

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EXECUTIVE SUMMARY

Kosovo diaspora has been and still remains an important financial source for Kosovo. The main contribution of diaspora has been in the form of remittances supporting the wellbeing of Kosovo households. Literature analysing benefits from diaspora indicate that in many countries diaspora has been directly involved in economic development of the origin country through their investments. Although no official data exists on the level of diaspora investments in Kosovo it is considered that their engagement is low given their potential and willingness to invest and save. This research aims to identify concrete strategies for facilitating investment by collecting primary data through in-depth interviews and focus group discussions with existing and potential diaspora investors and relevant stakeholders. Initially the report discusses the business environment and reforms undertaken by Kosovo government to induce investments. It elaborates on findings from this research on the barriers that have de-motivated diaspora investments. Having understood the barriers the report identifies and critically appraises tested strategies that were implemented around the world both at the central and local level. Finally based on this situation analyses and identified barriers and assessment of selected strategies for Kosovo context, strategies are recommended for further analysis on their suitability before piloting in Kosovo.

From this research it became evident that although reforms to improve the business environment are underway there remain obstacles that have discouraged members of diaspora from investing and saving in Kosovo. Access to finance was noted as one of the main barriers also linked to high interest rates on loans by the banking sector in Kosovo. Payment of taxes at the border has been reported as a high burden on businesses since they have to prepay the government before they collect any revenue. Corruption has been noted as an obstacle by almost all diaspora businesses and individuals. However, an important finding is that in many cases members of the diaspora that considered corruption an obstacle had not experience it themselves but carry the impression from what others have told them. This implies that perception of corruption is high and it is not known if it matches the actual extent of corruption in practice. Diaspora businesses also complained about the bureaucracy and lengthy procedures both at central and local level. Lack of information related to investment opportunities have been identified to be one factor that has contributed to low diaspora investments as well. Other obstacles noted are a lack of qualified staff, high price of electricity, and poor economic conditions. Many members of the Kosovar diaspora are disappointed with the Kosovo government, this was a statement often mentioned during focus group discussions and interviews. They indicated that despite the fact that the diaspora contributed greatly to Kosovo, they have not been involved in the development of national strategies, policies and other important developments that have taken place in Kosovo.

Strategies designed and implemented by countries around the world at the central level to address the above noted barriers and enable investments and savings from their diasporas which were investigated by the study include the following examples. To attract diaspora savings in the country of origin countries have applied tax exemptions from interest earnings, whereas to induce investments they have applied interest rate reductions for investment loans. Sovereign bonds have been used in many countries as a mechanism to encourage diaspora investment. To attract diaspora direct investments, tax breaks have been applied in some countries. Countries have also benefited from investment funds and venture capital funds designated for investments in the country of origin. Investment funds will enable investors to obtain credible information on investment opportunities and to pool funds which in turn allow investment in more projects and hence risk diversification.

Investment funds can be funded exclusively by the diaspora, or in combination with donors and governments.

Since the first point of contact for many members of diaspora is at the municipal level the study also focused in identifying and assessing local strategies to facilitate diaspora investments. With the decentralization of competences to Kosovo municipalities there is a good chance for them to adopt strategies to attract diaspora investments. However, despite the need for such financial resources a limited number of municipalities have managed to attract diaspora investments. An exception is the municipality of Suharekë|Suva Reka which has been mentioned as a model that should be followed by other municipalities. Economic zones and industrial parks were effectively used by the municipality as well as other countries to attract diaspora investments that in turn resulted in higher investment volume and job creation. Municipalities can allocate property for investment projects free of charge or lower than the market value depending on the potential impact of projects. With the Law on Public-Private Partnerships, municipalities in Kosovo have the space to make use of this model to provide opportunities for joint financing through diaspora investments in sectors such as transport and energy infrastructure. This can also be achieved by the issuance of short-term debt instruments at local level.

From the assessment of identified and tested strategies at central and local level to Kosovo context two strategies were proposed for further investigation through individual feasibility studies . At the central level the establishment of an investment fund is proposed as the most suitable model and with potential to benefit the development of Kosovo. By pooling funds through investment funds, investors can invest in several stocks (or bonds), which reduces the risks they would be subject to if they 'put all their eggs in one basket.' In addition to offering diversification and lower risk, mutual funds are convenient for the fact that they are professionally managed. Such investment funds can be used to finance projects and public-private partnerships and provide due diligence to inform their clients' choice of investment therefore overcoming the barrier lack of information.

At the local level PPPs are proposed to be further analysed. The proposal is that PPPs will provide benefits both to local governments and diaspora by raising capital for investments in public services, and providing opportunities for the local diaspora to invest. Industrial parks could be functionalised through PPPs – both by raising diaspora capital as well as utilizing their know-how in the management and operation of industrial parks. Building on this, in the future, municipalities can utilize bonds as an instrument to issue municipal debt which would be used for financing these type of projects. These would allow the diaspora to invest in their particular community of origin and track more closely their investment to ensure that it is used as planned.

To facilitate attraction of diaspora investors as well as development of diaspora businesses in Kosovo several supportive mechanisms/solutions/instruments are proposed. Information provision mechanisms should be put in place and those already existing should become more effective. This would as well aim to contribute to reduction of the perceived high level of corruption and avoid misinformation that exists among diaspora members. Direct communication with diaspora was highly rated among communication channels. Promotion of success stories could be an important incentivising mechanism to potential investors. Finally proposals related to tax exemption and postponement was indicated by many existing and potential diaspora investors.

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ABBREVIATIONS

ADM	African Diaspora Market
CEFTA	Central European Free Trade Agreement
DDI	Diaspora Direct Investments
DfD	Diaspora for Development
ECIKS	Economic Initiative for Kosovo
FDI	Foreign Direct Investments
IMF	International Monetary Fund
IOM	International Organisation of Migration
IPAK	Investment Promotion Agency of Kosovo
KCCDM	Kosovo Cultural Centre for diaspora and Migration
KRHS	UNDP Kosovo Remittance Household Survey
MeD	Ministry of Diaspora
MIDA	Migration of Development in Africa
OECD	Organisation for Economic Co-operation and Development
PIO	Person of Indian Origin
PPP	Public Private Partnerships
RTK	Radio Television of Kosovo

1 INTRODUCTION

Literature and evidence has identified several forms of contributions that can be provided by diaspora in their country of origin. Remittances are considered as the most common financial contribution; contribution of diaspora through direct business investments either as sole or joint ventures in their countries of origin; contribution through savings in country of origin; the role that diaspora can play a valuable role in establishing contacts with host country businesses; and finally the brain gain from diaspora i.e. the transfer of skills and know-how. Given its importance as an external financing source which proved to be crucial for Kosovar households, remittances have been among the most investigated of these contributions. However there is a scarce literature examining barriers that diaspora investors and potential investors face when investing and/or deciding to invest in Kosovo.

The Kosovo government and other Kosovo institutions claim Kosovo as a good country for investment. This is based on ten indicators: youngest population, Euro as the official currency; free access to markets of EU, US and CEFTA; low taxes; stabilizing political environment; EU-compatible legislation; strategic location; and developing infrastructure; sound banking system; and great investment opportunities (ECIKS webpage). However in spite of these advantages and a history of close ties between the Kosovar diaspora and their communities of origin, there is low level of economic involvement of diaspora in Kosovo. Due to lack of data the statement that diaspora involvement in business investments is low cannot be empirically confirmed. However, the low involvement of diaspora in business sector is reported by the main economic stakeholders in Kosovo. From the literature reviewed there are a wide range of strategies that governments in different countries have implemented in order to induce diaspora to invest in their country of origin. So far in Kosovo diaspora investors have been treated the same as any other investor and there are no mechanisms in place to attract their investments. '*It is now or never that we need to do something to attract diaspora investments*' was a statement made in one of the interviews conducted as part of this research. Acknowledging the lack of studies and the need to induce diaspora investments and savings the aims of this research are to:

- Analyse barriers to diaspora investments in Kosovo through thorough discussions with key stakeholders and diaspora businesses;
- Identify and map successful investment strategies as well as policy measures undertaken by countries around the world in order to boost diaspora investments and savings;

Assess the identified strategies at the central and local level in relation to their suitability for the macroeconomic context in Kosovo; and

- Propose recommendations to instruct future discussions on their feasibility and potential implementation.

The report is organised as follows. Presentation of methodology applied in this research is provided in Chapter 2. Chapter 3 starts with a section on literature review on barriers and opportunities for diaspora investments in Kosovo. Section 3.2 summarises the Kosovo legal framework with relevance to diaspora investments. Reforms and developments in improving business environment in Kosovo are highlighted in Section 3.3. Section 3.4 elaborates on the potential of diaspora to invest and save in Kosovo by drawing on existing literature and findings from interviews and focus group discussions. The last section of Chapter 3 presents findings that were extracted from the research on barriers that impede diaspora investments and savings.

After outlining the legal framework and discussion of findings related to barriers to diaspora investments and savings Chapter 4 presents and critically assesses strategies applied by different countries at the central level in order to attract diaspora investments and savings. Sub-section 4.1.1 focuses on how the banking system has supported diaspora investments in their country of origin. Diaspora bonds are discussed in Sub-section 4.1.2. while diaspora direct investments are critically examined in Sub-section 4.1.3. In Sub-section 4.1.4 diaspora investment fund is elaborated. Venture capital funds and partnerships are discussed in Sub-section 4.1.5. Other supportive mechanisms are elaborated in Section 4.2 including dual citizenship for diaspora members and national treatment for their investments (Sub-section 4.2.1); tax incentives (Sub-section 4.2.2) and information provision on investment opportunities and due diligence (Sub-section 4.2.3). Summary and recommendations on strategies at central level conclude Chapter 4. Elaboration and appraisal of potential strategies at central level are followed by those at the local level, which are the focus of Chapter 5. Section 5.1 assesses potential local model/solutions. This section is organised as follows: Economic zones for diaspora investments are discussed in Sub-section 5.1.1; Sub-section 5.1.2 focuses on municipal property for diaspora investments; public-private partnerships are discussed in Sub-section 5.1.3 and finally municipal debt issuance are elaborated in Sub-section 5.1.4. Section 5.2 presents the framework of supportive mechanisms and instruments to facilitate diaspora investments and savings at local level. Incorporated supportive mechanisms and instruments include: information and counselling (Sub-section 5.2.1) and financial supportive mechanisms (Sub-section 5.2.2).

Chapter 6 summarises main findings derived from the research in Section 6.1 and also presents recommendations on how to induce diaspora investments and savings in Kosovo in Section 6.2. Proposals are based on the identified barriers, critical assessment of strategies and central and local level and findings from interviews, meetings, focus groups and the survey conducted by IOM in 2012.

2 METHODOLOGY

Methodology implemented in this research included desk review of the literature on the best and most innovative investment mechanisms and policies that have been implemented at the central and municipal level with the aim of incentivizing diaspora investments in their communities of origin. In order to assess the current policy and business environments at the central and municipal level of Kosovo as they relate to the attraction of diaspora investments relevant documents were analysed. To explore the applicability and suitability of various strategies for facilitating and incentivizing diaspora investments at municipal level in Kosovo local governments of Prizren, Gjilan|Gnjilane, Suharekë|Suva Reka, Rahovec|Orahovac, Mitrovicë|a as well as twelve existing and potential diaspora investors have been interviewed to substantiate the strategies

To best understand factors that deter diaspora investments and savings in Kosovo a series of in-depth interviews were conducted with diaspora businesses and key stakeholders in the economy area in Kosovo. The two core questions that were addressed to diaspora businesses were on barriers to invest in Kosovo and on their proposal for any model that they propose that could be employed in Kosovo to motivate diaspora investments and savings. In-depth interviews have been conducted with main economic stakeholders including: Ministry of diaspora; Kosovo Embassies (although only the Embassy in Netherlands replied); Investment Promotion Agency; Economic Initiative for Kosovo (ECIKS); Kosovo Chamber of Commerce; American Chamber of Commerce; Association of ICT; Wood Association; a recently nominated Kosovo Trade Attaché in Brussels and diaspora businesses. An interview was conducted with NGO *Diaspora for Development* (DfD) whose main goal is to facilitate communication between the diaspora and Kosovo, in a way that diaspora invests its know-how, experience and finances in the socio-economic initiatives in Kosovo. In order to understand whether there is any information on the size of diaspora savings in Kosovo an interview was conducted with Central Bank of Kosovo. Two focus groups were organized with diaspora businesses, one in Prishtina and one in Suharekë|Suva Reka.

