

Identifying reform options for Economic Zones in Kosovo

by Bjoern Vogler

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Executive summary

International experience shows that zones can make an important contribution to economic growth and development. However, the benefits are not automatic. There are a number of preconditions for success that are currently only partly met in Kosovo. Overall, the rather moderate performance of the Economic Zones in Kosovo in terms of attracting investors and creating employment suggests that this policy tool is not yet used to its full potential. The assessment carried out identified considerable constraints in all four dimensions that play a critical role for the success of zones:

- » **Strategic focus**, e.g. lack of a coherent strategic framework and too much emphasis on the development of multi-activity industrial zones
- » **Value proposition**, e.g. benefits limited to low rents and basic infrastructure, not allowing companies to use buildings constructed on zone land as collateral for loans
- » **Selection processes and criteria for new zones and the allocation of land plots**, e.g. varying quality of feasibility studies, narrow and basic set of criteria for the allocation of land plots, low effectiveness of monitoring
- » **Institutional model**, e.g. no on-site zone management entities / units, division of tasks, costs and revenues not conducive for an efficient and sustained approach

Against this background, there is clearly a need and potential to increase the effectiveness of the Economic Zones in Kosovo. The following recommendations can be derived:

1. A guiding strategy for Economic Zones in Kosovo should be developed shifting the focus from multi-activity zones towards specialised industrial parks, green industrial parks and technology & innovation parks based on clearly defined KPIs.
2. The future value proposition of the zones should focus more strongly on target-group-oriented infrastructure and services and less on low rents.
3. To improve the value proposition and ensure a viable business case, the legal / regulatory framework should be changed allowing companies to use buildings constructed on zone land as collateral for loans.
4. New zones should be selected and planned based on thorough feasibility studies, which are carried out by independent experts and adhere to international quality standards.
5. The efficiency of the selection process for the allocation of land plots should be increased using a wider scope of criteria that place more emphasis on the quality and impact of investment projects.
6. The monitoring of the performance of the zones and of the implementation of investment projects should be intensified.
7. For new zones – in particular for specialised industrial parks, green industrial parks and technology & innovation parks – a public or private on-site zone management entity / unit should be foreseen.
8. For future specialised and green industrial parks as well as technology & innovation parks, an adjusted institutional and financing model should be used.
9. Coordination and cooperation between the different zones and stakeholders should be strengthened.
10. Target-group-specific investment attraction efforts should be intensified.

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1. Introduction

Zones form part of the industrial policy package in most countries around the globe. International experience shows that they can make an important contribution towards economic growth and development. During the last decade, ten Economic Zones were created in Kosovo, of which five are operational so far.

In light of recent international trends, this policy paper assesses the performance of Economic Zones in Kosovo and the potential for increasing their effectiveness – with particular emphasis on the following 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 policy paper is structured as follows: Chapter 2 provides an overview of Economic Zones in the country including their key features, objectives and performance in terms of attracting investors and creating employment. Chapter 3 identifies for each of the four dimensions, recent reform trends, success factors and good-practice examples and assesses how those are reflected by the zones in Kosovo.

The assessment has been conducted drawing on the results of a fact-finding mission in August 2022, a review of the legal and regulatory framework and complementary research and interviews. As part of the fact-finding mission, site visits to the Drenas Business Park, Mitrovica Industrial and Business Park, Shtime Technology Park, Lipjan Industrial Park and Suhareka Industrial Park were carried out including interviews with representatives from existing investors and the municipalities.

Building upon the findings, in chapter 4, conclusions and recommendations for increasing the effectiveness of Economic Zones in Kosovo are derived.

2. Overview of Economic Zones in Kosovo

During the last decade, ten Economic Zones were created in Kosovo, of which five are operational so far. In 2010, one year after the adoption of the first law on Economic Zones, the development of the Business Park in Drenas was initiated. Since then, nine additional Economic Zones were established throughout the country.

According to the latest draft of the new law on Economic Zones¹, their main objectives comprise:

- » Attracting investment
- » Promoting advanced technologies, production and processing activities, innovation and value-added services

¹ In the latest draft, the term “Economic Zones” has been replaced by “Industrial Parks”. For ease of reading, the term “Economic Zones” is used throughout this policy paper.

- » Fostering employment and training
- » Facilitating cooperation between companies
- » Increasing competitiveness and exports
- » Promoting regional development.

The size of the Economic Zones varies considerably – between 4 ha in the Mitrovica Business Park and 162 ha in the Suhareka Industrial Park. Five out of ten Economic Zones already host active companies. In only three zones, the infrastructure has been fully developed. The Drenas Business Park is the only Economic Zone, where all land plots have been allocated to investors. High occupancy rates – amounting to approximately 80% – were also reported for the Mitrovica Business Park and Shtime Technology Park. The majority of Economic Zones still requires major infrastructure development measures.

The performance of Economic Zones in Kosovo in terms of attracting investors and creating employment has been moderate so far. The five zones that are already operational host approximately 140 companies with about 2,300 employees. Only three zones attracted more than 20 investors. According to the interviews carried out as part of the site visits in August 2022, foreign investors only play a minor role. For instance, in the Drenas Business Park, only in 6 out of 41 companies foreign investors are involved. The majority of companies in the zones are local SMEs.

