

Identifying reform options for Economic Zones in Kosovo

Presentation of key findings and recommendations

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1. Introduction

In light of recent international trends, the policy paper assesses the performance of Economic Zones in Kosovo and the potential for increasing their effectiveness

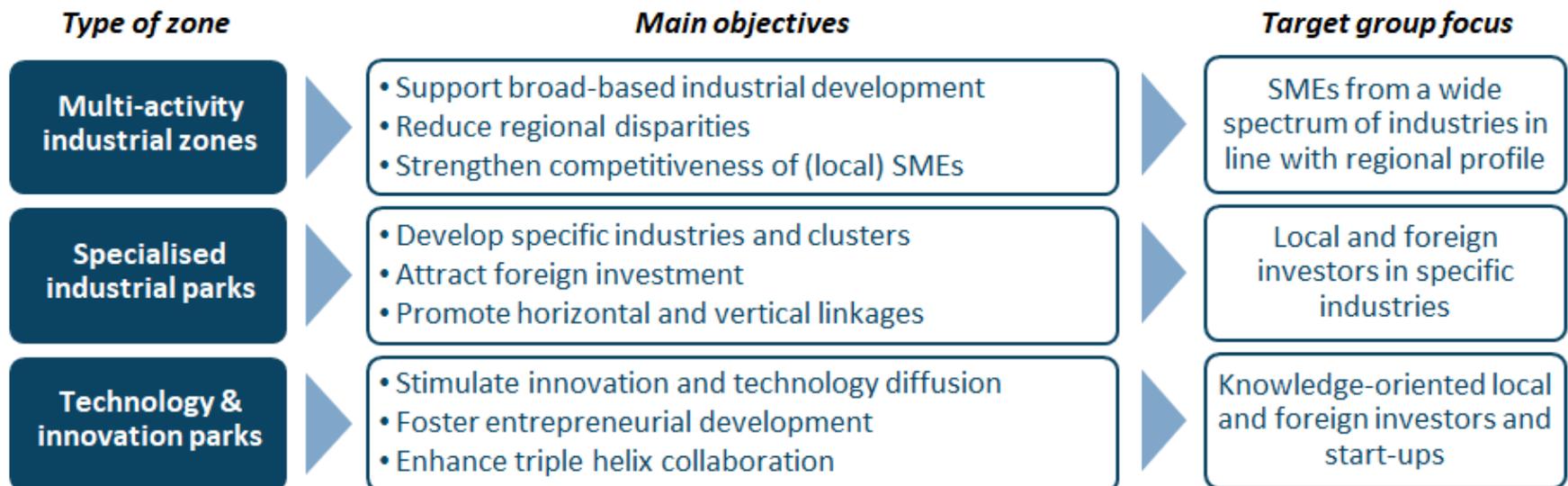
- Particular emphasis is placed on the four dimensions and their interrelations:
 - Strategic focus
 - Value proposition
 - Selection processes and criteria for new zones and the allocation of land plots
 - Institutional model
- The assessment has been conducted drawing on:
 - Site visits to Drenas, Mitrovica, Shtime, Lipjan and Suhareka in August 2022 including meetings with representatives from companies and municipalities
 - Complementary interviews with investors
 - Review of the legal and regulatory framework for Economic Zones
 - Analysis of good-practice examples and recent reform trends at the international level

2. Assessment – Strategic focus

The lack of a coherent strategic framework constitutes a cross-cutting challenge, which is also of relevance for the other dimensions

- No guiding strategy defining strategic objectives (incl. KPIs) and priorities regarding target groups and desired types of zones
- Most zones created on an ad-hoc basis – all operational zones with character of multi-activity zones focusing on broad-based regional and SME development

Different zone types and their main objectives and target groups



2. Assessment – Value proposition

The Economic Zones in Kosovo do not have a fully convincing value proposition – in particular from the perspective of more demanding target groups such as foreign or innovation-oriented investors

- Benefits of operational zones mainly limited to low rents (and in some cases rent-free periods) and a basic infrastructure
- Location requirements varying considerably across industries and companies
- Investors with strong cost-orientation (e.g. trade & processing) more satisfied than companies placing more emphasis on “soft” factors (e.g. in the creative industry)
- Lack of a differentiated approach
 - Addressing different needs with different types of zones
 - Considering also needs of target groups not yet present (e.g. potential foreign investors)
- Compromised business case / value proposition as buildings constructed on zone land cannot be used as collateral for loans

2. Assessment – Selection processes and criteria

As confirmed by the interviews, there is need to strengthen the efficiency of the selection processes for new zones and the allocation of land plots as well as the corresponding monitoring processes in Kosovo