During 2012 IOM has organised meetings with diaspora in Kosovo and focus group discussions with diaspora held in primary diaspora countries. The first meeting was held in Pristina on the 9th of August and seven members of the diaspora took part representing the diaspora communities in Germany, France, UK, and Norway. In Vienna a series of similar meetings were held on a weekly basis from the 10th of September until 8th of October, in which meetings 17 members of Kosovar diaspora participated. Another such meeting was also held in Stockholm on 10th of October with 7 members of Kosovar diaspora. Table 1 outlines location, timing and number of participants in focus group discussions.

Focus Group Meetings			
Location	Date	Participants	Partner(s)
Malmö, Sweden	9th of October	17	Emigranti, Albanska Föreningars Union I Sverige
Turku, Finland	12th of	13	Emigranti, Shoqata Shqiptare "Bashkimi" në

	October		Turku
Vantaa, Finland	13th of October	8	Emigranti
Vienna, Austria	17th of October	7	Kosovo Embassy in Vienna
Wuppertal, Germany	27th of October	13	Integrative Deutsch-Albanische Gesellschaft (I-DE-AL)
Krefeld, Germany	28th of October	16	I-DE-AL
Bern, Switzerland	6th of December	16	Albinfo.ch
London, UK	4th of March	10	Kosovo Embassy in London

Additionally, findings from 78 questionnaires (out of 100 distributed to participants in meetings and focus groups organised by IOM) of the survey with diaspora have been made available and will be presented in this report.

3 ANALYSIS OF DIASPORA INVESTMENTS AND SAVINGS IN KOSOVO

3.1 Literature review on barriers and opportunities to diaspora investments and savings in Kosovo

As indicated in the introduction chapter there is a general agreement that Kosovo did not manage to sufficiently incentivise investments and saving in Kosovo. Notwithstanding the poor performance in this area to date there is lack of studies that have solely investigated barriers and opportunities for diaspora investments and savings in Kosovo. In this chapter a summary of literature investigating the topic is provided.

One of the first studies that tackled the topic of diaspora investments in Kosovo was conducted by Riinvest in 2007. Data from this research indicated that 24 per cent of interviewed diaspora visitors have invested in business or infrastructure. Among those that have invested only 15 per cent invested in business activities. The study revealed that only 11 per cent of diaspora plan to invest in Kosovo and the production sector turned out to be as most preferable one. The main reasons noted for not planning to invest in Kosovo were the following: lack of information by Kosovo institutions on business opportunities (30.5%); corruption (26%); and unfavourable fiscal policies (18.6%). With regard to the knowledge on business environment in Kosovo around 28 per cent of visitors from diaspora indicated that they were not informed at all; half of the visitors noted that the business environment is unfavourable whereas the rest considered the Kosovo business environment as favourable for investment. Main barriers that diaspora listed to deter their investments were lack of information on projects and developments in Kosovo, corruption, bureaucracy and high taxes. It is important to note that low level of investments were also due to unresolved Kosovo status a findings that became evident from in-depth interviews conducted with diaspora businesses.

Although not focused on diaspora investors according to the OECD Investment Reform Index 2010 for South East Europe, some of the key reasons for low FDI in Kosovo include: Kosovo's lack of sufficient and adequate investment promotion and facilitation, weak law enforcement and administrative capacity, lack of continuing education and training, lack of proactive export promotion, and limited access to finance. OECD ranks Kosovo lowest within the group of South-East European countries (including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Romania, and Serbia) in most of the indicators mentioned above (OECD, 2011).

According to 2011 Kosovo Remittance Household Survey (KRHS) the majority of emigrants, 93.8 per cent, are employed in host countries. About 79 per cent of emigrants' households have a household income between EUR 1,500 and EUR 4,000 or more on average per month: 27 per cent of emigrant households earn between EUR 1,501 and EUR 2,000 per month on average, 35 per cent earn EUR 2,000 - EUR 4,000 per month on average, and about 17 per cent earn more than EUR 4,001 per month on average. Emigrants reported to save 18 per cent and invest 20 per cent of the total household income whereas emigrants' investments were ranged between 10 and 25 per cent of their total household income on average. More than half of emigrants who reported to save in Kosovo stated that they save less than 10 per cent of their total household income in Kosovar banks. With regard to the type of investments the largest share of remitters' investments consist of real estate purchase for personal use (59.8%), family businesses (23.3%), real estate purchase for rent/resale purposes (7.1%), and establishment of service operations (5.6%).

As for the motivation behind their investments, results from the survey revealed that for 50 per cent of remitters profitability is consider an important reason to invest in Kosovo while for 62 per cent job creation and income generation were considered important. Creating jobs and generating income for relatives is considered highly important only among 24 per cent of remitters investing in Kosovo. Importantly about one third of remitters are rather positive about future investment levels: 24 per cent claimed they would invest more the next year, 21 per cent stated that they would invest the same amount, whereas only four per cent indicated that they would invest less.

Findings from workshops and research organized by the NGO *Diaspora for Development* (DfD) have revealed the main obstacles to invest faced by diaspora: high taxes and fiscal policy in general; poor legal protection for their investment; lack of information on possible offers available in Kosovo; as well as lack of coordination/organization of members of diaspora among themselves; informal economy; organized clans and corruption. Inability to access finance in Kosovo banks is another obstacle for diaspora identified during the DfD workshops. It was claimed by diaspora members that almost none of the commercial banks operating in Kosovo issues loans to members of diaspora. Interviews of some members of diaspora by DfD revealed that some business initiatives were stopped because of bribery and corruption while others were stopped because of the frustration with government for undervaluing the importance of diaspora and not integrating it in political activities. The main driving force for diaspora's investments was identified to be emotional ties with their families and country.

3.2 Legal framework related to diaspora and support to investments

According to the 2005 Law on Foreign Investors (Law No. 02/L-3) "Foreign Investor" is defined as a foreign person that has made an investment in Kosovo. "Foreign Person" includes any of the following: a physical person who is a citizen of, or who has legal permanent resident status in, a foreign state or geographic territory outside Kosovo; a business or other organization, entity or association - with or without legal personality - that has been established under the law of a foreign state or geographic territory outside Kosovo; a governmental or public-administrative unit or agency of a foreign state or geographic territory outside Kosovo; and an organization, entity or other association - with or without legal personality – that is established by treaty or other agreement between or among states or that is otherwise a subject of international law. According to this law there is no distinction between diaspora and other foreign investors.

According to the Law foreign enterprises will be treated no less favourably than similar domestic enterprises. In particular the rights vested to a foreign investor are:

- Non-discriminatory treatment;
- Constant protection and security;
- Compensation in case of nationalization, expropriation, including payment of interest;
- Compensation in case of violation of applicable law and international law attributable to Kosovo;
- Freely transferable and otherwise in an unrestricted manner used income; and
- Protection against retroactive application of laws

In May 2012 the Law Number 04/L-095 on Diaspora and Migrants was approved by the Kosovo Assembly. The purpose of this law is "preservation and cultivation of national identity, language, culture and education of the diaspora members and migration and their relations with institutions of Republic of Kosovo". This law also aims to "help in the organization of the diaspora in various countries where they live. The aim is as well to support, encourage and develop inter-cultural relations between the Government of Kosovo and countries in which the diaspora is present.

Regarding the area of economy the law describes the responsibilities of the Ministry of Diaspora "to provide information, coordinate and support investments of diaspora members in Kosovo". The Law on Diaspora foresees the establishment of Kosovo Cultural Centre for Diaspora and Migrants (KCCDM) in countries where the Kosovo diaspora is concentrated. The KCCDM has the responsibility to induce scientific cooperation, technical, technological, economic and sports between Kosovo and members of diaspora; to provide information and instructions on investments in Kosovo, about fiscal reductions, cultural and educational organizations, meetings with compatriots and leading structures in Kosovo and the respective states where they live; to support communication through diaspora with political structures to respective countries for development of democracy and economy in Kosovo and public awareness campaigns for Kosovo in host countries. The first cultural centre has been established in 2013 in Turkey.

Article 12 of the Law on Diaspora referring to Science and Economy has only two points whereby only point one is dedicated to the economy and states that "ministry shall pay special attention to strengthen economic links, cooperation in the area of science and development of new technologies between members of diaspora and institutions of the state of Kosovo, through economic cooperation among various measures of political economy on the basis of laws in force of Republic of Kosovo".

3.3 Reforms and developments in improving business environment in Kosovo

Aiming to improve the business environment in Kosovo following changes have been made:

- Working permit has been removed;
    - Reduction of number of documents needed to export/import;
    - Business registration is free of charge;
    - Requirement for capital reduced or removed;
    - Protection of investors through bilateral agreements;
- Agreement between Kosovo and Switzerland signed in October 2011. This agreement offers protection and equal and fair treatment for businesses in Kosovo and Switzerland; and
- Guarantees by the American Government for protection USA investors in Kosovo.

In 2012 Kosovo government has approved the Draft Law on Protecting Foreign Investments. The Law regulates, protects, promotes and encourages foreign investments in Kosovo by offering to foreign investors' fundamental rights and guarantees in line with international laws, standards and practices. The draft law foresees measures against any public authority that does not respect rights and guarantees of foreign investors and their investments. Those that prevent investors will pay compensation for losses and costs incurred by investors.

The Ministry of diaspora is in the process of developing the Strategy on Diaspora which will as well include activities to facilitate diaspora investments and savings.

3.4 Potential of diaspora for investments and savings

Kosovo does not have exact data on the number of migrants living abroad and no data on their employment status, income or savings. One of the attempts for calculating approximate size of the potential that the diaspora possess to invest and save has been done by KRHS of 2011. Based on their findings and some assumptions, the KRHS has calculated the saving potential of migrants as follows: considering that majority of Kosovar emigrant households make between EUR 1,500 and EUR 4,000 per month or EUR 18,000 to EUR 48,000 per year and given the average savings rate of 18 per cent, a Kosovar emigrant household may save between EUR 3,240 and EUR 8,640 per year. The report has drawn a hypothetical example: assumed that the average amount of savings for a Kosovar emigrant household living abroad is about EUR 5,940 per year. Assuming that half, 50,000 emigrant households keep their savings in Kosovar banks results in approximately EUR 297 million, the report estimated.

Findings provided by DfD indicate that the second generation of diaspora is integrating in their host countries. Members of the diaspora are investing in the countries in which they reside hence the potential for investment is declining from one year to the next. The director for Diaspora Investments in Ministry of Diaspora stated that "*it is now or never*" to incentivise diaspora to invest in Kosovo.

According to the NGO Economic Initiative for Kosovo (ECIKS) from Austria three types of potential diaspora investors were indicated:

1. Diaspora that has businesses abroad. This is an important group as they can organise production of some parts of the final products in Kosovo;

2. Diaspora that have managerial and leading positions in businesses abroad. This is an important group as they can influence decision of their owners to invest in Kosovo (one such example in a business in Gjakovë|Djakovica); and

3. The third group consists of diaspora members that do not have a business in the country where they reside but they bring an innovative idea and invest in Kosovo. An example is a successful call centre business established by one Kosovar that lived in Germany. The company employed German speaking youth most of which spent some of their life in German speaking countries.

According to ECIKS the main sectors of interest by diaspora to invest are agriculture, food processing, production and production. Recently alternative energy has been identified as of interest for diaspora potential investors. Joint ventures are a more preferred form of a business. This for two reasons, one since Kosovars have more information and links and secondly because diaspora do not want to return but have a business in Kosovo and perhaps employ family members.

Results from IOM survey with diaspora members show that about 70 per cent of respondents have not invested in Kosovo; however 43 per cent indicated that they had a high interest and another 51 per cent had some interest in investing if the proper conditions were in place. Another important finding is that around half on respondents have done business activities outside Kosovo. These all point to the fact that there is a large potential of experienced professionals from diaspora that could invest in Kosovo.

3.5 Barriers faced by diaspora to invest in Kosovo

The Agency for Business Registration does not distinguish between foreigners and diaspora. Similarly the Central Bank of Kosovo does not distinguish savings whether diaspora or not but treats them as foreign savings. There is no database of diaspora businesses. The latter one might change in a near future considering that Ministry of Diaspora is in the process of collecting data and compiling such a database. According to the Ministry to date they have identified about 150 companies. According to DfD that has researched on diaspora businesses in few municipalities on average in each municipality there are 5-6 diaspora investors.