Table 1: Selected indicators for Economic Zones in Kosovo

Economic Zone	Year of establishment	Size (ha)	Infrastructure	Active companies	Employees
Drenas Business Park	2010	24	Finalised	41	500
Mitrovica Business Park	2012	4	Finalised	22	300
Shtime Technology Park	2013	13	Finalised	13	500
Mitrovica Industrial Park	2014	48	Early phase	2	n.a.
Suhareka Agro-Ind. Zone	2015	28	Early phase	-	-
Lipjan Industrial Park	2016	56	Partly developed	-	-
Suhareka Industrial Park	2017	162	Nearly finalised	60	1,000
Viti Industrial Park	2017	15	Early phase	-	-
Vushtrri Industrial Park	2018	15	Early phase	-	-
Rahovec Industrial Park	2020	35	Not yet started	-	-

Sources: GAP Institute, KIESA, interviews with municipalities

All operational zones have the character of multi-activity industrial zones hosting companies from various industries – including trade and further services – without a clear target-group-specific focus or corresponding infrastructure and service portfolio. Overall, the level of specialisation is low. The Drenas Business Park is the only operational zone

with an industry-specific concentration of companies offering the potential to facilitate collaborative activities (e.g. in the wood-processing industry).

According to the interviews, several further Economic Zones are planned – including an extension of the Drenas Business Park as well as additional zones in Shtime and Suhareka.

3. Assessment of Economic Zones in Kosovo

Taking into account international experience, the four dimensions (1) strategic focus, (2) value proposition, (3) selection processes and criteria for new zones and the allocation of land plots and (4) the institutional model play a critical role for the success of zones. The subsequent sections identify for each dimension recent reform trends and good-practice examples and assess how those are reflected by the Economic Zones in Kosovo.

3.1 Strategic focus

As confirmed by international experience, a coherent strategic framework represents a key success factor for the development and operation of zones. To enhance their effectiveness and impact, a guiding strategy should define:

- » Strategic objectives and corresponding KPIs (e.g. investment attraction performance and employment effects in quantitative and qualitative terms)
- » Priority target groups (e.g. with respect to industries, knowledge-intensity, size and origin of investors)
- » Envisaged number and types of zones (incl. key elements of their value proposition).

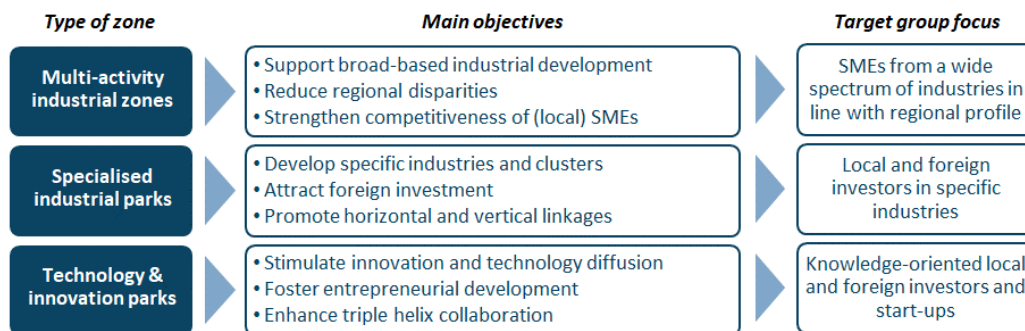
The guiding strategy plays an important role for generating synergies between different policy tools – e.g. for leveraging clusters for the development and promotion of zones. Against this background, zones are nowadays considered an integrated policy tool rather than a stand-alone measure. The underlying strategies are not anymore developed in isolation. They are designed in their broader policy context. For instance, many countries have defined priority industries or clusters as part of their overarching economic development or industrial strategies and have positioned their zone programmes accordingly (e.g. creating an IT park to foster the development of the IT industry).

Drawing on international experience, a guiding strategy for zones should entail a dynamic perspective aligning the focus to the overall development of the economy. It should be regularly assessed if the zones are fit for their purpose or if there is a need to adapt the approach. Different stages of development require different types of zones. Many economies are starting their zone programmes with multi-activity industrial zones. At a later stage, they shift the focus towards the development of specialised industrial parks or technology & innovation parks. Additional subtypes such as special economic zones – with a separate tax, customs and regulatory regime – or cross-border zones also often form part of zone programmes at the international level.

As shown in figure 1 and table 2 on the next page, the types differ with respect to their strategic objectives, target groups as well as the infrastructure and services provided. Multi-activity industrial zones typically aim at fostering broad-based economic development in line with the regional profile – with a target group spectrum beyond one

specific industry and a focus on local SMEs. They are typically equipped with a basic infrastructure, while the facilities are constructed by the investors.

Figure 1: Different zone types and their main objectives and target groups



Source: Own research

Specialised industrial parks aim at developing or upgrading specific industries. Investors can benefit from an advanced infrastructure as well as facilities and services aligned to their needs (e.g. production and office space for rent, training and testing facilities, matchmaking services). Usually, specialised industrial parks have a stronger focus on attracting foreign investment. Their infrastructure and services are well received by foreign investors, which have to start their operations with increasing time pressure. The promotion of linkages offers a promising potential to enhance the impact of investment projects from the perspective of the host country.

