

Priority target groups for attracting investment to Kosovo

In the recent past, Kosovo could only partly tap its potential in terms of both quantity and quality of attracted investment. Unlocking the potential requires a targeted approach. Based on the results from a target group assessment carried out, the initial focus should be on the IT/BPO (Business Process Outsourcing), furniture and plastics industries. For the prioritised target groups, systematic pro-active investment promotion measures are recommended.

Background: Kosovo's FDI performance

FDI inflows remained at a rather low level during the last decade. Furthermore, FDI largely went into the real estate sector, while knowledge- and export-oriented industries only accounted for a small share.

The German Economic Team was asked to identify potential target groups for future investment promotion measures in order to increase the quantity, quality and impact of FDI with a targeted approach.

Target group assessment

The target group assessment was carried out in several stages. As a starting point, a short-list of potential target groups was derived incl. the IT/BPO, metal, plastics, agro-processing, wood and furniture industries. In particular, the following aspects were considered:

- Emerging changes in value chains (e.g. nearshoring)
- Potential to reach out effectively to a sufficient number of potential investors
- Alignment with the existing policy framework.

Target group assessment – overview of results

Target group	Investment potential	Competitive position	Development impact	Priority
IT/BPO	++	+	++	1
Furniture	+	+	++	1
Plastics	+	+	+	1
Metal	+	0	+	2
Wood	0	0	+	3
Agro-processing	0	0	+	3

Source: Own analysis, ++ very strong + strong 0 limited

As a next step, an in-depth analysis of the shortlisted target groups was conducted focusing on the dimensions (1) investment potential, (2) development impact and (3) competitive position. The analysis was based on interviews with industry experts at the international level and complementary research, e.g. a review of investment trend studies. The table on the left summarises the results from the target group analysis.

With respect to the investment potential, the IT/BPO industry clearly stands out. The information and communication sector is the leading industry in terms of FDI greenfield projects at the global level – accounting for 22% of all projects in 2020. The industry has also shown a strong investment track record in Kosovo incl. a project by the German decacorn Celonis, which specialises in Artificial-Intelligence-powered process mining solutions.

Announced FDI greenfield projects at global level

Industry	Number 2020	Share 2020	Share 2015-2019
ICT	2,903	22.4%	17.7%
Food & beverages	423	3.3%	3.4%
Rubber & plastics	216	1.7%	1.9%
Metal & metal products	210	1.6%	2.0%
Furniture	172	1.3%	1.2%
Wood & wood products	20	0.2%	0.2%

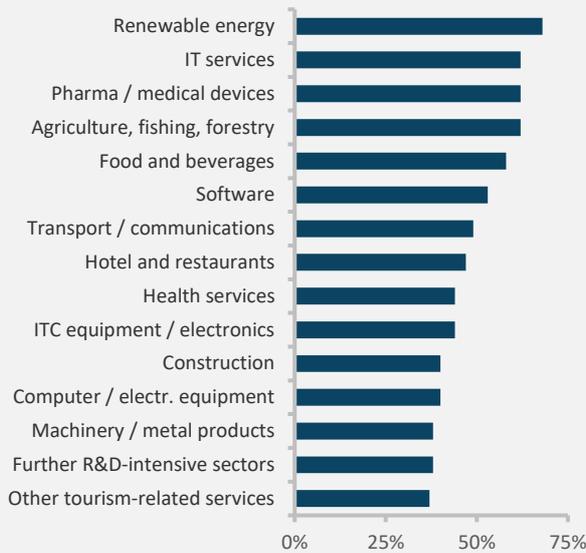
Source: UNCTAD 2021

Regarding the development impact, FDI in all examined target groups can be an important driver for job creation and exports and can support an upgrading process also improving the resource and energy efficiency. Employment effects vary in quantitative and qualitative terms. For instance, while IT projects create highly skilled jobs mainly in urban locations, investments in the agro-processing industry and parts of the furniture industry (e.g., upholstery) can play an important role for rural areas and for female employment. In terms of spill-over and linkage effects, in particular the IT and furniture industries offer a promising potential.

With respect to the competitive position, the relevance of Kosovo's key strengths and weaknesses varies across industries. For instance, the low labour costs have a higher relevance for the IT/BPO and agro-processing industry as well as for labour-intensive segments in the plastics and furniture industry such as injection moulding and upholstery furniture. On the other hand, the labour cost advantage is less relevant for more capital-intensive projects in the metal and wood industry.

At the international level, competition is intensifying in particular between locations targeting the IT/BPO, agro-processing and metal industry. As confirmed by recent surveys, those industries belong to the TOP 15 target groups of investment promotion agencies (IPAs). In comparison, competition for FDI projects in the plastic, furniture and wood industry is less intense.

Top 15 target groups of IPAs around the globe



Sources: World Association of Investment Promotion Agencies (WAIPA), World Bank Group, 2020

Recommended investment promotion measures

Based on the assessment, the initial focus of promotional measures should be on the following industries:

- IT/BPO: e.g., software, mobile app and web development, cloud security, software testing, BPO
- Furniture: e.g., metal and wood-based parts and components, upholstery furniture
- Plastics: e.g., injection moulded plastic components, toolmaking, plastic recycling.

Across those industries, particular emphasis should be on segments that are less sensitive to (geo)political and investment climate risks. Mobilising the potential of the diaspora is considered a promising approach.

For the prioritised target groups, systematic pro-active investment promotion efforts are recommended. Lead generation campaigns should be combined with social media activities and (virtual) events. Furthermore, networks with intermediaries in the target groups at the national and international level should be strengthened. In the case of Kosovo, collaborating with industry associations, international organisations such as GIZ, which is supporting the promotion of the ITP Innovation & Training Park Prizren, and existing investors could be a viable option.

Outlook

The results from the target group assessment have already been discussed intensively with ministries, agencies and associations in Kosovo. They will provide guidance for the preparation and implementation of future promotional measures as well as for the design of related policy packages and programmes.

For instance, the prioritised target groups and policy tools will be reflected in Kosovo's new industrial strategy, which is currently being developed and will include a focus on investment attraction.

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This newsletter is based on the Policy Study: [Defining target groups for investment attraction measures of the Republic of Kosovo](#)

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