

# **Institutional reform paths for the Kosovo Investment and Enterprise Support Agency (KIESA) across related mandates**

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# Executive summary

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## **In addition to the legal status, the reporting lines and governance structure, the scope and clarity of mandates affect an IPA's effectiveness**

- Many countries have recently restructured their IPAs. The merging of mandates – and in some cases mandate splits – account for a large share of institutional reforms
- In the past, there was a strong focus on combining investment and export promotion
- In light of changes in investment patterns, innovation- and cluster-related mandates are likely to play a stronger role in future reforms at the international level
- Furthermore, research indicates a shift towards more autonomous agency models
- International experience shows that decisions, whether to extend, merge or split mandates of existing agencies or to set up new entities should be undertaken in the context of the relevant policy and strategic framework
- Against that background, in particular the following aspects should be considered when designing an institutional reform for KIESA across related mandates:
  - Overarching priorities in economic policy making and desired development path
  - Vertical and target group focus of related policies and programmes
  - Task- and target-group-related synergies in the implementation of the policy packages

# Executive summary

The table below summarises the identified institutional reform paths and shows, which path is most promising depending on the economic policy priorities and focus of relevant strategies and programmes

	A. Separate specialised investment promotion agency	B. Separate investment and innovation promotion agency	C. Separate investment and export promotion agency	D. Integrated development agency
Economic policy priorities / focus of relevant strategies	<ul style="list-style-type: none"> <li>• FDI attraction with clearly defined target groups as key priority</li> <li>• Differing target groups or more broad-based approach in related strategies / other mandates of KIESA</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasis on a more innovation-oriented development path</li> <li>• Strong vertical focus within investment and innovation policy packages with similar target groups (e.g ICT)</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasis on an export-led development path and integration in int. value chains</li> <li>• Similar target industries and regions for inward investment attraction and export promotion</li> </ul>	<ul style="list-style-type: none"> <li>• Strong vertical focus across related policy packages</li> <li>• Clearly defined and synergetic priority target groups throughout different mandates</li> </ul>
Reform objectives	<ul style="list-style-type: none"> <li>• Fully tap potential of targeted investment attraction approach reaping benefits of specialisation</li> <li>• Maximise economic impact of FDI</li> </ul>	<ul style="list-style-type: none"> <li>• Shift focus towards attracting innovation-oriented and high-value added activities</li> <li>• Leverage clusters to extract more value from FDI and raise the competitiveness of SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasise an export-oriented focus utilising target-group-related synergies</li> <li>• Attract more export-oriented investment projects and foster the integration in int. markets</li> </ul>	<ul style="list-style-type: none"> <li>• Unlock potential of an integrated and targeted approach</li> <li>• Increase KIESA's contribution to the development of relevant ecosystems</li> </ul>
Key reform elements	<ul style="list-style-type: none"> <li>• Set up separate entity for investment attraction (incl. after care and promotion of linkages between investors and local suppliers)</li> <li>• Intensify targeted promotional measures and strengthen capacities throughout entire investment attraction cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Combine investment attraction (incl. supplier development) and innovation promotion in separate entity</li> <li>• Focus promotional measures more strongly on knowledge-based target groups</li> <li>• Implement a cluster-oriented organisational structure</li> </ul>	<ul style="list-style-type: none"> <li>• Combine investment attraction (incl. supplier development) and export promotion in separate entity</li> <li>• Interlink generic export promotion with a demand-driven approach fostering linkages between investors and local SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Retain existing core mandates within KIESA</li> <li>• Integrate further related mandates (e.g. innovation and entrepreneurship)</li> <li>• Strengthen capacities in particular at the interfaces between mandates</li> </ul>
Further optional reform elements	<ul style="list-style-type: none"> <li>• Integrate management of zones in case of a target-group-oriented realignment</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate management of zones in case of innovation-oriented realignment</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate management of zones in case of target-group-/export-oriented realignment</li> </ul>	

# Outline

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1. Introduction
2. Legal status and reporting lines of IPAs
3. Scope of mandates of IPAs
4. Reform trends
  - Overview
  - Examples from Germany
  - Outlook
5. Conclusions and recommendations