Table 1: Key features of the infrastructure and service portfolio of different zone types

Economic Zone	Multi-activity industrial zone	Specialised industrial park	Technology & innovation park
Infrastructure			
Basic infrastructure (access roads, utilities / waste management, ICT)	x	x	x
Specialised infrastructure (e.g. pre-built facilities, meeting rooms)	-	x	x
General services			
Real estate and facility management	x	x	x
Reception and one-stop-services (e.g. assistance with permits)	-	x	x
Catering / restaurant	-	x	x
Business development services			
Matchmaking and networking	-	x	x
Training programmes	-	x	x
Incubation & acceleration	-	-	x
Technology transfer	-	-	x
Equity finance	-	-	(x)

Source: Own research

Technology & innovation parks are used to stimulate innovation and entrepreneurial development and to unlock the potential of new technologies. Next to companies, universities, research and training institutions are located in the parks offering industry-oriented R&D, study and training programmes. Typically, technology & innovation parks offer a target-group-oriented infrastructure and portfolio of services, which includes pre-built facilities and a wide range of business development services also reflecting the specific needs of start-ups (e.g. incubation and acceleration services).

There are several interrelations between the strategic focus and the other dimensions forming part of this assessment. Amongst others, there is a need to align the institutional model to the prioritised zone types. Furthermore, the criteria for the selection of new zones and the allocation of land should reflect the strategic focus. For instance, the location criteria for specialised industrial parks should place more emphasis on the specialisation pattern, the criteria for technology & innovation parks on the start-up and innovation potential.

With respect to the current situation in Kosovo, the lack of a coherent strategic framework is limiting the performance and impact of Economic Zones. There is no guiding strategy setting out objectives and priorities regarding target groups and types of zones.

The mentioned new draft law also provides only limited guidance in strategic terms. On a positive note, it differentiates between the three types:

- » General park – a park with or without pre-built industrial buildings, generally intended for economic activities
- » Specialized park – a park with or without pre-built industrial buildings, intended for certain production and related activities
- » Technological park – a park intended for activities related to advanced technology, innovation and higher education institutions.

However, no further specifications or guiding principles for the different types of zones are provided. In the corresponding administrative instructions, the same procedures for the selection of new locations and allocation of land plots are applied for all zone types (see chapter 3.3).

Against this background, most Economic Zones in Kosovo have been created on an ad-hoc basis without an underlying strategic approach. All operational zones have the character of multi-activity industrial zones with:

- » Strong focus on broad-based regional and SME development
- » Basic infrastructure
- » Narrow service portfolio (mainly maintenance)
- » Low level of industrial specialisation
- » Limited attractiveness for foreign investors.

As confirmed by the interviews, there is currently too much emphasis on the development of this type of zone. Several interview partners expressed the opinion that the number of zones of this type is already too high and not all created Economic Zones have a viable development potential.

At the same time, the interviews carried out indicate a promising market potential for a limited number of specialised industrial parks with a more attractive infrastructure and service portfolio facilitated by a professional park management on-site. Considering changes in international investment trends – in particular nearshoring processes – such an offer could also make an important contribution towards attracting more foreign investment to Kosovo.

3.2 Value proposition

At the international level, the value propositions of zones have substantially changed in the recent past. Previously, there was a strong focus on fiscal incentives and low rents or land prices. Nowadays, successful zone programmes place more emphasis on a target-group-oriented infrastructure and service portfolio (e.g. training programmes and “plug and play” models, streamlined administrative services).

Investors are becoming more and more demanding regarding the quality of the infrastructure and services provided. This is especially the case in countries and regions where industrial and transport infrastructure is lacking, utility supply is unreliable and bureaucratic processes are cumbersome. The provision of serviced industrial land or facilities, reliable and cost-competitive utility supply, efficient access to the transport network as well as accompanying services and administrative efficiency form key elements of convincing value propositions. Furthermore, in order for zones to thrive, the choice of location, the availability of labour and access to suppliers and cooperation partners are of key importance. Deficiencies in those areas can only partly be compensated by incentives.

Another important success factor relates to the integration of zones into the regional and national economy. In this context, “smart incentives” are increasingly used (see practical example from Poland on the next page), which:

- » Are offered throughout the country or defined regions – beyond the fences of zones
- » Target specific types of investment projects
- » Combine different criteria determining the aid intensity and support period placing more emphasis on the quality and impact of investments
- » Replace profit- by cost-based incentives (linking the incentives to the actual investment or labour expenses)
- » Support linkages beyond the zones.

Furthermore, value propositions increasingly reflect the sustainable development agenda. The number of green industrial parks – with an infrastructure and services geared towards resource-efficient and low-carbon industrial production (e.g. provision of renewable energy) is steadily growing and is well received by investors.

Finally, another key success factor relates to the alignment of the value proposition – with all its components – to the strategic focus of a zone programme.

Practical example: Transformation of Special Economic Zones (SEZ) in Poland

Poland has transformed its special economic zone scheme into a countrywide incentive programme “Polish Investment Zone” following a targeted approach that focuses more strongly on the quality and impact of investment projects. In 2018, a new law was adopted, which allows companies to benefit from SEZ-style incentives (tax exemptions related to the capital expenditure or two years’ labour cost for new employees) throughout the country based on defined criteria.

After the reform, the existing zones have remained a main driver for investment. However, their value proposition focuses now more strongly on the hard and soft infrastructure and less on incentives. Polish zones also still feature highly in global awards such as the fDi Global Free Zone Award. For instance, in 2021, the zone in Katowice was awarded best free zone in Europe.