Main barriers identified from thorough consultations with key stakeholders and diaspora businesses are the following

a) Weak access to finance: Access to finance was a commonly cited barrier to diaspora investments. Poor access was related to following explanations: firstly diaspora cannot obtain loans in residing countries for investment purposes in Kosovo; secondly since in most cases diaspora does not own property they cannot ensure collateral for loans hence face difficulties to obtain loans; and thirdly it was noted that interest rates in Kosovo are very high. To address lack of access to finance some good practices applied by foreign embassies in Kosovo were noted. The Netherlands Government provides grants for local companies who establish partnerships with Dutch companies, and the Austrian Government provides grants for Austrian investors to invest in Kosovo.

b) The presence of corruption: Corruption as a 'hidden price' was claimed to be a reason that is one cause for low investments by diaspora. Interesting information obtained during the meetings and focus group discussions organised by IOM with diaspora members was that the perception of corruption as a barrier was not always based on their own experience, but from what they had heard. More importantly, whenever administrative procedures in Kosovo were delayed, the impression was that this was done with full intent, i.e. to elicit bribes. This highlights that it might be that the perception of corruption is higher than its real extent. Linked to corruption pressure from government officials was claimed to be an issue that makes running a business in Kosovo a difficult task.

c) Lack of information on investments opportunities in Kosovo. Research from this study confirmed findings from the previous study conducted by Riinvest that diaspora lack information on investment opportunities in Kosovo. It was highlighted that Embassies have proved not to be a good source of information. Lack of information related to investment conditions in Kosovo was confirmed with findings from 2012 IOM survey with 78 diaspora members. It was found that almost 60 per cent of diaspora members that filled the questionnaire did not possess any information about the investment conditions in Kosovo, 41 per cent stated that they are well informed whereas only 3 per cent stated that they are very well informed. Similarly, the majority have no information about Kosovo business agencies. During the focus group discussions and meetings organised by IOM in Kosovo and in diaspora countries, it was found that lack of information also lead to misconceptions and bad impressions about the business environment in Kosovo.

The following additional barriers were claimed to negatively impact diaspora decision to invest and save in Kosovo and which are: tax burden in businesses before income is earned related to the fact that businesses have to pay taxes and custom fees on raw materials; VAT when importing of machinery; lack of different VAT rates depending on the type of activity of the business, for example it was indicated that there should be a lower VAT rate for food processing; out of date catalogues by customs which result in overestimation of goods imported; high price of electricity for the business sector; unfair competition with the specific reference made to companies in Northern Kosovo, which do not pay taxes and electricity and as a result come up with very low prices; lack of qualified staff is seen to deter investments in Kosovo; lack of subsidies for sectors that protect environment;

poor economic conditions have been pointed as the cause of unprofitable investments in Kosovo; weak protection of investments was claimed to be an important barrier to doing a business in Kosovo; lack of government commitment to cooperate with diaspora and poor engagement of diaspora in privatisation process and in the process of development of strategies and important documents for Kosovo; bureaucracy was mentioned as a barrier; a specific complaint was made with reference to the obligation of diaspora to pay for the car insurance at the border which was presented more as something that irritates diaspora rather than due to its financial implications; and lack of specialized agency for business plans/applications exists was stated to make diaspora engagement in investments more difficult.

With regard to savings of diaspora the main factors that deter their savings is low interest rates, but also lack of trust in banks in Kosovo. Additionally, banks in Kosovo have treated diaspora as any other foreigner client. It was stressed out that banks have enough finances and no need to attract diaspora. They quoted one bank that stated that the bank has more money than needed.

4 POTENTIAL STRATEGIES AT THE CENTRAL LEVEL

The scope and nature of policies for engaging diaspora in the development of the country of origin varies greatly from country to country. A major component of these policies consists of facilitating the flow of diaspora savings and investments into the country of origin. The aim of this Chapter is to provide a review of various instruments and strategies that were developed by host country institutions for the purpose of attracting diaspora savings and different types of investment, as well as an analysis of the relevance and/or feasibility and potential benefits which are likely to accrue from the adoption of each of these strategies in Kosovo. The evaluation of the strategies adopted in other countries is particularly focused on the following criteria: their level of success in the country where they were adopted[1]; any particular contextual factors that fostered (or impeded) their success, e.g. in terms of the size and composition of the diaspora, business environment in general, etc.; and a contextual analysis of the current situation in Kosovo which are likely to affect their development, feasibility and benefits from these. The latter is based on a review of the relevant legal framework and other business environment analyses in Kosovo, as well as on interviews with relevant institutions and (potential) diaspora investors interviewed for the purpose of this study.

4.1 Assessment of potential central strategies

4.1.1 The banking system and diaspora savings/investments in the country of origin

Banks and/or governments have used various instruments/incentives to promote diaspora savings in the country of origin. Countries such as Turkey, Albania, Ethiopia, India, Nigeria, Cape Verde and Sri Lanka have liberalised their banking regulations to offer foreign currency denominated accounts (usually Euros, EUR; US Dollars, USD; British pounds, GBP; and Swiss francs, CHF) for members of the diaspora (Okele et al., 2009; Terrazas, 2010). In addition, banks in some countries offer diaspora members preferential interest rates, typically of 0.5-1 percentage points higher, on term deposits (e.g. in Cape Verde and Nigeria, Okele et al., 2009). In Cape Verde diaspora members are exempt from taxes on interest rate earnings (Okele et al., 2009). Finally, some banks in Cape Verde offer interest rate reductions of up to three percentage points for investment loans for diaspora investors who have a certain amount of funds in a savings account with the bank (Okele et al., 2009).

Having adopted the Euro and allowing individuals to hold accounts denominated in the major currencies (EUR, USD, CHF) means that the Kosovar diaspora can save in Kosovo without facing exchange rate risk. Although diaspora members are not provided interest earnings tax exemptions or preferential interest rates, there appears to be scope for marketing term deposits to the Kosovar diaspora. Interest rate earnings in Kosovo are subject to a flat tax rate of 10 per cent, which is considerably lower than the 25 per cent rate in Germany or the 33-36 per cent rates in Switzerland and the UK (International Deposits Interest Rates Exchange, 2013). On the other hand, some of the most attractive interest rates on one year term deposits in Kosovo are above 4 per cent (e.g. NLB,

[1] Though in some cases diaspora policies have been adopted only recently and it is too early to judge evaluate their effects.

2013), compared to 0.2-2.4 in Germany, Switzerland and the UK. However, estimate of the value of savings of the Kosovar diaspora and their willingness to save in Kosovar banks (including their trust in the Kosovar banking system) is not clear. Notwithstanding the potential for diaspora savings in Kosovar banks, a further concern that remains is whether the savings would significantly affect the Kosovar economy. The conventional rationale for the attraction of diaspora savings is to facilitate the expansion of credit (and a decrease of interest rates) which, in turn, would help finance investment. However, considering that this has not been the case in over a decade in Kosovo, it is not clear that such policies and marketing efforts would have the desired effects in the overall economy.

Other efforts by financial intermediaries in some origin countries include offering loans, 'transnational loans', to their diaspora members, through partnerships with their counterparts in the destination countries (without the individuals necessarily being present, e.g. in Mexico). These loans are intended to facilitate credit to emigrants which they extend to their family members in the country of origin, e.g. for home purchase, education, business expansion, etc. Such arrangements are not currently offered by Kosovar banks and the extent of the effects they would have on investment (overall and vs. consumption) is unclear. Moreover, considering the high interest rate, in absolute terms and relative to their host countries, it is unclear if diaspora members would be interested in such loans.

Considering the limited impact that banking-sector-related policies/measures are likely to have in Kosovo, explained above, it is not recommended that further investigation of these measures is pursued.

4.1.2 Diaspora bonds

Another mechanism which has been used by countries of origin to tap into diaspora savings is through marketing sovereign bonds to the diaspora[2] (Ketkar and Ratha, 2009; Terrazas, 2010). Israel and India have issued such bonds successfully for decades (since 1951 and 1991, respectively), while other countries, such as Ethiopia and Nepal, have started experimenting with these in recent years. Sovereign bonds are debt agreements under which the government borrows from the holders and it is obliged to pay the interest and to repay the principal at a later date (i.e. the maturity date). Diaspora bonds are typically considered to have an advantage over other forms of debt due to the expectancy of 'patriotic discount', i.e. diaspora members willing to accept below-market interest rates for the debt, though this is not necessarily the case, as discussed later in this section.

With the legal framework in place (Law on public debt, No. 03/L-209), and sovereign bills[3] having been successfully launched in 2012 (ECIKS, 2013), the technical implementation of diaspora bonds/bills/notes appears to be implemented relatively easily in the near future. To date 3- and 6-month government bills have been issued, with the first round of 12-month bills expected to be issued later this year. If marketed successfully to diaspora members, government bills could be used to tap into diaspora savings. One drawback which makes government debt less liquid and hence less

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[2] Despite their denomination as 'diaspora' bonds, they do not necessarily have to be issued exclusively for diaspora members, although they tend to be marketed to them. For instance, whilst Ethiopia and India limit these bonds to diaspora members, Israel targets the diaspora but does not exclude other buyers (Terrazas, 2010).

[3] Bills, notes and bonds differ in the way interest is set/paid and maturity period.

attractive is the lack of a secondary market (where the issued bills can be traded), but this is not expected to be a problem for long. Another way to make government bonds (or notes or bills) more attractive in the future could be to designate funds for specific development projects, e.g. in infrastructure, education or healthcare. This could motivate diaspora members (though not only) to buy sovereign debt (at a 'patriotic discount'), because they would feel that they are directly contributing to the development of the country and, perhaps even more importantly, they would be better able to monitor and evaluate the implementation of the project they contribute to. To date the funds received from the issuance of bonds have not been a priori designated for any particular project – they are paid to the state budget after which they are allocated to different organisations in accordance with the approved budget (ECIKS, 2013).

However, the experience of other countries suggests that the issuance of diaspora bonds is not always successful and that the assumption of a 'patriotic discount' does not necessarily hold. For instance, Ketkar and Ratha (2009) report that the Israeli diaspora bonds initially had a large patriotic discount, but that declined over time, whilst their Indian counterparts had a small patriotic discount, if any. More recently, Ethiopian 'Millennium Bonds' and Nepalese diaspora bonds were offered at a large patriotic discount; however both of these were considered unsuccessful due to low demand (Terrazas, 2010; Economist, 2011; World Bank, 2012), which could be in part precisely due to the low interest rate offered. It has been argued that the willingness of the diaspora to 'support' the government through buying sovereign debt depends on the purpose/reason for the debt, as suggested, e.g., by the Israeli diaspora being more prone to buy debt when the country came under attack from its neighbours, but not when it was caused by domestic mismanagement. On a similar note, Terrazas (2010, p. 18) cites a comment from a Greek diaspora member with regard to the Greek Parliament calling for contributions to a fund aimed at reducing the country's debt: "If they can guarantee the money will go to the country and not some corrupt official's back pocket, I will do it"; and Economist (2011) argues that the oppressive Government of Ethiopia which may have caused migrants to leave the country may be one of the reasons for the lack of interest displayed for the 'Millennium Corporate Bond' issued in 2008 intended to finance a hydroelectric power project. The examples above indicate that, in order for the diaspora to support the country of origin through (lower-than-market) interest debt, it is important for the public funds to be allocated in projects they deem important and, perhaps even more importantly, to be able to trust the government for being transparent and fair in the budget allocation and implementation. In this respect, with perceptions of widespread corruption and mismanagement of public funds by Kosovar institutions[4], it is not clear that the Kosovar diaspora would be motivated to buy government debt (at a 'patriotic discount').

Finally, the unsuccessful Ethiopian and Nepalese bond issuances can serve as a valuable lesson to governments considering diaspora bonds (Kayode-Anglade and Spio-Garbrah, 2012; World Bank, 2012). Similar to the arguments above, one cause of the failure of the 'Millennium Bond' to generate the expected revenues has been argued to be related to trust: (1) in the ability of the project to service the debt, (2) in the government to guarantee the debt, and (3) in (the stability of) the overall political climate in the country. The (relatively) low interest offered was argued to be a factor in the

[4]E.g. according to the results of the Public Pulse opinion poll (UNDP, 2012), just above (below) one-third of the Kosovan population believe that there is large-scale corruption in the central (municipal) government.

failure to generate public interest for the diaspora bonds in both cases[5]. The lack of a secondary market which made the bond a highly illiquid investment was also cited in the case of Ethiopia, while a major factor contributing to the failed Nepalese bond issuance appears to lie in the inappropriate (or lack of) marketing of the bonds. Nepalese bonds were marketed to diaspora members living in four countries, and these did not include the major emigrant destination, India, or OECD countries with generally higher income levels; there was lack of publicity and a short period of sale (only two weeks); and money transfer agencies were offered a 0.25% commission on the sale, but had to forgo money transfer fees, failing to create the right incentives for them to promote the bonds (over remittance transfers). The cases of Ethiopia and Nepal suggest that: (1) the government in the country of origin cannot necessarily count on financing development projects at below-market interest rates through diaspora bonds, especially if the political situation is not considered favourable by the diaspora and there is no functioning secondary market, and (2) the marketing of diaspora bonds should be carefully planned and implemented so as to attract buyers.