# 1. Introduction

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**Drawing on a review of commonly used organisational models of IPAs as well as recent and emerging reform trends at the international level, this policy briefing identifies institutional reform paths for KIESA across related mandates**

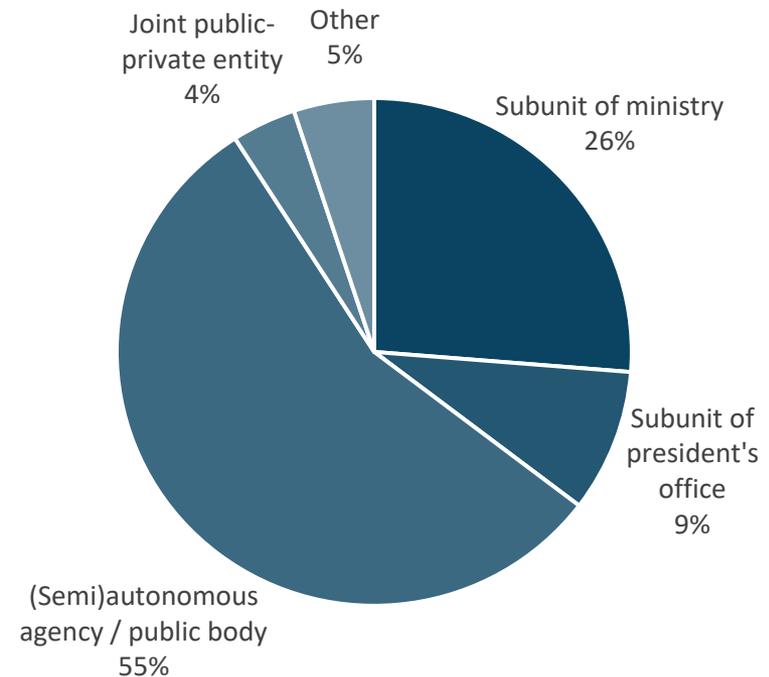
- Various countries have recently restructured their IPAs reflecting changes in policies and the investment environment
- The Government of the Republic of Kosovo is also planning an institutional reform to increase the effectiveness of investment attraction measures and ensure coherence and consistency in the implementation of related policy packages
- KIESA's scope of mandates currently comprises investment, trade and tourism promotion as well as SME and zone development
- This policy briefing aims at supporting the design of the planned institutional reform:
  - Reviewing commonly used organisational models of IPAs focusing on the legal status, reporting lines, governance structures and scope of mandates
  - Analysing reform trends and practical examples at the international level
  - Deriving four potential reform paths incl. key and optional reform elements
  - Providing guidance for the selection of an appropriate path and design of reforms pointing out relevant preconditions and success factors

## 2. Legal status and reporting lines of IPAs

**At the international level, the majority of IPAs is nowadays organised in the form of (semi)autonomous agencies or public bodies**

- According to the latest global survey by WAIPA and the World Bank Group, 55% of IPAs are (semi)autonomous agencies or public bodies
- About a third of IPAs operates as a subunit of a ministry or the president's office
- Other models such as public-private-partnerships or fully private agencies are far less common
- Recent OECD research indicates that IPAs with a higher degree of institutional and operational independence tend to be more effective