The administration of the zone in Katowice provides a wide range of investment facilitation and business development services. In addition, it hosts the cluster management of a regional automotive cluster with more than 170 companies and institutions – including large corporations, SMEs, universities, R&D institutions, technology centres and training providers. The service portfolio comprises:

- » Information services (e.g. newsletters, technology information platform)
- » Innovation & cooperation platforms (e.g. B2B and B2Science platforms, brokerage services)
- » Automotive Silver Experts (retired experts)
- » Supplier database
- » Skills & recruitment support services (e.g. dual study programmes)

Compared with international good-practice, 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. While obviously the location-specific characteristics vary between the different zones, overall, the main benefits are mainly limited to low rents (and in some cases rent-free periods) and a basic infrastructure including access to the (inter)national transport network.

Further advantages, which were pointed out in the interviews, include:

- » Location outside residential areas avoiding conflicts with neighbours
- » Access to main markets
- » Cooperation among companies (mainly infrastructure-related, but in some cases also involving training of employees and sharing of machinery)
- » Collaboration with municipalities and KIESA.

The instruction 03 / 2014 issued by the Government stipulates that the infrastructure and one-stop-services, which are set out in the table on the next page, are provided in Economic Zones.

Table 3: Infrastructure and one-stop-shop services to be provided in Economic Zones

Physical infrastructure	One-stop-shop services
Sewerage system	Business registration
Drinking water	Application for VAT certificates
Electricity grid system	Application for business numbers and customs certificates
Access to the road system	Application for work permits and residence permits for foreign employees
Wastewater treatment	Advice on customs procedures for export-import of machinery and raw materials
Maintenance of public spaces and waste management	Advice on handling building permits and applications for cadastral measures

Source: Government of Kosovo, instruction 03 / 2014

However, the administrative instruction has not been fully implemented as the interviews revealed for all operational zones infrastructure-related constraints or challenges (e.g. need to improve the sewage system, ICT infrastructure, electricity and water supply as well as maintenance deficits) and a lack of one-stop-shop services offered on-site. The same applies to training, recruitment and employee transport, business development and general services / amenities such as catering / restaurants and banking. The main part of those services and day-to-day support for companies is typically provided by a professional park / zone management at the international level. However, the existing Economic Zones in Kosovo do not have such an entity or unit on-site (see chapter 3.4).

According to the interviews, a key weakness of Economic Zones in Kosovo, which should be urgently addressed, is that the current legal framework does not allow companies to use buildings constructed on zone land as collateral for loans. This puts zone tenants at a disadvantage vis-a-vis companies outside the zones, which can buy land and use it together with the buildings as collateral. Removing this obstacle would significantly improve the value proposition of the Economic Zones – in particular from the perspective of growth-oriented companies – and increase their development impact.

Finally, some interview partners proposed to widen the scope of incentives for investment projects in zones beyond low rents and rent-free periods – e.g. introducing tax exemptions similar to those offered in neighbouring countries. However, the majority of interview partners expressed the opinion that efforts to improve the value proposition should focus on the infrastructure and services. In case further incentives for attracting investment and fostering industrial development could be financed, a targeted country-wide approach – similar to the “Polish Investment Zone” (see chapter 3.1) – would be prioritised.

The findings from the interviews clearly show that there is no one-size-fits-all value proposition. Location requirements vary considerably across industries and companies. Investors with a strong focus on cost-oriented factors (e.g. with trade and processing activities) expressed a higher level of satisfaction with the Economic Zones than companies placing more emphasis on “soft” factors (e.g. in the creative industry). This

calls for a more differentiated approach addressing the different needs – including the needs of target groups that are not yet present such as potential foreign investors – with different types of zones. In that context, it was also proposed to integrate green industrial parks into the future portfolio of Economic Zones.

3.3 Selection processes and criteria for new zones and the allocation of land plots

The selection processes and criteria for new zones and the allocation of land plots play an increasing role in recent reforms at the international level. A well-designed strategic framework setting out the envisaged type of zones forms the starting point for developing the processes in an effective and efficient way.

International experience shows that high-quality feasibility studies, which are carried out by independent experts, provide important groundwork for the selection, planning and development process of new zones (see example from Moldova below). In order to come up with a realistic and sustainable development model, in particular the three dimensions technical, market and financial / economic feasibility need to be thoroughly assessed – without a predetermined profile or size of the project. A key success factor relates to a market- and needs-oriented approach. A solid understanding of the investment potential and competitive environment helps to align the infrastructure, facilities and services to the realities of the market and to the needs of the most promising target groups.

Practical example: Planning support for zones in Moldova

With assistance from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, feasibility studies were conducted for three zones in Moldova. The zones were selected based on an open and transparent two-stage competitive application process, which integrated targeted capacity building measures for all participating municipalities.

The studies, which were carried out by a team of independent local and international experts, concluded in development concepts comprising the areas (1) Infrastructure & layout, (2) Organisation & financing and (3) Promotion. Considering previous experience, particular emphasis was placed on the assessment of the market feasibility, which focused on both investment potentials and the competitive environment. Both dimensions were analysed at the international, national and regional level. Furthermore, key needs of investors in potential target groups were identified.

Based on the results of the feasibility studies, the municipalities received further technical assistance (developing zoning plans and technical project documentations and providing promotional support). Already during the process of drafting the studies and plans, first investors could be attracted to the zones.

Source: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Different models are used at the international level for allocating land plots to investors including direct negotiations, open and restricted tenders as well as combinations of those procedures. Regardless of the specific procedure, an open, transparent, efficient and

tailored approach, which aligns the selection criteria with the overarching strategic objectives, plays a critical role for the success of zones. Against this background, more sophisticated approaches towards the selection of investors / beneficiaries are nowadays commonly used. They combine different criteria placing more emphasis on the quality and impact of investments (see example from Poland below).