As explained in this sub-section, diaspora bonds can, for all practical purposes, be considered as government bonds that are marketed to diaspora members. As such, they do not represent an 'innovative' model for diaspora investment in Kosovo.

4.1.3 Strategies to Promote Diaspora Direct Investment (DDI)

Apart from investment through public private partnerships, diaspora members can invest directly in private equity in their country of origin. In this study, the term diaspora direct investment (DDI) is used to indicate foreign direct investment (FDI) that is conducted by members of the diaspora. According to the IMF/OECD definition, foreign direct investment is an investment made by a resident entity of one economy *aimed at establishing a lasting interest* in an enterprise that is resident in another economy.[6] The 'lasting interest' is considered to imply a strategic long-term relationship between the entities and a significant degree of influence by the direct investor in the management of the direct investment enterprise.[7] The potential benefits of FDI (and, by extension, DDI) for the host economy, which include transfer of technology and managerial know-how, positive spill-over effects in the economy, signalling effects, etc., have been widely discussed in literature and are beyond the scope of this study. Rather, this section reviews various policies that have been (successfully) deployed by countries of origin to attract DDI. DDI being a form of FDI, these mostly consist of instruments that target both FDI universally (also widely documented in literature). However, considering the scope of this study, this sub-section aims to: (1) highlight the differences between FDI and DDI and their implications for policy-making, and (2) assess the relevance of

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[5]The Ethiopian bond had a fixed 5% interest rate which was similar to that offered on certificate of deposits in the US (Kayode-Anglade and Spio-Garbrah, 2012), while the Nepalese bond (in local currency) with 5 year maturity had an interest rate of 9.75% compared to an interest rate as high as 13% offered by commercial banks in Nepal on 5-year fixed term deposits. 'Resurgent India Bonds' issued by the Indian Government in 1998, on the other hand, offered an interest rate two percentage points higher than that offered by US bonds and redemption in US dollars or German marks (Newland and Patricka, 2004).

[6] According to this definition, the 'lasting interest' involves the acquisition of at least 10% of the shares or voting power of the direct investment enterprise by the foreign investor. The actual threshold is defined by country laws, however what essentially makes FDI different from other forms of investment is the (assumed) influence over the management of the enterprise.

[7] This distinguishes FDI from portfolio investment (discussed later in this section in the context of mutual funds) which typically involves a lower share of ownership/voting power held by the foreign investor and generally no influence in the management of the direct investment enterprise.

different policies/instruments in the context of Kosovo, considering the legal framework and the business environment.

4.1.3.1 Matching Grants

Direct funding in the form of (matching) grants can be provided to promote diaspora investment. The governments of Ghana, Nigeria and Senegal have created funds for the purpose of supporting diaspora investors (Okele et al., 2009), but there appears to be no evaluation of the effects of these investment funds. A similar, but more innovative, project targeting Sub-Saharan African countries is the apparently successful African Diaspora Marketplace (ADM), project supported by USAID and Western Union which provided matching grants (with a minimum of one-to-one leverage ratio) for diaspora business start-ups (Riddle and Nduom, 2010). The grants were selected through a business plan competition and they required the ownership of at least 25% of the firm's equity by an African partner organisation. The most innovative program of this kind appears to be the government-funded 1x1 Program in Mexico which matches diaspora members' investments with up to USD25,000 (Newland and Tanaka, 2011). In this program the public funds are actually given in the form of no-interest loans repayable within three years. However, the investor does not repay the grant to the government, but in the form of a contribution in social investment. This investment in turn is through fund-matching program called Tres por Uno (3x1) in which contributions of diaspora members through Mexican hometown associations in the destination country are matched by Mexican federal, state and local governments. The projects funded by the 3x1 Program are approved by the hometown association and can involve development projects such as rebuilding and equipping schools. The 1x1 (in combination with 3x1) Program is particularly interesting because, in addition to the direct support for both entrepreneurs and community projects, it reflects commitment of the government in the country of origin to cooperate with the diaspora and to participate in the development of the country, as opposed to merely 'milking' diaspora members. On the other hand, with the problems of contract enforcement in Kosovo, counting on debt collection may prove to be problematic and should be carefully considered. In this respect, perhaps it would be more realistic to plan for support to be given in the form of a grant rather than a loan.

4.1.3.2 Public-private partnerships

Finally, apart from investing in direct investment enterprises in the home country, diaspora members can finance development projects in the home country through public-private partnership (PPP) investment. With an investor-friendly PPP law, harmonized with the European Council regulations and *Acquis Communitaire*, and many PPP projects planned at both, central and local level, there is scope for the involvement of the Kosovar diaspora. One way for diaspora investors to be able to invest in such projects is by pooling funds and establishing an investment fund, various forms of which are discussed below.

4.1.4 Diaspora investment funds

In addition to direct investment in equity or purchase of sovereign debt bonds, diaspora members can contribute or invest in funds designated for investments in the country of origin (Terrazas, 2010). Some diasporas have created and manage mutual funds for this purpose. A mutual fund is a professionally managed investment vehicle through which funds from many investors are pooled and invested in different stocks, bonds, or other securities. By pooling funds, investors can invest in several stocks (or bonds), which reduces the risks they would be subject to if they 'put all eggs in one basket'. In addition to offering diversification and lower risk, mutual funds are convenient for the fact that they are professionally managed. This is can be argued to be particularly important for diaspora investments if we consider that the average diaspora investor willing to invest in various forms in the country of origin is unlikely to have the expertise and/or the time to individually manage investment (whilst the cost of hiring a personal investment manager is likely to be prohibitively high).

Perhaps the most ambitious and 'formalised' diaspora fund is Homestrings, established and managed by African diaspora members with expertise and long experience in financial markets (Homestrings, 2013).

The fund identifies investment opportunities – funds, projects and public-private partnerships – in the regions of interest to their clients and provides due diligence information to inform their clients' choice of investment. Investments are pre-selected on the basis of prospective socioeconomic impact and reasonable profitability and they cover a wide range of areas which are considered and critical for economic growth such as healthcare education, transportation and SME financing.

Considering the benefits of investment funds summarised above, a thorough analysis of the feasibility of such a fund appears to be warranted, with a particular focus on the required expertise and cost of establishing and operating it and the size of the Kosovar diaspora and its potential to invest.

4.1.5 Venture capital funds and partnerships

Venture capital funds are similar to other investment funds discussed in this section, but they provide more than support for the start-up of businesses, e.g. longer-term involvement in management, and are focused on innovative ideas with a high growth potential. They can be funded exclusively by the diaspora, or in combination with donors and governments. Examples of this type of fund include those of Fundación Chile, the Irish Technology Leadership Group in Silicon Valley, and the Migration for Development in Africa (MIDA).

The Irish Technology Leadership Group in Silicon Valley is an elite network of Irish corporate leaders who support Irish entrepreneurs in the ICT sector in a Dragon's Den format (Ancien et al., 2009). This involves the entrepreneurs presenting their business ideas to a panel of venture capitalists and those who are selected get a part of the funding to start their business, giving the investors a share of the company's stock in return.

Fundación Chile is a public-private foundation that helps support entrepreneurs launch innovative projects in the agribusiness sector by providing venture capital, but also access to professional networks (Newland and Tanaka, 2010). In a similar manner, ChileGlobal facilitates the design and finance of business ideas through networking activities with elite Chilean diaspora members with the purpose of introducing new technology and know-how in production and services sectors.

The International Organization for Migration's (IOM) Migration for Development in Africa (MIDA) is another example of such an investment fund which aims to facilitate skill-transfer from diaspora professionals (Newland and Tanaka, 2010). This project supports SME development, but also seeks to promote partnerships between Italian and Ghanian and Senegalese communities. In this case the project is funded by the host country (i.e. Italian) government and it also seeks to promote trust and good relations between public and private institutions between the countries of origin and destination.

Finally, it should be stressed that the contribution of the diaspora in the development of the country of origin is far beyond financial contributions. Networks/programs such as ChileGlobal, the Irish

Technology Leadership Group in Silicon Valley, Armentech, and the Scottish GlobalScot and which served as a role model for most other networks, provide mentoring, training, internships, access to new markets, business partners, etc. Smaller projects/networks of a similar format require relatively less funding (as opposed to PPP projects or mutual funds likes Homestrings, for instance), but a higher level of involvement on the part of elite diaspora members and hence more transfer of managerial, marketing and technological know-how. The implementation of a similar project which combines venture capital, training and mentoring called EYE Venture has been recently introduced in Kosovo. The project is funded jointly by diaspora and indigenous businesses in Kosovo and by international donors and it includes well-known diaspora investors and professionals who will play a mentoring role for the selected venture capital business start-ups (EYE venture, 2013).

From this analysis, the conclusion is that diaspora investment funds are very convenient because they enable investors to obtain credible information on investment opportunities and to pool funds, which, in turn, allow investment in more projects and hence risk diversification.

After critical appraisal of strategies at central level the next Chapter focuses on assessment of strategies which can be implemented at local level.

4.2 Other supportive mechanisms and instruments

4.2.1 Dual citizenship for diaspora members and national treatment for their investments

Policies and instruments to promote DDI and other forms of diaspora investment are typically preceded by, or launched at the same time with, wider initiatives aimed at promoting links of the diaspora with the country of origin (e.g. China, India and Taiwan). The first steps taken by the country of origin usually involves granting dual citizenship, e.g. in Cape Verde and Ghana (Okele et al., 2009), or some kind of special status (e.g. the person of Indian origin, PIO, status and card granted by India), which allows diaspora members to travel freely to the country of origin and exempts them from work permit requirements and other limitations with regard to activities such as opening a bank account, enrolling in education institutions, starting a business, taking up employment, etc. (Indian Ministry of Home Affairs, 2012). Granting (dual) citizenship or some other special status, serves both to grant legal and political rights to diaspora members which facilitate their engagement, and to promote a sense of belonging to the country of origin.

Currently, Kosovo allows dual citizenship and even grants voting rights diaspora members who take advantage of this. Moreover, the approach of granting a special status or citizenship to diaspora members is not necessarily relevant and binding in every economy: similar to the case of banking system liberalization measures in Turkey, Albania and some African countries, discussed earlier in this section, Kosovo's level of economic liberalization largely renders the tangible effects of this approach obsolete. For instance, whilst in the economies where these steps are undertaken there are/were restrictions to FDI in terms of the share of private equity owned by a foreign investor, purchase of capital market instruments by non-residents, export of dividends and capital, etc., Kosovo's market is already liberalized. According to the foreign investment law (No. 02/L-33), foreign investors are granted national treatment (i.e. equal treatment to domestic investors); they are protected against expropriation and nationalization and enjoy rights of compensation; and they can own real estate and enjoy the same property rights with regard to real estate as their Kosovar counterparts do.

Considering the level of liberalisation foreseen in the current legal framework, it is not surprising that the main barriers to DDI that have been identified in this report (Section 3.5), as well as a previous study by Riinvest (2013), are general barriers which affect all investors in Kosovo, foreign and domestic: poor rule of law and contract enforcement, corruption, access to finance, workforce skills, overall economic conditions (low purchasing power of the population) and lack of tax and other financial incentives. Hence, the measures proposed by the businesses and stakeholders interviewed for the purpose of this study tend to be generic FDI policy measures such as: corporate tax exemptions for a certain period of time and grants dedicated to support diaspora investment (e.g. through co-financing)[8].

4.2.2 Tax Incentives

Tax breaks have been applied, for instance, in Cape Verde and Nigeria (Okele et al., 2009). Cape Verde grants exemptions on custom duties for new investments and exemptions from the 35 per cent corporate tax during the five years of operation for corporations established by emigrants. Nigeria, on the other has no specific law/code on DDI, but it offers all investors exemptions for periods of up to 30 years on all duties and taxes.