**Legal status of IPAs at the international level**

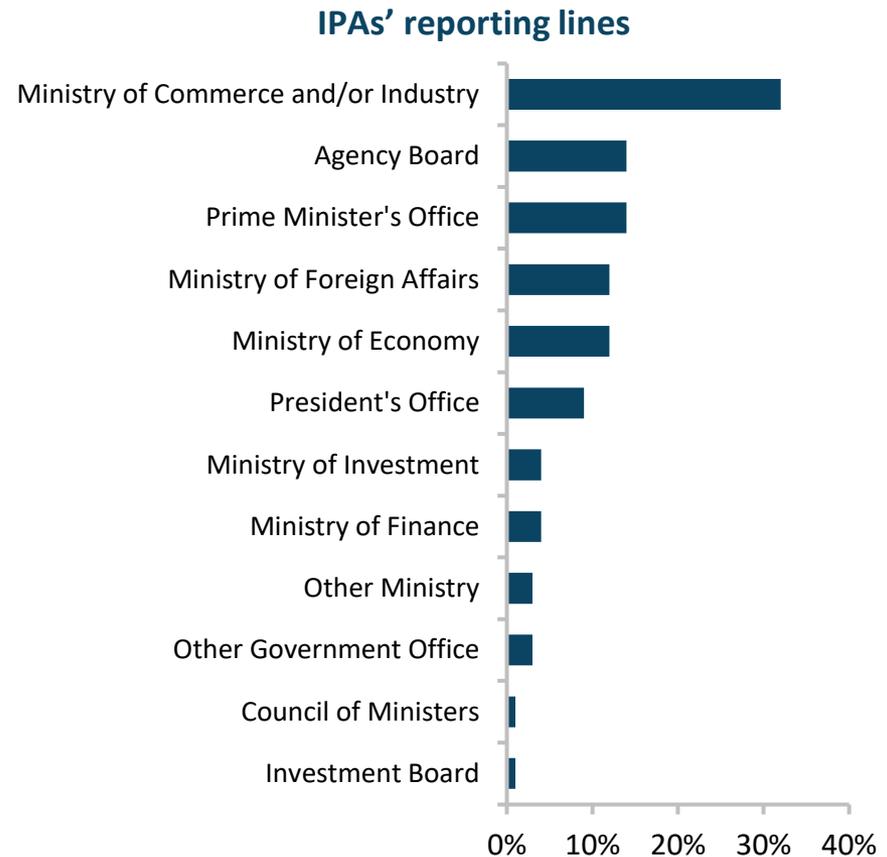


Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020; own calculations

## 2. Legal status and reporting lines of IPAs

Depending on their legal status, IPAs have different reporting lines and governance structures

- Direct access to top government – e.g. president’s or prime minister’s office or a relevant lead ministry – contributes to an IPA’s success
- Most IPAs report to the ministry of commerce or industry followed by a board and the prime minister’s office
- Supervisory boards with both public and private sector representatives have proven helpful in ensuring strategic guidance and coordination between key stakeholders
- Boards are more common in autonomous agency models



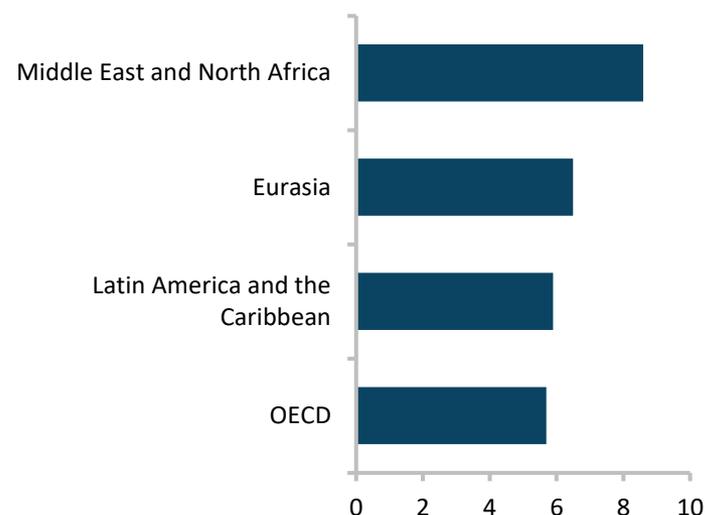
Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020

### 3. Scope of mandates of IPAs

**The scope of mandates of IPAs differs across countries and regions. Most IPAs have several additional mandates that go beyond investment attraction**

- Empirical research shows that developed countries tend to have more specialised IPAs with a clearer mandate geared towards investment attraction
- About 40% of IPAs in low-income countries have more than 10 mandates compared with less than 20% of their counterparts in high-income countries
- IPAs in OECD countries have a lower average number of mandates than their peers in Latin America and the Caribbean, Eurasia and the Middle East and North Africa
- At the same time, large variations exist across OECD countries ranging from 2 to 13 mandates