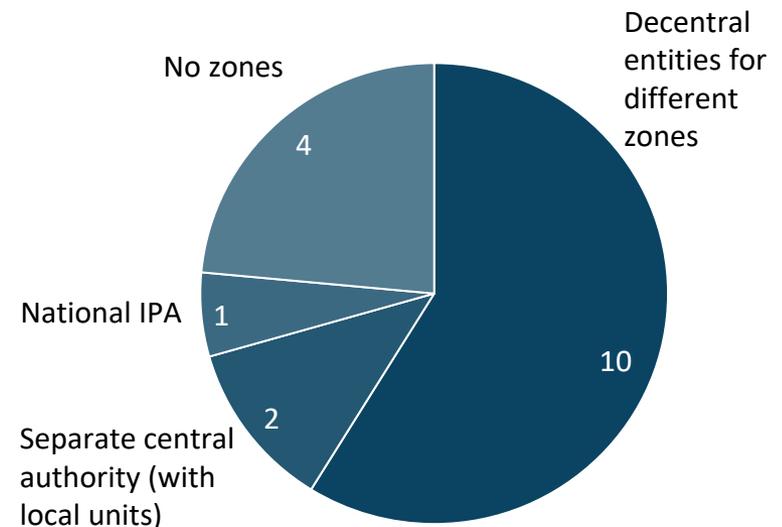
- Lack of a guiding strategy as a cross-cutting challenge
- Varying quality of feasibility studies – decisions on new zones also politically motivated in the past
- Narrow and basic set of criteria used for the allocation of land plots, which is not sufficiently reflecting the quality and impact of investment projects
- Tenders not taking place on a regular basis – major constraint for local businesses with planned expansion projects as well as for foreign investors
- Low effectiveness of monitoring and enforcement of contractual obligations
 - Not all projects proposed as part of the application for land plots are fully implemented
 - Very low employment effects in relation to the size of the zones / land plots

2. Assessment – Institutional model

The level of rents and division of tasks, costs and revenues does not allow to develop internationally competitive zones in an efficient and sustained way

- Kosovo is the only country in the SEE / CEE region with zones that do not have an on-site zone management
- Potential of private sector involvement not yet tapped
- Current division of tasks, costs and revenues not conducive for efficiency
 - Municipalities as owner of land (exception: Drenas) receiving the rental revenues
 - Infrastructure for zones mostly developed by KIESA
- At the same time, promising market potential for more advanced parks – with higher revenue potential – indicated

Institutional models for the development / operation of zones in CEE and SEE countries

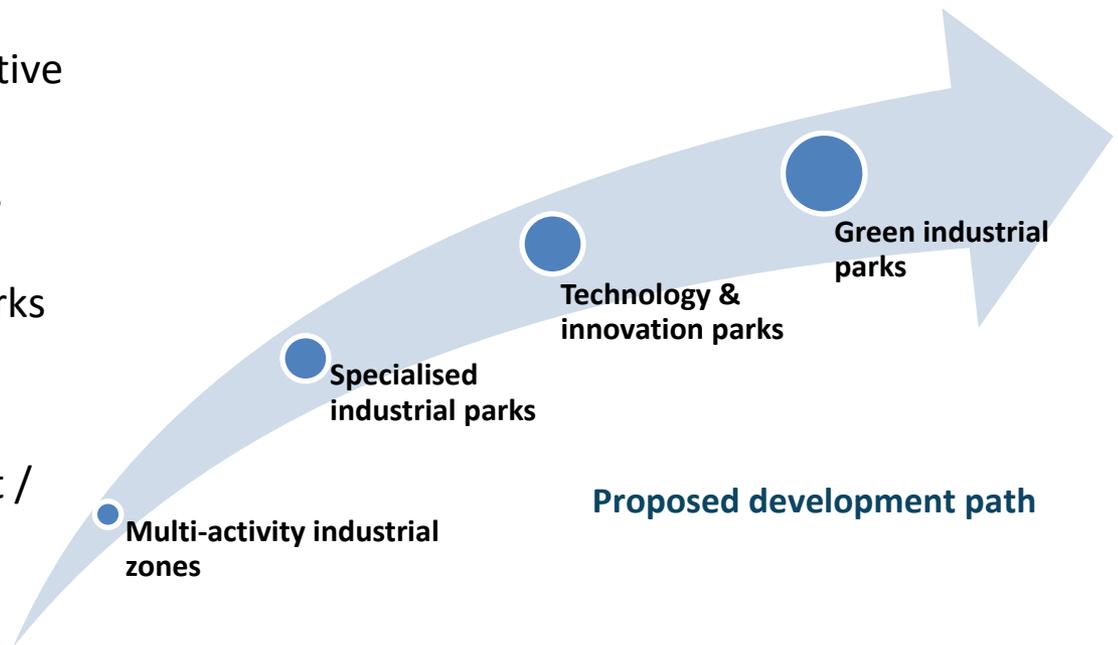


Source: Own research

3. Conclusions and recommendations

Considering the rather moderate performance and the identified constraints, there is clearly a need and potential to increase the effectiveness of Economic Zones in Kosovo. The following recommendations can be derived:

- (1) Develop a guiding strategy for Economic Zones in Kosovo (as a lean document)
 - Formulating priorities with respect to strategic objectives as well as target groups and desired types of zones
 - Entailing a dynamic perspective
 - Shifting the focus from multi-activity zones towards specialised industrial parks, technology & innovation parks and green industrial parks
 - Defining KPIs as a basis for decisions on further support / turn-around strategies



3. Conclusions and recommendations

- (2) Shift the focus of the value proposition from low rents to target-group-oriented infrastructure and services (in particular in case of new types of zones)
 - Comprising e.g. training, recruitment, further business development and general services (e.g. catering and employee transport)
 - Aligned with the guiding strategy and following a more differentiated approach
- (3) Change the legal / regulatory framework allowing companies to use buildings constructed on zone land as collateral
- (4) Select and plan new zones based on thorough feasibility studies
 - Carried out by independent experts
 - Including a sound market and risk assessment

Planning support for zones in Moldova

- With assistance from GIZ, feasibility studies were conducted for three zones in Moldova
- The zones were selected based on an open and transparent two-stage competitive application process (incl. capacity building measures)
- The studies were carried out by a team of independent local and international experts
- The assessment of the market feasibility covered the investment potentials and competitive position at the international, national and regional level
- Based on the results, the municipalities received further assistance (e.g. zoning plans)
- Already during the drafting process, first investors could be attracted to the zones

3. Conclusions and recommendations

- (5) Increase efficiency of the selection process for the allocation of land plots
 - Using a wider scope of criteria integrating qualitative aspects
 - Carrying out tenders on a regular basis and allowing direct negotiations for strategic investors
 - Following a non-discriminatory approach
- (6) Intensify monitoring of the zones' performance and implementation of investment projects
 - Offering the land to other investors in case of non-compliance
 - Introducing higher rents for expansion areas not yet used

Qualitative criteria of “Polish Investment Zone” programme

Manufacturing investment	Service investment
Sustainable Economic Development	
Consistency with national development policy (priority sectors)	
Adequate level of exports	
Conducting R&D activities	
Participation in key national clusters	Creating an export-oriented business service centre
Status of micro, small or medium-sized enterprise	
Sustainable Social Development	
Creating specialised jobs	Creating well-paid jobs
Low environmental impact	
Locating in regions with high unemployment or in disadvantaged medium cities	
Supporting vocational qualifications / cooperating with vocational schools	
Offering special employee assistance programmes	

Source: Polish Investment & Trade Agency (PAIH)

3. Conclusions and recommendations

- (7) Include an on-site zone management entity / unit in new (types of) zones
 - Providing infrastructure-related, business development and administrative services
 - Widening the scope of models for involving specialised private service providers
- (8) Use an adjusted institutional and financing model for new (types of) zones
 - Financing the on-site zone management and advanced infrastructure / services with higher rents and additional fee- and commission-based income
 - Testing the model on land owned by Central Government (e.g. Drenas extension)
- (9) Strengthen coordination / cooperation between different zones and stakeholders
 - Establishing an inter-institutional platform
 - Integrating representatives from investors in zones in monitoring bodies
- (10) Intensify target-group-specific investment attraction efforts (incl. aftercare)

Annex – Recommended changes in legal framework

Overview of recommended changes in the legal / regulatory framework:

- (1) Specifying the different types of zones / parks and their key features
- (2) Allowing companies to use buildings constructed on zone land as collateral for loans
- (3) Specifying the requirements for feasibility studies (e.g. ensuring that they are carried out by independent experts and include a thorough market and risk assessment)
- (4) Widening the scope of criteria for the evaluation of applications for land plots focusing more strongly on the quality of investment projects and reflecting the different types of zones / parks
- (5) Allowing direct negotiations with strategic investors
- (6) Revising the introduction of industrial parks wholly or partially designated for foreign investors or the diaspora (incl. a separate management) to ensure a non-discriminatory approach
- (7) Amending the composition of the monitoring bodies integrating a representative of a business with a presence in the zone

About the German Economic Team



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

** Advisory activities in Belarus are currently suspended.*

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