4.2.3 Providing information on investment opportunities and due diligence

The other recurring theme in stakeholder interviews is lack of information on investment opportunities in Kosovo as a barrier to diaspora investment specifically. Accordingly, professional counselling, a web-page in Albanian containing information on investment opportunities and conditions and the creation of diaspora business associations in their destination countries (with the support of Kosovar Embassies) have been proposed. This may seem counterintuitive considering that diaspora investors are conventionally believed to be at an advantage over other foreign investors because they know the country, culture, consumer tastes, etc., but, on the other hand, diaspora members, on average, are likely to have less access to resources and to specialised sources of information that other foreign investors use when making investment destinations. The need for access to trusted information has been also been identified as a precondition for DDI by the diasporas of other countries, e.g. Ambroziak and Kotenko (2011), particularly through the establishment of business directories skills exchange services and information on due diligence in home countries. Other countries have addressed these needs in different ways (see, e.g. Ancien et al., 2009). India, Armenia and Nigeria run one-stops shop which provide diaspora members advice on investing or establishing partnerships with domestic businesses, while in other countries direct advice to potential diaspora investors are provided by networks which are supported by specialist state services focusing on FDI, exports promotion etc. (e.g. Fundación Chile, Scottish Networks International and Enterprise Ireland).

In principle, any instruments to target diaspora investors must be carefully considered and, if any privileges are granted, they should be designed in a way that does not favour diaspora compared to domestic businesses, but rather help in creating a level playing field where both groups to compete fairly, e.g. through the provision of services such as information about business regulations and laws, potential partners, etc. In Kosovo such information can be continued to be offered by existing

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[8] Whilst some stakeholders suggest that these instruments should target diaspora investors, most believe that they should apply to all investors, regardless of origin.

institutions such as the Investment Promotion Agency or by business associations, rather than creating new ones. However, a mapping of the activities of relevant organisations and public institutions could prove to be useful for the involved parties to be able to coordinate activities and improve the flow of information among themselves and towards potential diaspora investors. If tax breaks or similar instruments are used, on the other hand, they should be used to stimulate investment overall, not only diaspora investors. This would not only put domestic businesses at a disadvantage, but such 'artificially created' competitiveness is likely to be unsustainable if the underlying business conditions are not improved[9].

In conclusion, the analysis in this section suggests that the obstacles faced by diaspora direct investors in Kosovo are largely generic business environment problems - those that are faced by any local and foreign investor in Kosovo. One particular diaspora-related problem that has been identified both in analyses of other countries' experiences, and by virtually all stakeholders in Kosovo, the lack of (credible) information, including due diligence information, on investment opportunities in Kosovo. Whilst public institutions such as the Ministry of Diaspora or the Investment Promotion Agency are often asked for, and provide, information on potential business partners and investment opportunities to diaspora investors, this information is not collected, researched and presented in a systematic manner.

4.3 Summary and Recommendations

From this analysis the conclusion is that diaspora investment funds are very convenient because they enable investors to obtain credible information on investment opportunities and to pool funds which in turn allow investment in more projects and hence risk diversification.

After critical appraisal of strategies at central level the next Chapter focuses on assessment of strategies which can be implemented at local level.

[9] Newland and Tanaka (2011) note the case of Ethiopia where investors were given special privileges for a while which caused a temporarily increased in DDI, but was followed by a decline right after these privileges were discontinued.

5 Potential Strategies at the Local Level

Structural mobilization and engagement of diaspora in development is a relatively new practice in Kosovo. Until recently, diaspora engagement in investments was a factor of individual endeavour and personal action. Local governments were largely unable to structurally and functionally tackle diaspora support, due to the legislative and regulatory barriers, as well as lack of capacities.

Deriving from the process of decentralization in Kosovo, the Law on Local Self Government stipulated the transfer of a number of competencies to municipalities. Economic development is among the competencies that have been transferred to local governments. However, municipalities are faced with considerable challenges in executing this competency. The main challenge lies in their financial/budgetary incapacity to engage in sustainable economic development. Many of the municipalities continue to rely mostly on government grants to exercise their economic development competency; around 80% of their total revenue comes from government grants, whereas municipalities own source revenue accounts for about 20% of their total revenue (IMF, 2012). The reason behind this is the lack of financial decentralization that still gives the central government ultimate authority over fiscal revenue disbursement. The second challenge deals with complexities of the legislative and regulatory framework; municipal authorities are frequently constrained in exercising their competencies and delivering services to citizens and businesses.

As a result of prevailing challenges, most of the local governments have done little in structurally attracting diaspora investments. In contrast to this, Suhareka|Suva Reka stands out among municipalities in Kosovo that has effectively sought to engage their diaspora in investments. Their approach to diaspora investment attraction has been strategic. The municipality of Suharekë|Suva Reka established a Directorate for Diaspora – a dedicated municipal administration department serving the needs of their diaspora community. This has made a significant impact in structurally tackling diaspora investment endeavours, among other services and benefits offered to them. This directorate’s close cooperation with the Directorate of Economy, Budget and Finances (responsible for the economic development of the municipality) further strengthened the approach to diaspora investment attraction. The municipal administration was able to provide effective services and tools to incentivize their diaspora to invest in the municipality. Besides business registration and tax easements, the municipality incentivized their diaspora to invest in the industrial zone through the organization and facilitation of targeted investment events.

Other municipalities that have embarked on strengthening their efforts to attract diaspora investments are Prizren, Pejë|Peć, Mitrovicë|a and Gjilan|Gnjilane. Although there is still much to be done, these municipalities have recognized the potential contribution of their diaspora communities in the economic development of their municipalities.

5.1 Assessment of potential local strategies

Based on extensive literature review, diaspora investment attraction efforts are primarily undertaken by national government institutions – line ministries and/or central specialized agencies. Governments of Israel, Armenia, Ireland, Philippines and South Africa are considered to have designed the most successful mechanisms and policy measures that seek to mobilize their diaspora into engaging in investments and development of their countries of origin.

The framework of potential local solutions presented in this report draws on the experience of the above mentioned countries and the practice of local governments in Kosovo and region. The solutions in this framework have been selected based on their suitability and potential applicability in Kosovo.

There is a wide spectrum of solutions that local governments could utilize in incentivizing diaspora to invest. In this section, those that are considered as more feasible for Kosovo context will be analysed and the others will be briefly introduced.

5.1.1 Economic zones for diaspora investments

Industrial parks and free economic zones are effective tools that incentivize investments in general. Economic zones are powerful development tools that many countries have used to target diaspora investments (Haas, 2006). Besides a number of tax benefits, investors take advantage of customized infrastructure specifically tailored for their investment projects. Economic zones have a direct impact in the increase of investment volumes, new jobs created, and additional revenue for municipalities that benefit all citizens.

Municipalities in Kosovo should strive to establish and functionalize these tools to stimulate and focus diaspora investments to these designated spaces. This solution will be further elaborated in the next section of this report. Kosovo has recently re-drafted the Law on Economic Zones that aims to make way for the establishment of designated spaces for investment attraction. Economic zones have a special economic status and are broken down into (Law on Economic Zones):

- ***Free Zone:*** a free zone determined under the Customs and Excise Code of the Republic of Kosovo.
- ***Industrial Park:*** a separate territory in compliance with a general plan, equipped with necessary infrastructure such as roads, transport and public services, with or without industrial buildings designated for industrial development.
- ***Technological Park:*** a separate territory under a certain plan, designed to accommodate enterprises with high technological level, usually closely linked with a research institute or University.
- ***Business Incubator:*** a building which provides physical and business space for young entrepreneurs for a certain period of time, until the business matures for the market.

Local governments in Kosovo are authorized to establish an economic zone with a decision taken by the municipal assembly. The decision needs to include full cadastral details related with the designated territory declared as an economic zone. Municipalities are required to obtain the Ministry of Trade and Industry’s consent regarding the establishment of the economic zone. The consent is provided based on evaluating a feasibility study prepared by the municipality.

To illustrate the benefits of economic zones, the municipality of Suharekë|Suva Reka has an industrial park covering 160 ha. Currently, there are 9 investors that have established operations in the park employing over 600 employees with investment volume of above EUR 12 million. 28 other investors, 3 of which diaspora, are under procedure to engage in investments of over EUR 40 million. Ultimately, the industrial park in Suharekë|Suva Reka will generate over 2,000 new jobs. Seeing the benefits of economic zones, the municipality of Suharekë|Suva Reka is working towards creating an additional industrial park in its territory, as well as a joint one with the municipality of Rahovec|Orahovac. Mitrovicë|a has also established an economic zone with an area of 60 ha. They are currently undergoing the procedures with Ministry of Trade and Industry for declaring this zone as free customs zone. They are anticipating the creation of over 1,500 new jobs with around 50 million Euros in investments attracted. The municipalities of Gjilan|Gnjilane and Novobërdë|Novo Brdo have established a joint industrial park with an area covering 100 ha. Their aim is to create over 2,000 new jobs and attract over EUR 60 million in investments. If properly marketed to diaspora, these economic zones will surely incentivize them to engage in investments.

5.1.2 Municipal property for diaspora investments

Municipalities in Kosovo possess land and property that may be allocated for economic development. These are important assets that can be put to an effective use for attracting diaspora investments. The allocation may be done for various purposes – with the main purpose being the economic development of the municipality. Kosovo has recently re-drafted the Law on the Allocation for Use and Exchange of Immovable Property of the Municipality that improves the economic enabling environment of municipalities. Namely, the present law enables municipalities to allocate property for up to 99 years in conformity with international best practices, instead of maximum 40 years as stated in the previous version of the law. The administrative and bureaucratic procedures for the allocation of property have been largely simplified. Instead of obtaining 4 licenses from Ministries and central agencies, now municipalities can allocate property for investments with their municipal assembly decision. This has increased the exercise of delegated competencies to municipalities. In addition to this, municipalities may now allocate property with auctions – where the highest bid wins – rather than complex procedures as stipulated in the Law on Public Procurement.

The degree of property in municipal possession varies from around 2% up to over 15% of municipal territory (Kaganova, et al., 2012). This presents a significant potential that is clearly underutilized in most of the municipalities in Kosovo. Land is of critical value to all investments as it comprises one of four factors of production. An abundance of land and property in possession by many municipalities, and an improved legal framework, calls for local governments to utilize this potential in attracting investments. Consequently, municipalities may target their diaspora to invest by providing them with land and property. The degree of return to local governments may be dependent on the individual investment projects – for projects drawing high volume of investment and generating a large number of new jobs – municipalities may allocate land and property for free. For smaller projects, municipalities may lease their property at below market average prices to incentivize investments, as well as incur own source revenue.

5.1.3 Public-private partnerships for diaspora investments

Public-private partnerships (PPPs) are a relatively new development concept in Kosovo. PPPs may be an effective tool to complement scarce public funds with available private investors. Municipalities may utilize diaspora funding to engage in improving the provision of public services and economic development projects. This solution will also be further elaborated in the next section. Many municipalities in Kosovo have a lack of financial capacities in the provision of public services, as well as economic development. This scarcity of funds frequently impacts the quality of services and incentives for investment. However, local governments may partner with the private sector both in the provision of public services, infrastructure development, as well as engagement in economic development projects (Plaza and Ratha, 2011). The Law on Public-Private Partnerships in Kosovo governs all PPPs for the provision of public services and/or public infrastructure in all economic and social sectors, including, but not limited to: transport, railway system, transport in rails, airports, roads, tunnels, bridges, parking, public transport; energy infrastructure, excluding the construction of new energy generation capacities; oil pipeline, gas pipeline, refinement and distribution; production, distribution, treatment, collection and administration of water, sewage, drainage, irrigation, channels; collection, disposal, recycling and management of waste; telecommunication; education; sport and recreation; health; tourism and culture; prison infrastructure; rehabilitation of land and forests; industrial parks; public shelter, social housing and social work; government, administration and public buildings; and infrastructure service and maintenance based on IT and data.

PPPs enable local governments in Kosovo to draw private capital that could be used in the provision of the above mentioned services. The municipality of Pejë|Peć has concluded a PPP for public transport; Gjilan|Gnjilane and Suharekë|Suva Reka have both PPPs for solid waste management. The municipalities of Gjilan|Gnjilane, Novobërdë|Novo Brdo, Suharekë|Suva Reka and Mitrovicë|a are considering PPPs for their industrial parks. All of these options are excellent opportunities for municipalities to attract needed capital for improving the level of their services. In doing so, municipalities may target their diaspora as providers of capital and private partners in the provision of many of the services and infrastructure needing capital investments.