Practical example: Eligibility criteria for the “Polish Investment Zone” Programme

Manufacturing investment projects under the “Polish Investment Zone” programme have to meet a combination of quantitative and qualitative criteria focusing in particular on different sustainable development dimensions. Quantitative criteria relate to a minimum investment volume and number of new jobs depending on:

- » Unemployment rate in the region
- » Size of the investor
- » Type of project (e.g. R&D centre).

In addition, projects have to meet between 4 and 6 out of 10 qualitative criteria depending on the aid intensity level of the region:

- » Consistency with national development policy (priority sectors)
- » Adequate level of exports
- » Conducting R&D activities
- » Participation in key national clusters
- » Status of micro, small or medium-sized enterprise
- » Creating specialised 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

Similar criteria have been defined for investment projects in service industries.

Source: PAIH Polish Investment and Trade Agency

In this context, several countries have also intensified their monitoring efforts to mitigate the risk of abuse and unintended effects. Built-in mechanisms for reviews aim at ensuring that the companies fully realise the investment projects, which formed the basis for allocating the land plots to them.

Considering the results from the interviews and the review of the legal framework, there is clearly a need to strengthen the effectiveness of the selection processes for new zones and the allocation of land plots as well as the corresponding monitoring processes in Kosovo. As already mentioned, the lack of a coherent strategic framework constitutes a cross-cutting challenge for the development and management of Economic Zones, which is also of high relevance in this context.

According to the draft new law, a new zone can be proposed by a ministry, municipality or implementer of a strategic investment project. Regardless of the proposing entity, the draft new law requires a series of supporting documents, which includes a feasibility

study. Furthermore, the draft new law stipulates that the feasibility study includes the economic, financial, environmental, legal and administrative justification and proves that the benefits surpass the costs for establishing the zone.

However, as pointed out in the interviews, the quality of feasibility studies carried out in the past varied considerably and decisions to establish new zones were also politically motivated. It was emphasised that future decisions on new zones should be based on thorough feasibility studies, which should be carried out by independent experts and adhere to international quality standards. It needs to be ensured that a sound assessment of the market feasibility forms part of the requirements. In that context, it was proposed in the interviews that the feasibility studies should be complemented by some type of proof of the market potential, e.g. expressions of interests, surveys etc.

Further deficits and constraints relate to the process and criteria for allocating land plots to investors. According to the already mentioned instruction 03 / 2014, the application and selection process comprises the following stages:

- » Public announcement
- » Submission of the request with the relevant documentation
- » Evaluation
- » Notification of winners.

For the evaluation of the applications, the instruction foresees the following criteria:

- » Employment
- » Investment volume
- » Type of activity (highest number of points for manufacturing, lowest for services).

Compared with international good-practice, Kosovo is using a very narrow and basic set of criteria, which is not sufficiently reflecting the quality and impact of investment projects. As confirmed by the interviews, there is a need to widen the scope of criteria differentiating between the different types of zones. It was proposed to place more emphasis on the contribution towards upgrading the skills base and industrial structure, which could also be supported by value adding projects in the service sector (e.g. creative industries). Another option pointed out relates to prioritising expansion projects of companies, which are already present in the zone – with a reliable investment and growth track record.

Furthermore, it was criticised in the interviews that tenders only sporadically take place, which forms a major constraint for local businesses with planned expansion projects as well as for foreign investors. In light of changes in international investment patterns – e.g. with respect to nearshoring processes – the time pressure for location decisions has significantly increased. Investors are looking for sites, where they can start their operations as soon as possible.

Finally, monitoring and the enforcement of contractual obligations were pointed out as major challenges, that need to be addressed. The job creation performance in relation to the size of the Economic Zones in Kosovo is very low in international comparison. For instance, in recent feasibility studies in Moldova, the employment effects were estimated at between 90 and 250 jobs per hectare. This compares with less than 20 jobs per hectare in the fully operational zones in Kosovo. In part, this can be explained by differences in the

industry structure. In Moldova, labour-intensive segments of the light industry play a much stronger role than in Kosovo. Furthermore, the rather early development phase of the Economic Zones in Kosovo could contribute to the differences. However, another explanation could be that the land plots in the zones are not fully utilised for the intended purposes. Several interview partners have pointed out that not all investment projects, which formed the basis for the allocation of land plots are fully implemented. In some cases, land plots are sublet to other companies.

3.4 Institutional model

While zone programmes around the globe share some commonalities regarding the spectrum of governance roles, the institutional set-up varies across countries. The principal governance roles (1) regulator, (2) developer and (3) operator can be divided or shared in different ways among public and private institutions.

Table 4: Principal zone governance roles

Regulator	Developer	Operator
<ul style="list-style-type: none"> • Designing strategic framework • Overseeing implementation of programme and ensuring consistency and compliance with laws / regulation and international agreements • Monitoring performance based on KPIs • Designating zones, selecting (private) developers and operators • Allocating resources to zones • Providing off-site infrastructure • Licensing and issuing permits 	<ul style="list-style-type: none"> • Preparing master plans specifying phases, layout, infrastructure and facilities • Initiating and participating in zoning and land use planning processes • Designing and constructing on-site facilities, networks and utilities 	<ul style="list-style-type: none"> • Day-to-day management of the zone • Maintaining the infrastructure • Promoting the zone and selecting users • Facilitating utility provision and land transactions, leasing of plots and premises • Providing value-adding services (networking and recruitment platforms, conference facilities, flexible space solutions etc.)