**Average number of IPAs' mandates in different regions**



Source: OECD 2020

### 3. Scope of mandates of IPAs

**In OECD countries, the most common mandates performed by IPAs – in addition to investment attraction – are export and innovation promotion**

- Innovation and export promotion each form an additional mandate in 56% of IPAs in OECD countries, followed by regional development and green investment promotion
- Outside the OECD, IPAs tend to focus more strongly on:
  - Matchmaking services connecting foreign investors with local suppliers
  - Managing special economic zones
  - SME development
- At the same time, innovation support and the promotion of green investment projects are less common

**Top 10 mandates of IPAs in OECD countries – Share of IPAs reporting the function as official mandate**



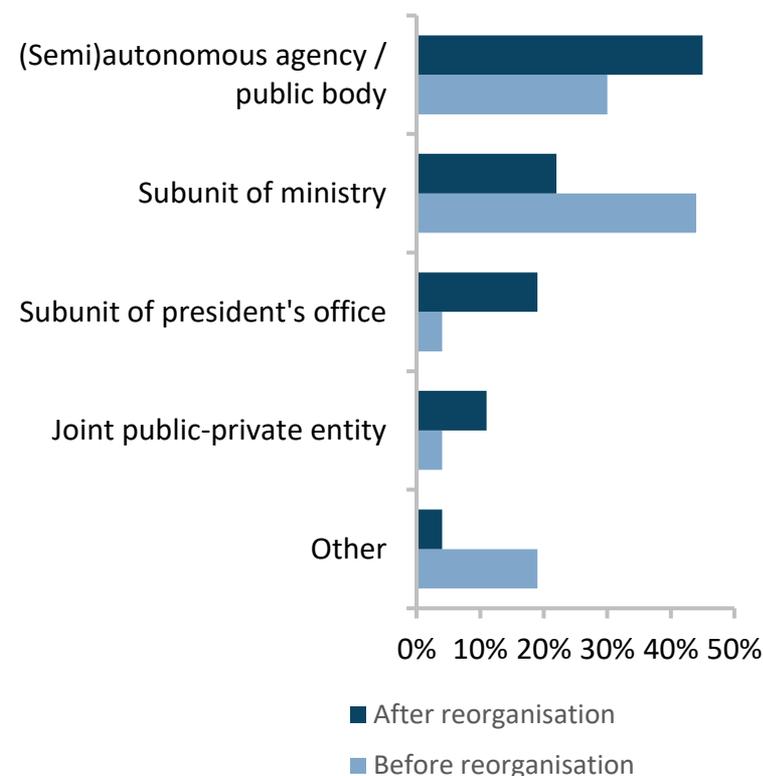
Source: OECD 2018

## 4. Reform trends – Overview

**IPAs regularly undergo institutional reforms. Recent reform trends indicate a shift towards more autonomous organisational models**

- An OECD study found that more than 80% of IPAs in its member countries have restructured their agency at least once in recent years
- The mentioned survey by WAIPA / WBG indicates a shift towards more autonomous agencies and public bodies
- The share of IPAs implementing this type of model significantly increased after a reorganisation
- At the same time, the share of IPAs operating as a subunit of a ministry decreased in the process of institutional reforms

**Recent reorganisations / changes in legal status**



Source: World Association of Investment Promotion Agencies (WAIPA) / World Bank Group (WBG) 2020; own calculations

## 4. Reform trends – Overview

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**The merger of mandates accounts for a large share of reforms. In the past, there was a strong focus on combining investment and export promotion**