5.1.4 Municipal debt issuance for development

Bonds and securities are financial instruments that are used to raise capital for various purposes. These mechanisms are effective tools in attracting and channelling investments. Consequently, many countries throughout the world use bonds and securities to attract inward diaspora investment and funding. Kosovo has recently enabled the legislative environment to make use of public debt instruments in raising capital. This will additionally be elaborated in the following section of this report.

Local governments in Kosovo can issue debt instruments, such as bonds and securities, to finance cash flow budget deficits and/or secure funding for capital investments. According to the Law on Public Debt, municipalities may issue short-term debt instruments that may not exceed a period of twelve months from the issuance day; long-term debt is entered for a minimum three-year period. Besides bonds and securities, municipality can issue guarantees to another legal entity that is owned or controlled by the municipality provided that such debt is issued to finance capital investments. All municipal debt has to be endorsed by the municipal assembly at large and be approved by the Ministry of Finances. One or more municipalities may enter into agreements with other municipalities, including creating a separate legal entity, for the purpose of joint financing, operating and building capital investments utilized for public services. The total stock of short-term and long-term debt, including guarantees, may not exceed more than 40% municipality's annual budget (both own source revenue and general grant).

Due to relatively strong financial capacities of Kosovar diaspora, local governments may issue diaspora debt to tap into their assets. The issuance of diaspora debt is a form of innovative financing that can help the country support infrastructure projects and economic development. Local governments can gain access to fixed-term funding, often at discounted interest rates due to a "patriotic discount", or the difference between the market interest rate for government debt and the interest rate that diasporas are willing to accept given their attachment to the country (Agunias and Newland, 2012).

Many countries around the world have used debt to raise capital among their diaspora. Israel is the forerunner of diaspora debt since they have used diaspora capital since 1951 to fund long-term infrastructural investments. Kosovo has the potential to make use of its diaspora funding through debt to finance various development projects. However, the government in Kosovo, both central and local, should undergo a scrutinized public administration reform. Diaspora would not invest their capital where risk and uncertainty prevails. Thus, the level of transparency and accountability should be increased in order to reflect an acceptable degree of investment security.

Besides analysed strategies other supportive mechanisms and initiatives are have been identified and briefly elaborated below.

5.2 Other supportive mechanisms and instruments

This section discusses strategies that would support attraction of diaspora investments but also support diaspora investments. These strategies are distinguished into two groups: mechanisms that are of an informative nature and mechanisms as a financial support.

5.2.1 Information and counseling:

5.2.1.1 Establishment of a dedicated municipal institution for diaspora

Local governments in Kosovo should consider establishing directorate that would work for and with diaspora. The directorate should work closely with the directorate responsible for economic development. Having a dedicated institution strengthens municipal engagement in providing better services for diaspora communities. This would also benefit towards serving and incentivizing diaspora interests in investing.

5.2.1.2 Development of realistic municipal development plan inclusive of diaspora investment capacities

Municipalities are legally obliged to develop and periodically update their municipal development plan (MDP). This document outlines all development prospects of a given municipality. In line with this, municipalities should make an effort in making their diaspora an integral element of their development plan. The MDP may contain a section on diaspora contribution to the development of the municipality. This should be done in close consultations with the local diaspora community of each municipality.

5.2.1.3 Development of a local investment promotion strategy, including diaspora investment promotion

Although investment promotion efforts are largely carried out by national government institutions, i.e. Investment Promotion Agency of Kosovo, local governments could proactively engage in promoting their investment opportunities to their diaspora. This targeted approach to diaspora should be outline in a local investment promotion strategy that ought to be drafted in cooperation with the diaspora and other relevant stakeholders.

5.2.1.4 Collection and maintenance of accurate statistics and data about the local diaspora

Accurate data about local diaspora bear significant importance in investment attraction and development efforts. Without statistics and data, local governments will not be able to effectively carry out a targeted approach to diaspora investment attraction.

5.2.1.5 Access to information between home country institutions and local diaspora

Diaspora communities are frequently unaware of developments in their home country, because they do not/are not able to receive information. Local governments should facilitate the access and transfer of information regarding developments in Kosovo.

5.2.1.6 Facilitation of diaspora networks, associations, and matchmaking opportunities

Although Kosovar diaspora is very connected with its home country, the strengthening of this bond through the organization of local networks, associations, events and matchmaking would raise their awareness and interest towards various investment opportunities.

5.2.1.7 Provision of one-stop shop business services

One-stop shop services improve the business enabling environment and ease bureaucratic and administrative efforts. All municipalities in Kosovo should work towards improving their one-stop shop services to the entire business community; this will have a definite impact in incentivizing diaspora to establish business operations in their home communities.

5.2.1.8 Provision of advisory services

Local governments, through their dedicated institutions, should seek to provide advisory services for supporting and facilitating diaspora investments. Advice may be provided for the prevailing legal and regulatory environment, financial environment, workforce development, utility services and other support most necessary for diaspora to engage in investments.

5.2.1.9 Encouragement and promotion of tourism to diaspora both as users and investors

Besides remittance senders, investors, philanthropists and innovators, many countries of origin view their diaspora as quality tourists. Emigrants are the most loyal and frequent inward visitors of their home countries. Moreover, they are also considered the largest touristic spenders in their countries of origin. Kosovo national government and municipalities should engage in a more coordinated promotion of tourism potentials to diaspora, both as users and investors. They should be encouraged and incentivized to invest in tourism development as a competitive edge in many municipalities in Kosovo.

5.2.2 Financial supportive instruments:

5.2.2.1 Provision of tax easements

Municipalities may consider providing tax benefits to diaspora investors as incentives for investment attraction. Easements may be offered for business registration and licensing, property, construction and other taxes that fall under the domain of local government jurisdiction. It is important to note that municipalities should provide tax benefits strictly based on cost-benefit calculations for each investment project and refrain from uniform actions that would burden municipal revenue and expenses.

5.2.2.2 Provision of agricultural subsidies to attract diaspora investment in agriculture

Agriculture is considered to be one of the key economic sectors in Kosovo that will drive development and growth forward. Many municipalities across the country possess strategic competitive advantages in tackling agriculture as a source of investment attraction, job creation and sustainable development. Conversely, almost all local governments provide agricultural subsidies to farmers. These subsidies may also be aimed at incentivizing diaspora investments in agriculture and respective sub-sectors.

5.3 Summary and Recommendations

To summarise since all investments occur locally, municipalities have an important role to play in this process. Local governments may employ a variety of solutions that would create a favourable environment and provide tools for stimulating diaspora investments. As this report should recommend a solution for further assessment, local governments should strive to encourage their diaspora investments through public-private partnerships. Although the scope of PPPs may be wide, both local governments and diaspora may mutually benefit from: 1) raising capital for investments in public services, and 2) providing opportunities for the local diaspora to invest. Additionally, municipalities that seek to establish and functionalize industrial parks may do so through PPPs – both by raising diaspora capital as well as utilizing their know-how in the management and make operational the industrial park.

6 CONCLUSION

This concluding chapter outlines main findings and recommendations derived based on the experience in other countries and also results obtained from the primary data and information collected during the research.

6.1 Main findings

Acknowledging the low engagement of Kosovo diaspora in investments and savings, this study investigated barriers towards diaspora investments and savings; critically appraised tested strategies applied by countries around the world in order to boost diaspora investments and savings and proposed strategies that were found more suitable to the Kosovo context and which would warrant further study on their suitability for implementation. Analyses and discussions in this research are done based on desk research; a series of in-depth interviews conducted with potential and current diaspora investors; two focus group discussions and interviews with key stakeholders relevant to diaspora investments and savings. Additionally valuable information was extracted from findings of the IOM survey conducted with 78 diaspora members and notes from the meetings and focus groups organised in Kosovo and abroad with diaspora members during 2012 and 2013.

An important finding from this research is that diaspora is interested, has the potential and is willing to invest in Kosovo. From interviews and focus groups discussions it has been revealed that in spite of reforms implemented in Kosovo to improve the business environment, diaspora has stated that there remain obstacles for doing business in Kosovo. Access to finance and high tax burden on importing raw material and machinery were the most commonly identified obstacles. It was found that there is a perception among members of diaspora (from meetings and focus groups) that there is a high level of corruption in Kosovo which in turn reduces readiness of diaspora to invest in Kosovo, since they are unwilling to bear the so called 'hidden expenditures of corruption.' The presence of bureaucracy and pressure from government officials was highlighted as a barrier to running a business. Lack of information on investment opportunities; high price of electricity; high interest rate; lack of qualified staff; poor economic conditions and general disappointment of diaspora related to the Kosovo government were pointed out as barriers to invest in Kosovo.

To attract diaspora investments and savings, different countries have applied preferential interest rates on term deposits to attract diaspora savings, tax exemption from interest rate earnings and interest rate reductions for investment loans. Another instrument used is provision of 'transnational loans' to diaspora members, through partnerships with their counterparts in the destination countries. These loans are intended to facilitate credit to emigrants which they extend to finance their family members in the country of origin, e.g. for home purchase, education, business expansion, etc. Another mechanism which has been used by countries of origin to tap into diaspora savings is through marketing sovereign bonds to the diaspora. Bonds are considered to have the advantage over other forms of debt due to their security..

As indicated above, access to finance was noted as main barrier to invest in Kosovo. To address the two barriers many countries have offered tax breaks and introduced investment funds and venture capital funds. Investment funds operating in different countries identify investment opportunities – funds, projects and public-private partnerships – in the regions of interest to their clients and provides due diligence information to inform their clients' choice of investment. Investment selection is done based on expected socioeconomic impact and reasonable profitability. Projects usually cover a wide range of areas which are considered critical for economic growth, such as healthcare, education, transportation and SME financing. Venture capital funds, on the other hand, provide longer-term involvement in management, and are focused on innovative ideas with a high growth potential. They can be funded exclusively by the diaspora, or in combination with donors and governments.

Since the first point of contact for many members of diaspora are at the municipal level this study has also focused in identifying and assessing local strategies to facilitate diaspora investments. The decentralisation process in Kosovo has transferred a number of competencies to municipalities among which competencies related to economic development. This puts municipalities in Kosovo in a good position in implementing strategies to attract diaspora investments. Although competencies have been decentralised, municipalities face financial constraints, therefore they can provide opportunities for joint financing of important projects to members of the diaspora. Although the great potential for collaboration, municipalities in Kosovo so far have done little in attracting diaspora investments. An exception is the municipality of Suharekë|Suva Reka that has successfully incentivised their diaspora to invest in the industrial zone through the organization and facilitation of targeted investment events, as well as business registration facilitation and tax easements. Efforts in inducing diaspora investments have also been undertaken by the municipalities of Prizren, Pejë|Peć, Mitrovicë|a and Gjilan|Gnjilane.

Economic zones have been discussed as effective tools that many countries have used to target diaspora investments, which can lead to increased investments, new jobs and revenues for municipalities. Allocation of property for investment purposes to diaspora can be utilities to induce investments. Allocation can be done for free for those project that have the potential to produce many jobs and hence facilitate development of municipalities and property could be leased for projects of smaller impact always below the market price. Public-private partnerships have been identified as an important model that could lead to increased diaspora investments. The Law on Public-Private Partnerships in Kosovo governs all PPPs for the provision of public services and/or public infrastructure in all economic and social sectors, including: transport such as railway system, airports, roads, parking, public transport; and energy infrastructure. This means there is a wide scope for PPPs at the local level. Another important model to accommodate diaspora savings are issuance of debt instruments. The legal framework in Kosovo enables local governments in Kosovo to issue debt instruments, such as bonds and securities, to finance cash flow budget deficits and/or secure funding for capital investments. Municipalities may issue short-term debt instruments that may not exceed a period of twelve months from the issuance day; long-term debt is entered for a minimum three-year period. Besides bonds and securities, municipality can issue guarantees to another legal entity that is owned or controlled by the municipality provided that such debt is issued to finance capital investments. Several supportive mechanisms have been identified and proposed that could support attracting diaspora investments and facilitating business development of diaspora businesses at local level.

6.2 Recommendations

Following analyses of the legal basis with regard to diaspora investments, barriers identified by the literature, findings from interviews, focus groups discussions and assessment of tested strategies in other countries policy proposals are elaborated below.