Source: Own research

The regulator is typically a ministry, which can be supported by a separate zone authority or investment promotion agency (IPA) in regulating / coordinating the zone programme. The development of zones can also form part of the mandates of a separate zone authority or IPA at the central level. As an alternative, the regulator can resort to public or private developers for individual zones (decentral model). Commonly, developers are also responsible for the operation of zones. Yet zone operators may also be separate entities.

Recent and planned institutional reforms at the international level aim at:

- » Increasing the efficiency of the governance structures
- » Utilising inter- and intra-institutional synergies based on a clearly defined allocation of responsibilities
- » Strengthening capacities and integrating additional expertise

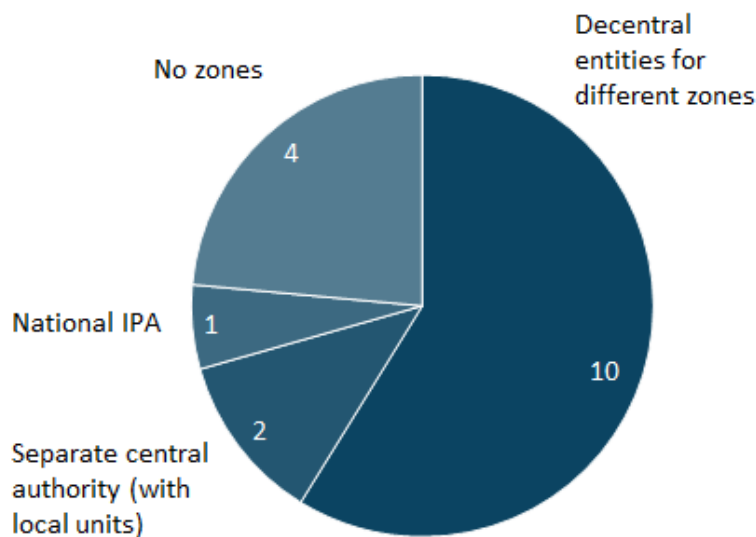
- » Tapping additional funding and revenue potentials
- » Aligning the institutional structures with changes in the strategic framework.

Most zone programmes in Central and Eastern European (CEE) and Southeast European (SEE) countries rely on a decentral model with different public or private developers / operators for individual zones. The decentral model is used by 10 CEE and SEE countries – accounting for more than three quarters of zone programmes in the region (see figure 2 below).

The involvement of separate central authorities or IPAs in the development / operation of zones is far less common. Kosovo is the only country in the CEE / SEE region with an active role of the national IPA in the development / operation of zones. Examples of IPAs as developer / operator of zones can be mainly found outside Europe, particularly in the Middle East & North Africa (e.g. Kuwait and Egypt) and further Asian and African countries.

North Macedonia constitutes a prominent example of a zone programme in the region with a separate central zone authority acting as developer / operator. However, the North Macedonia Free Zone Authority has local units in the zones providing a range of technical, facilitation and support services on-site. This model is also more commonly used outside Europe in Asian and African economies (e.g. Phillipines, Ethiopia).

Figure 2: Institutional models for the development / operation of zones in CEE and SEE countries



Source: Own research

A notable global trend is the rise of private sector involvement in the development and operation of zones, which provides access to additional resources, expertise and contact networks. This shift allows government to concentrate on providing a conducive regulatory environment and key administrative services such as on-site one-stop-shop services. Furthermore, public resources are freed up for the development of important off-site infrastructure including utility and road connections. At the same time, privately operated zones tend to offer a broader set of facilities and services in line with the increasingly sophisticated demand of their tenants (see example from Lithuania below).

Practical example: Free Economic Zones (FEZ) in Lithuania

Lithuania constitutes an example of an EU member state still placing strong emphasis on FEZs within the investment incentive framework. The private zone management forms a differentiating feature of the FEZ scheme. Between 1998 and 2015, seven zones were established outside the capital region with a demarcated area ranging from 47 to 534 hectares. The zones are mainly located in regions with a below average GDP per capita.

To access additional resources, expertise and contact networks, private companies were engaged for the zone management based on a public tender process. The zone management is in charge of subleasing the land and operating the FEZ.

Beyond cost-based fiscal incentives that are harmonised with the EU state aid system, the hard and soft infrastructure including pre-built facilities plays an increasing role in the value proposition of the FEZs in Lithuania. In this context, the FEZ Klaipeda has received several awards in the fDi Global Free Zones of the Year competition in recent years, amongst others, for:

- » Flexible space solutions in 2019 and sustainability in 2020
- » EU regulation compliance and 5G innovation in 2021

Sources: Invest Lithuania, fDi Intelligence

Depending upon the country-specific context and regulatory framework, a wide range of models for private sector involvement is used in zone programmes worldwide – including:

- » Service contracts
- » Operations & Maintenance (O&M) contracts
- » Build Own Operate Transfer (BOOT) contracts
- » Joint Ventures
- » Private zones.

Private sector involvement has started with the operation of zones. Over time, involvement expanded to include development and (temporary) ownership. As confirmed by international experience, a clear division of roles and efficient coordination play a critical role for the success of zone schemes, in particular when the private sector is involved.