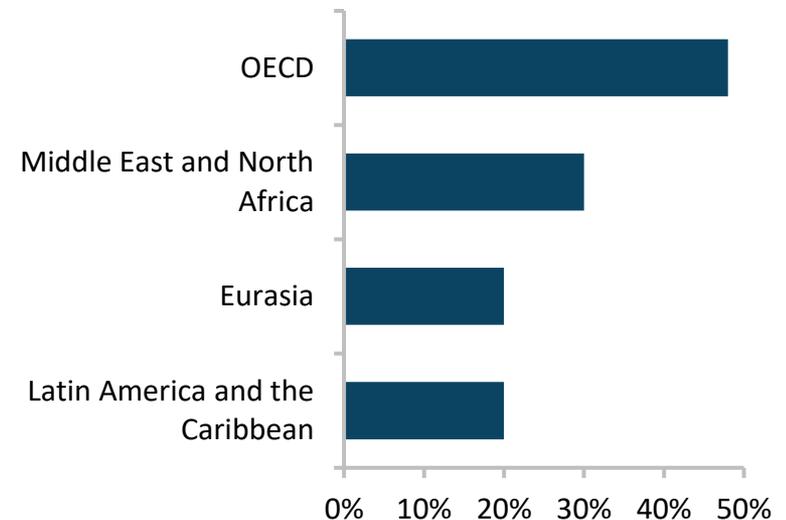
- Amongst others, Poland, France, Greece, Sweden and Spain have merged investment and export promotion mandates during the last decade aiming at:
  - Increasing the effectiveness of measures targeting export-oriented FDI and integrating local SMEs in international value chains
  - Generating synergies and achieving cost savings by pooling industry- and market-specific expertise and sharing networks of foreign offices / representatives
- On the other hand, examples of IPAs that have split their agencies and corresponding mandates include Hungary and Lithuania
  - In the view of Governments preferring separate agencies, the tools, competences and target groups (foreign investors vs. local SMEs) are too different to justify a merger
  - At the same time, they try to avoid challenges related to the organisational complexity of large agencies, e.g. with respect to governance and coordination with various ministries
- The majority of mergers involved more autonomous forms of agencies

## 4. Reform trends – Overview

**More recently, the integration of mandates in the area of innovation promotion and cluster development played an increasing role in institutional reforms**

- The combination of investment and innovation promotion in one agency (e.g. in Norway and several German federal states) is often motivated by a focus on:
  - Attracting innovation-oriented investment projects and/or
  - Promoting the diffusion of technology and knowledge through linkages
- In this context, a growing number of IPAs is using cluster programmes to anchor investors more strongly in the local economy
- However, as this approach requires specific preconditions, e.g. an adequate cluster and investment potential and coordination skills, many countries still opt for separate entities

Shares of IPAs offering cluster programmes



Source: OECD 2020

## 4. Reform trends – Examples from Germany

The comparison of IPAs of federal states in the eastern part of Germany below indicates some distinct differences with respect to the scope of mandates

- All IPAs are organised in the form of a private limited company and report to the Ministry of Economy of their federal state
- With the exception of Berlin (PPP model), the state is the main shareholder of the agencies

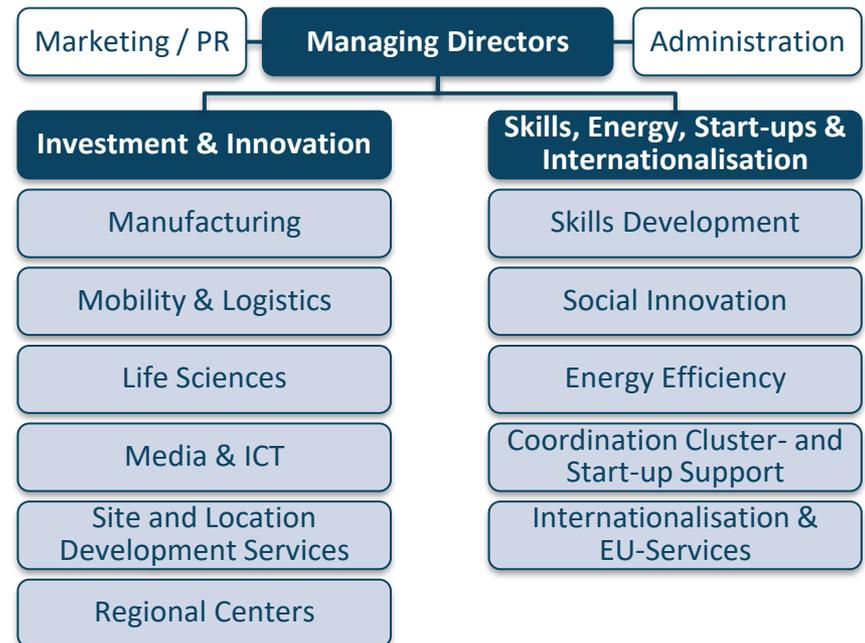
	Main mandates (selection)						
	Investment attraction	Export promotion	Start-up support	Cluster / innovation promotion	Talent attraction / skills development	Industrial and technology parks	Tourism promotion
Brandenburg	x	x	x	x	x		
Saxony	x	x	x	x			
Berlin	x	x	x	x	x		
Thuringia	x	x	x	x	x	x	
Saxonia-Anhalt	x						x
Mecklenburg-Vorpommern	x						