Liberal policies and measures taken by other countries to encourage diaspora savings and direct investment are largely redundant in the context of Kosovo. First, Kosovo already has a very liberal market in terms of foreign investment and the status of the diaspora (including dual citizenship and national treatment for foreign investors) and most of the obstacles that diaspora investors face are not diaspora-specific, but generic business environment problems faced by all domestic and foreign firms operating in Kosovo. One particular diaspora-specific difficulty that was highlighted by the stakeholders in Kosovo and confirmed by previous studies conducted in other countries is the lack of information related to investment opportunities. Namely, the average diaspora investor that would like to invest in the country of origin is motivated (partly) by his/her emotional ties to the country and desire to contribute to the country's development, but he/she is unlikely to have the time and/or specialised skills (and resources to gain the) required to identify and assess investment opportunities. Further, the average diaspora investor is not expected to have the resources to invest in multiple investment opportunities, so as to diversify risk. For this reason, diaspora investment funds are very convenient because they enable investors to obtain credible (due diligence) information on investment opportunities and to pool funds, which, in turn, allows investment in more projects and hence risk diversification. One type of investment fund that was proposed within this research was the one applied in Croatia where the profit tax on gambling is collected in one fund, which is then used to support diaspora investment projects. Therefore, the recommendation of this analysis is that the feasibility of a Kosovar diaspora investment fund warrants further investigation in a future study. The establishment of such a fund would create the necessary pool of funds, which can then be invested in different instruments/projects.

To complement this initiative at the local level the recommendation is that local governments should strive to incentivize their diaspora investments through public-private partnerships and look into the possibility of providing municipal bonds. PPPs will provide benefits both to local governments and diaspora by raising capital for investments in public services, and providing opportunities for the local diaspora to invest. In particular, these would allow the diaspora to invest in their particular community of origin and track more closely their investment to ensure that it is used as planned and minimise the possibility of corruption, perceived or actual. Furthermore, municipalities that seek to establish and functionalize industrial parks may do so through PPPs – both by raising diaspora capital, as well as utilizing their know-how in the management and operation of the industrial parks. These types of investment would in turn facilitate further investment from the diaspora and others by alleviating the barrier of lack of infrastructure. Lastly, by leveraging municipal resources such as land and tax easement the local governments can operationalize their attention and support to members of the diaspora who would like to invest. In the future local governments may issue diaspora debt to fund these types of projects. In addition, once established the investment fund described about could serve to funnel investment into the PPPs and eventually purchase the municipal bonds. However, to implement this model/instrument both central and local level should undergo a scrutinized public administration reform. The level of transparency and accountability should be increased in order to reflect an acceptable degree of investment security.

A proposal was that the government should financially support diaspora investors by subsiding wages for employees of established SME business for the first year of operation. Corporate and/or employee tax exemption was proposed as a motivating mechanism for all, not only for diaspora investors. Taking into account that currently businesses in Kosovo have to pay customs and taxes when importing goods, one proposal was to postpone the tax payment at least for 3-6 months until the business has the chance to earn income. However, offering tax exemptions for one group of business might not be adequate as it would favour unfair competition. This was actually highlighted by Kosovar employers.

From literature review, interviews, and focus groups with diaspora businesses and members several *supporting mechanisms* have been identified that could be combined with any introduced strategies, both at central and local level. One such supporting mechanism is the promotion of success stories. This is very important given many members of diaspora's bad perceptions. The Ministry has already developed an idea which will soon start being transmitted in RTK. Once a month a success story will be transmitted, which will hopefully serve as a motivation for potential investors. Promotion of success stories of diaspora investments will help attract diaspora to invest in the investment fund and take part in the public-private partnerships local projects by making them more confident in the profitability and chances of success of such investments. Once the two strategies start implementation promotion of success stories of projects derived from the two strategies will further send a good signal to other diaspora investors hence result in higher diaspora investments in the fund and stoke interest in local level PPPs among diaspora and municipalities.

Improving information about investment opportunities in Kosovo was raised by almost all diaspora members and businesses. When asked about which channels of information would be most appropriate in the IOM survey, a range of channels were proposed. Direct meetings were the most commonly noted channel (80% of respondents), internet (50% of respondents), and less preferred channels were media and brochures. This implies that direct communication would play a significant role in keeping diaspora informed with developments in regard to investment opportunities. The newly established Ministry of Diaspora could play a crucial role together with Kosovo Embassies. To facilitate information it was proposed that there should be a webpage in the local languages where members of diaspora can get important information in regards to investments and other relevant issues in Kosovo. Once information on investment opportunities becomes available it can be used to tailor investment projects both for the investment fund and public-private partnerships. Moreover, investing in projects that are proposed by institutions such is the Ministry of Diaspora will probably contribute to higher readiness of diaspora to invest.

Another idea is that business associations should be established consisting of diaspora businesses. These associations in the beginning should be financed by Embassies until they become sustainable. Provision of information will as well avoid the possibility of misinformation. These associations would be important institutions for information dissemination related to investment fund and public-private partnership potential projects. Such an initiative has proved successful in Switzerland, led by DFD.

Considering that the third generation of Kosovo diaspora is getting integrated in countries where they reside, Kosovo Government should develop mechanisms for brain gain. Perhaps operation of investment fund could benefit through engagement of especially diaspora youth educated and with experience in developed countries related to the investment management. One administrative proposal that was brought forward was related to the business registration form, which should allow indication of whether the business is owned by a member of the diaspora. This would help in collecting information on the size of diaspora investments in the future.

Primary data collected during this study have identified that Kosovo diaspora has the will and the potential to invest in Kosovo. First-hand information collected from existing and potential diaspora investors found that the main barriers to start and run a business in Kosovo are poor access to finance, real and perceived levels of corruption and lack of information on investments opportunities. Further this study identified central and local level strategies /solutions to attract diaspora investments and savings applied in different countries around the world. The identified strategies were pre-assessed on their suitability for the macroeconomic context of Kosovo, which analyses suggested that an investment fund seems most suitable to be implemented at the central level whereas public-private partnerships are well suited for the local level. A detailed feasibility study for the two strategies should be conducted to ensure that the two strategies can be successfully implemented in Kosovo, can contribute to the sustainable and inclusive development Kosovo, and facilitate stronger ties and cooperation with the Kosovar diaspora.

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8 APPENDIX: SUMMARY OF INTERVIEWS AND FOCUS GROUP DISCUSSIONS

1: 28 February 2013; Interview with Naim Dedushaj, Director for Diaspora Investments, Ministry of Diaspora

- There are no data available on total number of diaspora businesses in Kosovo. The Agency for Business Registration does not distinguish between foreigners and diaspora. The proposal made is that the registration form should allow indication whether the business is registered by diaspora and also the country where diaspora resides. The Ministry has a directory composed of about 150 companies that belong to diaspora, but there are more in the ground for which information needs to be collected.
- According to diaspora, main barriers to invest in Kosovo are the following: lack of information (when I asked about the role played by Embassies, it was highlighted that Embassies have proven not to be a good source of information); there is lack of projects developed by the government, which would ease investments and inform investors. Often diaspora members state that they have money, but no idea in what to invest. High taxes are claimed to be one reason, more like lack of financial incentives rather than high taxes given that taxes in Kosovo are not that high. Corruption is noted as a barrier; lack of government commitment to cooperate with diaspora, and poor engagement of diaspora in privatisation process. A concrete example of a barrier mentioned was the inability of diaspora to get the land for 99 years of usage. Diaspora complains that they are not engaged and included in the preparation of important strategies and documents. Diaspora has lost trust in the Kosovo Government, since, according to diaspora, Kosovo Government did not open doors for them.
- With regard to savings of diaspora, the main factors that deter their savings is low interest rates, but also lack of trust in banks in Kosovo. Additionally, banks in Kosovo have treated diaspora as any other foreigner and this has resulted in low savings of diaspora. It was stressed out that banks have enough finances and there is no need to attract diaspora. They quoted one bank that stated that the bank has more money than needed.
- Sectors of highest interest are noted to be production, especially agriculture, services, including ICT.
- The response to the question on whether diaspora is treated the same as foreign investors the response was that diaspora investors are treated as foreign investors. Diaspora does not even have the right to register a property on their name, which is a barrier when they want to start a business aiming also to buy a piece of land.
- Potential models to stimulate diaspora investments. Financial support to diaspora investors, for example the government subsidises wages for employees of established SME business for the first year of operation. Another form would be to provide grants per employee. Guaranteeing their investments is the most crucial instrument. Diaspora investors have been subject to corruption and bribe which has sent a bad signal to potential investors. Success stories should be promoted. The Ministry has developed an idea which will soon start being transmitted in RTK. Once a month a success story will be transmitted which would hopefully serve as a motivation for potential investors.
- Diaspora contacts the Ministry for information related to investment opportunities and also if they face a problem they make an official letter which than the Ministry uses to solve diaspora problems.

- Municipality of Suharekë|Suva Reka has been mentioned as the best case to mobilise diaspora investments and the whole success was attributed to the Mayor who organised registration of diaspora and enhanced their investments.
- The conclusion was that this is the last moment to enhance diaspora investments and if this moment is lost Kosovo will never benefit from diaspora.

2: Interview with Artan Mehmeti, Economic Attache in Brussels

1. What services does your institution offer to (potential) foreign investors (including diaspora investors)?
   Services for foreign investors are mainly to communicate and inform them about the Kosovo market, potential, benefits from investing in Kosovo, business environment (requirements). I serve as a focal point for foreign investors that are interested to do business/invest/operate in Kosovo.
   1a. Do you have a platform for targeting diaspora investors? (If so, please explain): **So** far we don't have a platform only for diaspora investors, they are treated the same as all other investors.
   1b. Are diaspora investments treated the same as other foreign investors? (If not, please explain the differences): Yes.
2. Does your institution promote successful diaspora investments? (If so, how?): Not applicable yet, as I am currently in the initial stage of gathering information regarding diaspora investments.
3. What are, in your opinion/experience, barriers to FDI, and diaspora investment, in particular?
   In my opinion, barriers to FDI may be different depending on the industry/sector; however, stable power supply, perception of image, and political stability, issues related to contract enforcement are significant factors that contribute to barriers for FDI.
4. (How) does the your institution get feedback from diaspora investors who decide to invest in Kosovo, and more importantly, from those that consider investing here but ultimately decide not to invest? Not applicable yet.
5. Do you have a database of diaspora investors (or potential investors) in Kosovo? N/A
6. What, in your opinion, are the main economic sectors where there is potential for investment?
   a. Mining, energy, agriculture, food processing, wood processing, tourism, information technology, textile, construction, etc.
7. Are there any other forms of economic activity that diaspora is promoting (or can promote): e.g. promoting Kosovar exports, marketing the goods and services in their host country, etc.?
8. Based on your contacts/experience with diaspora members, in which of the following are they more likely to invest in? Please highlight the option(s). Not applicable yet.
   - Start and manage a business themselves
   - Start and manage a business in cooperation with relatives in Kosovo
   - Finance a start-up for a family member in Kosovo
   - Co-finance a private investment with a business partner who has relevant experience (not necessarily a family member)
   - Co-finance public projects (e.g. in education, healthcare or infrastructure) with local institutions
   - Co-finance public projects (e.g. in education, healthcare or infrastructure) with central institutions
9. Co-finance public projects (e.g. option(s) N/A
   - Giving grants for business in education, healthcare or infrastructure with international organizations
   - Other (please explain)__________________________

10. Based on your contacts/experience with diaspora members, are initiatives to encourage the activities below likely to be successful, and under what conditions? Please circle the
    - start-ups
    - Granting loans (at lower or no interest rates) for business start-ups
    - Buying equity in an existing business
    - Providing mentoring, training, or other technical support
    - Other (please explain)_____________________
11. Based on your contacts/experience with diaspora members, which organizations would are they more inclined to trust (and partner with) to organise such initiatives, and why:
    - Local government institutions
    - Central government institutions
    - Investment Promotion Agency of Kosovo (IPAK)
    - Business associations (if yes, local, international, or both?)
    - Non-profit organizations (if yes, local, international, or both?)
    - Other (please explain)______________

3: 26 February 2013; Interview with Elbasan Morina (Director) and Rudina Heroi Puka (Project officer for diaspora Investments), diaspora for Development NGO and a project financed by SDC

- Although no official data in place based on the research that the project has done in some municipalities it turned out that only 2% of investments done are from diaspora. On average 5-6 investors in each municipality;
- Main barriers noted by diaspora are: lack of information on investment opportunities in Kosovo; lack of tax and other financial incentives; corruption, bureaucracy. It was highlighted that second generation of diaspora is integrating in their host countries. Diaspora invests in countries they reside hence the potential for investment is declining from one to another year; organisation of diaspora is another weakness which as well influences low investments in Kosovo;
- It was highlighted that whereas diaspora ask for financial incentives i.e. tax reductions this is criticised by Kosovar businesses. They do not agree with more preferential conditions for diaspora. This was discussed when a workshop with both Kosovo and diaspora businesses was organised.
- There is no contact point for diaspora to obtain information sought;
- Sectors that are more of interest for diaspora are: agriculture and construction
- Diaspora is more interested in joint ventures with Kosovars. This for two reasons, one since Kosovars have more information and links and secondly because diaspora do not want to return but have a business in Kosovo and perhaps employ family members;
- Establishing funds has been noted as an adequate model. The case of Croatia was mentioned. Profit tax on gambling is all collected in one fund which is then used to support diaspora investment projects.
- With regards to savings the perception that Rudina got from meetings with diaspora is that they do not save very much.