Taking into account international reform trends and good-practice, a number of deficits in the institutional set-up in Kosovo can be identified:

- » **Lack of on-site zone management entities / units:** Kosovo is the only country in the SEE / CEE region with zones that do not have an on-site zone management entity / unit providing infrastructure-related, business development and administrative services. As confirmed by international experience, an on-site zone management forms a key element of a convincing value proposition in particular of specialised industrial parks and technology & innovation parks. While a zone management could be implemented – e.g. focusing on new zones – in line with the draft new law, there is a need to adjust the financing model to generate the necessary revenues / funding.

- » **Untapped potential of private sector involvement:** International experience shows that the involvement of the private sector in the development and operation of zone can help to improve the efficiency and to gain access to additional resources and expertise. This potential, which is also of relevance for the mentioned on-site provision of needs-oriented services, is currently not tapped. The draft new law stipulates a delegated administration and management of zones by public authorities (management), business organisations, non-governmental organisations and public-private partnerships. However, it does not foresee the development and operation of zones by specialised private service providers – with the exception of implementers of strategic investments.
- » **Low level of revenues and efficiency from a financial perspective:** With the current level of rents and division of tasks, costs and revenues, it is not possible to finance the capital and operational expenditure for internationally competitive zones on a sustained basis. While the municipalities as owner of the land – with the exception of the Drenas Business Park – receive the rental revenues, the necessary infrastructure for the zones is mostly developed by KIESA. This division of costs and revenues is not conducive for a needs-oriented and efficient approach. At the same time, the interviews carried out indicate a promising market potential for specialised parks with a professional park management on-site and a more attractive infrastructure and service portfolio, which could be financed by higher rents and additional fee- and commission-based income (e.g. training, recruitment support, transportation of employees). According to the interviews, it might be quite challenging to ensure the buy-in from the municipalities to change the division of costs and revenues for the existing zones.
- » **Low level of coordination between the different zones and stakeholders:** There is currently no inter-institutional platform or mechanism for the coordination between the different zones and stakeholders at the strategic and operative level. From the interview partners' point of view, such a platform could also make an important contribution towards the transfer of experience strengthening the capacities. At the zone level, the draft new law foresees monitoring bodies consisting of representatives of the Ministry, the administrator and manager, the municipality and a representative of the zone user association or business incubator. It was emphasised in the interviews that businesses with a presence in the zones should be represented in the monitoring bodies.

4. Conclusions and recommendations

International experience shows that zones can make an important contribution to economic growth and development. Amongst others, zones can help attract investment, create jobs, boost and diversify exports. They can stimulate innovation, support industrial upgrading and integration into global value chains. Successful zones can be found in very different types of economies regardless of the size and development stage, including small transition economies.

However, the benefits are not automatic. There are a number of preconditions for success that have been elaborated in the previous chapter and that are currently only partly met in Kosovo. Overall, the rather moderate performance of the Economic Zones in terms of attracting investors and creating employment compared to successful schemes at the international level suggests that this policy tool is not yet used to its full potential. Policy

decisions should consider that it takes time for zone programmes to unfold their effects – in most cases five to ten years – requiring a long-term approach.

Nevertheless, the assessment carried out identified considerable constraints in all four dimensions that should be addressed:

- » **Strategic focus:** The lack of a coherent strategic framework constitutes a key limiting factor. There is no guiding strategy setting out objectives (incl. KPIs) and priorities regarding target groups and types of zones. Most Economic Zones in Kosovo have been created on an ad-hoc basis without an underlying strategic approach. There is too much emphasis on the development of multi-activity industrial zones and not all created zones have a viable development potential.
- » **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. While location requirements vary considerably across industries and companies, overall, the value proposition relies too strongly upon low rents. A key weakness, which should be urgently addressed, is that the current legal framework does not allow companies to use buildings constructed on zone land as collateral for loans.
- » **Selection processes and criteria for new zones and the allocation of land plots:** While the legal / regulatory framework stipulates that feasibility studies form part of the proposal for new zones, the scope and quality of the studies carried out in the past varied considerably and decisions to establish new zones were also politically motivated. Compared with international good-practice, Kosovo is using a very narrow and basic set of criteria for the allocation of land plots, which is not sufficiently reflecting the quality and impact of investment projects. Furthermore, there is a need for a more effective monitoring and enforcement of contractual obligations to ensure that the investment projects that formed the basis for the allocation of land plots are fully realised.
- » **Institutional model:** Kosovo is the only country in the SEE / CEE region with zones that do not have an on-site zone management entity / unit providing infrastructure-related, business development and administrative services. The potential of private sector involvement for the development and operation of zones, which is also of relevance for the on-site provision of needs-oriented services, is currently not tapped. At the same time, it is not possible to finance the capital and operational expenditure for internationally competitive zones on a sustained basis with the current level of rents and division of tasks, costs and revenues.