## 4. Reform trends – Examples from Germany

The IPAs of Berlin and Brandenburg constitute examples of agencies, whose mandates have been extended with a strong focus on the cluster approach

- In both cases, the IPAs were merged with existing innovation agencies
- In Brandenburg, the energy agency and parts of the skills development agency were integrated in addition
- To use synergies, both IPAs implemented a cluster-oriented organisational structure
- Interestingly, both have opted for separate units for trade promotion services within the agency due to differing target groups
- The integrated approach introduced with the reforms contributed to increasing the results and impact of the IPAs
- However, the reform processes required a considerable amount of time (2-3 years) and resources before taking effect

Organisational structure of the IPA of the Federal State of Brandenburg (WFBB)



## 4. Reform trends – Outlook

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**In light of changes in investment patterns, innovation- and cluster-oriented mandates are likely to play a stronger role in future reforms at the global level**

- Industries, in which cluster-oriented location decisions prevail such as ICT or pharmaceuticals, will account for a growing share in total FDI globally
- The transformation of international value chains that has been accelerated by the pandemic will also increase the focus on clusters in investment decisions
- Investors will become more demanding preferring locations with established cluster structures – no matter if they are opting for a nearshoring, regionalisation or diversification strategy
- On the other hand, the pool of efficiency-seeking investments will continue to shrink
- At the same time, traditional task-related synergies between investment and export promotion are declining
  - Large trade fairs and events used to play an important role for both mandates
  - With the digital transition, the focus is shifting towards digital formats that allow to address a specific audience more precisely
- Against that background, innovation- and cluster-oriented mandates are likely to gain in importance compared to export promotion tasks

## 5. Conclusions and recommendations

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**The organisational model plays a key role for the success of an IPA and needs to be regularly aligned to changes in policies and the investment environment**

- In addition to the legal status, the reporting lines and governance structure, the scope of mandates affect how well an IPA is able to carry out its core tasks
- Although different contexts call for different institutional set-ups, some general conditions can be identified that contribute to IPAs' effectiveness:
  - Autonomous settings
  - Direct access to the top level of government
  - Private sector representation in governance structures
  - Clear and synergetic mandates
- Research shows that mergers of mandates – and in some cases mandate splits – account for a large share of institutional reforms
- The combinations of mandates vary across countries. In addition to investment and export promotion, IPAs often take over task related to innovation support (in particular in OECD countries) as well as linkage promotion and the management of zones (more commonly outside OECD)

## 5. Conclusions and recommendations

Considering the existing structures, changes in the investment environment and international experience, the following institutional reform paths for KIESA across related mandates can be derived:

	A. Separate specialised investment promotion agency	B. Separate investment and innovation promotion agency	C. Separate investment and export promotion agency	D. Integrated development agency
Reform objectives	<ul style="list-style-type: none"> <li>Fully tap potential of targeted investment attraction approach reaping benefits of specialisation</li> <li>Maximise results and economic impact of investment attraction</li> </ul>	<ul style="list-style-type: none"> <li>Shift focus towards attracting innovation-oriented and high-value added activities</li> <li>Utilise synergies leveraging clusters to extract more value from FDI and raise the competitiveness of local SMEs</li> </ul>	<ul style="list-style-type: none"> <li>Emphasise an export-oriented focus utilising target-group-related synergies</li> <li>Attract more export-oriented investment projects and foster the integration in international value chains and markets</li> </ul>	<ul style="list-style-type: none"> <li>Unlock potential of an integrated and targeted approach</li> <li>Increase KIESA's contribution to the development of relevant ecosystems</li> </ul>
Key reform elements	<ul style="list-style-type: none"> <li>Set up separate entity for investment attraction, incl.:               <ul style="list-style-type: none"> <li>Investment promotion</li> <li>Investment facilitation</li> <li>After care (incl. promotion of linkages between investors and local suppliers)</li> </ul> </li> <li>Intensify targeted promotional measures</li> <li>Strengthen capacities throughout investment attraction cycle using both internal and inter-institutional synergies</li> </ul>	<ul style="list-style-type: none"> <li>Combine investment attraction (incl. supplier development) and innovation promotion in separate entity</li> <li>Focus promotional measures more strongly on knowledge-based target groups</li> <li>Implement a cluster-oriented organisational structure to generate synergies and promote linkages between investors, local SMEs and further innovation partners</li> </ul>	<ul style="list-style-type: none"> <li>Combine investment attraction (incl. supplier development) and export promotion in separate entity</li> <li>Interlink generic export promotion with a demand-driven approach fostering linkages between investors and local SMEs</li> <li>Implement a target-group oriented organisational structure to pool industry-specific expertise and facilitate task-related synergies</li> </ul>	<ul style="list-style-type: none"> <li>Retain existing core mandates within KIESA</li> <li>Integrate further related mandates (e.g. in the area of entrepreneurship and innovation) in case of target-group-related synergies</li> <li>Strengthen capacities and deepen the portfolio of services in particular at the interfaces between mandates</li> <li>Reorganise the agency increasing the target group focus across tasks / mandates</li> </ul>
Further optional reform elements	<ul style="list-style-type: none"> <li>Integrate management of zones in case of a target-group-oriented realignment of the zone programme</li> </ul>	<ul style="list-style-type: none"> <li>Integrate management of technology parks and further zones in case of innovation-oriented realignment</li> </ul>	<ul style="list-style-type: none"> <li>Integrate management of zones in case of target-group-/export-oriented realignment of zone programme</li> </ul>	

## 5. Conclusions and recommendations

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**Reforms of IPAs should not be designed in isolation. It is of critical importance that institutional reform paths reflect the focus of the overarching strategic and policy framework**

- Decisions, whether to extend, merge or split mandates of existing agencies or to set up new entities should be undertaken in the context of wider reforms and alignments considering the relevant institutional and strategic framework
- In particular, the following aspects should be considered when designing institutional reforms for KIESA across related mandates
  - Overarching priorities in economic policy making (e.g. role of FDI attraction) and desired development path (e.g. export-led, innovation-oriented development path)
  - Vertical focus of key policies and programmes (e.g. investment, industrial, innovation, trade and entrepreneurship policy, economic zone programme)
  - Common priority target groups across key policies and programmes
  - Task- and target-group-related synergies in the implementation of the policy packages

# 5. Conclusions and recommendations

The figure below shows, which institutional reform path can be recommended depending on the economic policy priorities and focus of relevant strategies

*Economic policy priorities / focus of relevant strategies:*

- FDI attraction with clearly defined target groups as key priority
- Differing target groups or more broad-based approach in related strategies / other mandates of KIESA

- Emphasis on a more innovation-oriented development path focusing on quality investment projects and jobs
- Strong vertical focus within investment and innovation policy packages with similar target groups (e.g ICT)

- Emphasis on an export-led development path and integration in international value chains and markets
- Similar target industries and regions for inward investment attraction and export promotion

- Strong vertical focus across related policy packages (e.g. innovation, trade, SME development and entrepreneurship)
- Clearly defined and synergetic priority target groups throughout different mandates

*Corresponding institutional reform path:*

**A. Separate specialised investment promotion agency**

**B. Separate investment and innovation promotion agency**

**C. Separate investment and export promotion agency**

**D. Integrated development agency**

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

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