4: 22 February 2013; Interview with Sokol Havolli, research at CBK

- There are no data on diaspora investments and savings as those are considered as foreign investors

5: 5 March 2013; Interview with owner of Botek

The owner is Kosovar from Switzerland and his business has been for seven years now in ICT technology

Main barriers noted for diaspora investors are:

- Poor economic conditions in Kosovo i.e. lack of cash. There is no cash hence no demand and low profit. The owner said that if one can find an idea that would generate 8-9% profit he would invest but as long as profit is below 6% one would rather deposit money in the bank and earn 6% interest;
- Corruption is another factor that demotivates investments
- Lack of skilled people

When asked what the government can do to provide incentives for diaspora investments; the response was “to cease to exist, since it is only creating barriers for businesses”.There is nothing that can be done given the poor economy and lack of demand in Kosovo.

6: Email reply from Wood Association in Prishtina

Barriers for investments are: customs for raw material at the border (this does not exist in Macedonia and other countries in the region); VAT on machinery for production (Albania has already removed it); and barriers related to poor functioning of the judicial system. It was highlighted that it is first important to understand barriers that Kosovo businesses face. Given that Kosovo businesses are not satisfied with the business environment there are almost no chances to convince diaspora to invest in Kosovo.

Custom and VAT exemption could induce investments.

7: March 2013; Email reply by Brahim Ademaj, Sales Manager in GETRINKE-VRELLA (SINALCO)

GETRINKE-VRELLA is a company established by a diaspora member from Germany. Doing a business by diaspora is based solely on national pride since the infrastructure to do business in Kosovo is not favourable. In Kosovo, businesses face problems which a business should not even think of. To motivate diaspora investments their businesses should be exempted from taxes in the first years of establishment and not to be asked to pay a tax on technology before starting to run the business. Kosovo is a cash transfer since import is very high.

8: March 2013; Email reply from Kosovo Embassy in Netherlands

Investments from Netherland in Kosovo account for about 100 million Euros. Majority of investments are oriented in the production sector. There are about 60 Netherland companies running in Kosovo.

The Embassy has a diplomat for economy. To strengthen cooperation with Netherland last October the Embassy organised an Economic Conference which proved to be very beneficial. Diaspora members were present in this conference and concrete ideas had been developed. The Embassy has provided advice and counselling to interested diaspora members in relation to the Private Sector Investment, which is financed by the Foreign Ministry of Netherlands. From this project until now a number of companies have benefited.

9: Interview with Kujtim Dobruna, ECIKS, 7 March 2013

ECIKS for long time has supported diaspora in starting and running businesses. Diaspora contact ECIKS for the necessary information when interested to start up a business. ECIKS works on one to one basis: in the initial phase they have frequent contacts, whereas once businesses settle down contacts become rare. It was stated that currently diaspora has no address whom to contact when information is needed.

Kujtim stated that there is financial potential of diaspora that can be accommodated in investment projects in Kosovo. Three types of potential diaspora investors were indicated:

4. Diaspora that has businesses abroad. This is an important group as they can organise production of some parts of the final products in Kosovo;

5. Diaspora that has managerial and leading positions in businesses abroad. This is an important group as they can influence decisions of their owners to invest in Kosovo (one such example is a business in Gjakova); and

6. The third group are those that do not have a business in the country where they reside but they bring an innovative idea and invest in Kosovo. An example is a successful call centre business established by one Kosovar that lived in Germany. The company employed German speaking youth most of which spent some of their life in German speaking countries.

Barriers for diaspora investments: diaspora, as other foreign investors, faces same barriers to invest in Kosovo. Main barriers noted are the following access to finance and lack of counselling services. Diaspora has difficulties to obtain loans in Kosovo since they first of all do not have collateral. Although usually studies and people name corruption among main barriers, Kujtim stated that corruption becomes a problem in businesses that apply for tenders. It was as well noted that diaspora is disappointed with Kosovo institutions. Diaspora complains that they did not find support in Kosovo institutions.

Models for incentivising diaspora investments:

1. To establish a fund to support investments for specific sectors i.e. co-financing between government and diaspora investors. Co-financing would be for 2-3 years;

2. Corporate tax exemption for all, not only for diaspora investors;

3. Very important to offer professional counselling for foreign investors, including diaspora. Continuous support should be provided to diaspora investors. Having successful businesses is crucial for sending a signal to potential businesses.

10: Interview with Arian Zeka, Director of American Chamber of Commerce, 8 March 2013

Barriers to invest in Kosovo: diaspora faces same barriers as any other business. Main barriers are: access to finance and corruption. Corruption is a problem since most of capital projects in Kosovo are public.

What needs to be done: Embassies should be of support to diaspora potential investors. According to the Law on Diaspora, cultural centres can be established where there is diaspora. Business associations should be established, as well consisting of diaspora businesses. These associations in the beginning should be financed by Embassies until they become sustainable. There should be a webpage in Albanian language where diaspora can get important information with regards to investments in Kosovo.

As for financial incentives models, they should not be only for diaspora but for all investors. Corporate tax exemptions can provide incentives to potential investors; grants for investments.

Production and particularly food processing are the most important sectors for investments.

11: Summary of findings from conference organised by MeD; 21st of March 2013

Barriers for diaspora investments in Kosovo

Currently dialogue with Serbia is causing problems for Kosovo businesses since projects from EU and US are waiting what will happen. If the two parties come to an agreement, EU and USA will provide more development funds to Kosovo.

One migrant stated that it took him 1.5 years to convince a foreigner that Kosovo is a good place to invest. The government was in our way instead of supporting us. Whenever we want to become a member in any organisation Kosovo does not appear in the list of countries and therefore we cannot register.

Kosovo has the worst fiscal policies; there are taxes on raw materials and machinery (exempted only when the complete production line is purchased); there is one VAT rate for all. In Germany for food processing there is a lower VAT rate about 7per cent, whereas in Kosovo one single rate. Electricity is very expensive, 70 per cent higher for businesses than for households-you cannot find this policy anywhere in the world. Fiscal cash registers were not introduced in fuel stations which do not make sense at all. Fuel stations have high turnover but can under-report their turnover since they do not have a -not collecting money from those that profit most. Protection of investors is very weak.

Effectiveness of institutions to issue construction permit is very weak: we applied in 2007 for a permit and we did not get a response until now in 2013.

We want to work, but the government officials should not put us under a pressure.

Needs and models to support diaspora investments in Kosovo

Diaspora needs information to invest in Kosovo.

Lower taxes

Taxes to be collected when income earned not before earning it

12: 27 March 2013, Interview with Lea Shllaku, Senior Investment Promotion Officer at IPAK

Like for other foreign investors, IPAK is usually the first point of contact for potential diapora investors. IPAK does not have a special platform for targeting diaspora investors or special services for this group of investors. The services they provide to foreign and diaspora investors include, but are not limited to: providing information regarding investment opportunities; arranging meetings with central and local institutions; providing assistance in identifying potential business partners and registering their business; and helping them to solve any other problems they may encounter in doing business in Kosovo. Investment promotions activities tend to consist of conferences with potential investors in the countries of origin. Although these conferences do not target diaspora investors specifically, the majority of the participants (up to 90 per cent) are diaspora members. Kosovo embassies in the country of residence are used to distribute information regarding these.

We have no estimated figures of diaspora investments. The Central Bank provides information on the stock of FDI, but not diaspora specifically.

Recently there has been interest in alternative sources of energy.

Diaspora members tend to be more interested establishing joint ventures with Kosovar businesses rather than starting a business by themselves.

The origin of interested diaspora investors reflects the distribution of the Kosovar diaspora: most come from Switzerland and Germany.

Diaspora investors, like foreign investors, usually tend to ask for opportunities to obtain grants for their investment in Kosovo. Financing investment and institutional barriers are the main barriers that these investors face. Many major (potential) investors are discouraged from investing due to corruption, difficulties in obtaining (or maintaining) licenses, and unsatisfactory contract enforcement. Their business partners in Kosovo often fail to meet their obligations (e.g. to invest), causing major problems for the foreign investor.

There is no database of diaspora investors or formal mechanism to get, or address, feedback from the investors, though Assistance is provided when investors have problems.

Grants for investment in Kosovo can be obtained through the embassies of the Netherlands and Austria. The Netherlands Government provides grants for local companies who establish partnerships with Dutch companies, and the Austrian Government provides grants for Austrian investors to invest in Kosovo.

Success stories are published in the IPAK website and they are invited to attend IPAK conferences to share their experience with other potential investors. An example noted was Stonecastle.

13: Summary from focus group discussion held in Prishtina on 02.04.2013

Participants – Kosovar Business People from diaspora:

1. Bekim Selmani – Solar Power -General distributor for Balkan
2. Naim Qerimi – Parajsa – Owner
3. Naim Shijaku – Diamant – Owner
4. Bashkim Fejzullahu – Thes-Ari - Owner/General manager
5. Hajrush Beqiri – Thes-Ari - Manager

1. Barriers to attract diaspora investments

- Unfavourable fiscal policy: businesses are asked to pay taxes before income is earned: examples when they had to pay taxes even when they did not know if and when they could sell products
- Unfair competition: Inequality in Northern Kosovo, since businessmen there do not pay taxes and electricity, products and services are offered with very low prices-which is considered unfair competition
- Corruption
- Government does not cooperate and respect diaspora: diaspora gets irritated to have to pay car insurance at the border. This should have been paid by the government given that diaspora spend a lot in Kosovo during their stay
- Lack of qualified staff was mentioned as another barrier to investments. Lack of qualified staff was especially mentioned in relation to industry
- Lack of working culture
- Officials in various ministries are not competent for the work they do
- Instead of subsidies for solar power tools, customs fees could be removed, which in turn would reduce the price of products and they would be more affordable to people who are interested
- When asked whether they come to invest in Kosovo again after everything they have learned now, all of them answered with no
- Customs of Kosovo function for specific individuals: there was a time when wholesale price per litre of diesel was 1.22 and the retail price was 1.21 and this is done for money laundry-Kosovo
- Laws in Kosovo develop for specific interest of individuals
- High price of electricity
- I will not invest any more since I never know what happens tomorrow i.e. which politicians will come
- Whereas other countries support diaspora businesses in our case the government develops policies against businesses

  One of them has decided to locate his business in Switzerland and close the business in Kosovo, whereas the other one has started thinking to return to Germany as well. Several cases were mentioned when investors were asked a bribe to let them start the business. It was stated that many companies that originally planned to invest in Kosovo went to Serbia as it offered a better environment.

2. Proposals to induce diaspora investments

- Postpone tax payment for at least 3-6 months
- Considering that the third generation of Kosovo diaspora are getting integrated in countries where they reside, Kosovo government should develop mechanisms for brain gain
- Ministry of diaspora and other institutions should promote successful businesses and through such stories to try to attract new investments
- Ministry of diaspora should on regular basis communicate with diaspora. Diaspora is not organised at all.

Summary from focus group discussion held in Suharekë|Suva Reka on 12.04.2013

Participants:

1. Kosovar Business People from diaspora;

2. Suharekë|Suva Reka Municipality Officials from the Department of diaspora

3. UNDP and IOM representatives

1. Barriers:

- Lack of infrastructure was mentioned as one of the greatest impediments
- There is no stimulation – no funds
- High interest rates for loans – low interest rates for deposits; terrible banking system laws and rules – confiscation of assets
- Discrimination by banks
- Bad macro policies (export and import)
- Totally discontented by privatization procedures
- No specialized agency for business plans/application; instead people go outside Kosovo and pay high amounts to have someone write their business ideas into a plan
- No de facto protection by authorities, which results in repelling investors; administrative mechanisms inhibits businesses to progress
- Corruption = "hidden expenditures"

2. Recommendations:

- Grants
- Packages from the central government
- Subsidizing salaries for employees
- Remove tax from employee income
- Reduce customs fees