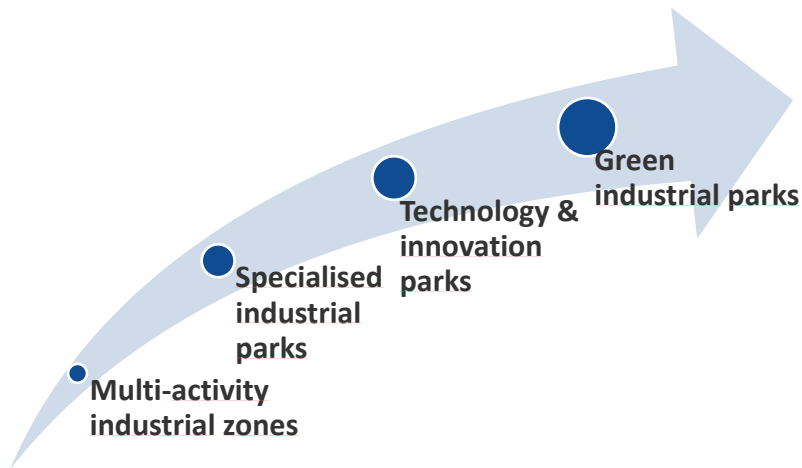
Against this background, there is clearly a need and potential to increase the effectiveness of the Economic Zones in Kosovo. The following recommendations can be derived:

(1) A guiding strategy for Economic Zones in Kosovo should be developed shifting the focus from multi-activity zones towards specialised industrial parks, green industrial parks and technology & innovation parks based on clearly defined KPIs.

Priorities with respect to strategic objectives as well as target groups and the desired types of zones should be clearly defined. A dynamic perspective should be integrated providing directions how the portfolio of zones should be adapted to the overall development of the economy. It is recommended to shift the focus from multi-activity zones towards specialised industrial parks, green industrial parks and technology & innovation parks. New zones should only be developed if they are in line with the

priorities and principles defined in the guiding strategy. Taking into account the future positioning, the Economic Zones – as a policy tool – should also be integrated into related strategies (e.g. industrial strategy, sectoral strategies).

Figure 3: Proposed development path



Source: Own research and illustration

KPIs should be defined for all zones. For zones not meeting the KPIs, turn-around strategies should be developed. For new zones, a phased development approach is recommended. New phases should only be taken on and supported, if the KPIs for the previous phase have been achieved.

Considering the dynamics in the external environment, a lean document, which can be updated as needed, is advisable.

(2) The future value proposition of the zones should focus more strongly on target-group-oriented infrastructure and services and less on low rents.

The value proposition of the zones should be aligned with the guiding strategy following a more differentiated approach. The infrastructure and services of specialised, green industrial and technology & innovation parks should reflect the needs of larger investors as well as SMEs and start-ups depending on the target group focus and should stimulate collaboration within the zones and beyond. Amongst others, training, recruitment and further business development services as well as general services and amenities such as catering and employee transport could be provided.

(3) To improve the value proposition and ensure a viable business case, the legal / regulatory framework should be changed allowing companies to use buildings constructed on zone land as collateral for loans.

(4) New zones should be selected and planned based on thorough feasibility studies, which are carried out by independent experts and adhere to international quality standards.

In particular, it should be ensured that a sound market and risk assessment is carried out as part of the feasibility studies. This should include sensitivity analyses, which test the influence of individual variables on the zones' performance. It could be considered to solicit technical / financial assistance from international partners for the feasibility studies.

(5) The efficiency of the selection process for the allocation of land plots should be increased using a wider scope of criteria that place more emphasis on the quality and impact of investment projects.

Additional criteria should be used for the allocation of land plots reflecting, amongst others, the quality of the investment projects (e.g. quality of jobs created), different sustainable development dimensions and the presence / track record of the company. To increase the efficiency, tenders should be carried out on a regular basis and direct negotiation should be allowed for strategic investors.

Following a non-discriminatory approach, it is not recommended to develop industrial parks (wholly or partially) designated for foreign investors or the diaspora as foreseen in the draft new law.

(6) The monitoring of the performance of the zones and of the implementation of investment projects should be intensified.

It should be ensured that investors are fully implementing the projects, which they proposed as part of their application for land plots. In case of non-compliance with contractual obligations, the land should be offered to other companies. In addition, it could be considered to introduce higher rents for expansion areas, which are not yet used for operations.

(7) For new zones – in particular for specialised, green industrial and technology & innovation parks – a public or private on-site zone management entity / unit should be foreseen.

The on-site zone management entity / unit should be responsible for providing the target-group-oriented infrastructure-related, business development and administrative services mentioned above. In this context, it should be considered to widen the scope of models for involving specialised private service providers in the development and operation of zones and amending the draft new law accordingly.

(8) For future specialised, green industrial and technology & innovation parks, an adjusted institutional and financing model should be used.

The model should entail the outlined professional zone management on-site and more attractive infrastructure and service portfolio, which could be financed by higher rents and additional fee- and commission-based income (e.g. from training, recruitment support, transportation of employees). Such a type of zone should be tested on land owned by Central Government – e.g. for the extension of the Drenas Business Park.

(9) Coordination and cooperation between the different zones and stakeholders should be strengthened.

An inter-institutional platform (e.g. zone coordination committee) should be established to improve coordination and facilitate the transfer of experience. At the zone level, it should be considered to integrate representatives from businesses with a presence in the zones in the monitoring bodies, which are foreseen under the new draft law.

(10) Target-group-specific investment attraction efforts should be intensified.

The focus should be on priority industries and activities as defined in the proposed guiding strategy. Furthermore, aftercare measures should be strengthened to tap the expansion potential of existing investors in the zones. This requires adequate capacities and resources at both the national and municipal level.

Overview of recommended changes in the legal / regulatory framework:

The changes in the legal / regulatory framework, which have been recommended in this policy paper, can be summarised as follows:

- » Specifying the different types of zones / parks and their key features
- » Allowing companies to use buildings constructed on zone land as collateral for loans
- » 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)
- » 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
- » Allowing direct negotiations with strategic investors
- » 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
- » Amending the composition of the monitoring bodies integrating a representative of a business with a presence in the zone

