

Bjoern Vogler

## Identifying reform options for economic zones in Kosovo

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 according to the results from the assessment carried out. Considering the rather moderate performance in terms of attracting investors and creating employment, there is a need to increase the effectiveness of the economic zones based on a more strategic and differentiated approach. As a starting point, a guiding strategy for economic zones should be developed, shifting the focus from multi-activity zones towards specialised industrial parks, green industrial parks and technology & innovation parks. The guiding strategy should form the basis for refining the value proposition, institutional model and core processes for planning, developing and operating zones.

### Key characteristics and performance of zones

During the last decade, ten economic zones were created in Kosovo, of which five are operational so far. The majority of zones still requires major infrastructure development measures. Overall, the rather moderate performance of the zones in terms of attracting investors and creating employment suggests that this policy tool is not used to its full potential yet. The operational zones host approximately 140 companies with about 2,300 employees. Only three zones were able to attract more than 20 investors. The majority of companies in the zones are local SMEs. Foreign investors only play a minor role.

#### Overview of economic zones in Kosovo

Economic Zone	Year of establishment	Size (ha)	Active companies	Employees
Drenas Business Park	2010	24	41	500
Mitrovica Business Park	2012	4	22	300
Shtime Technology Park	2013	13	13	500
Mitrovica Industrial Park	2014	48	2	n.a.
Suhareka Agro-Ind. Zone	2015	28	-	-
Lipjan Industrial Park	2016	56	-	-
Suhareka Industrial Park	2017	162	60	1,000
Viti Industrial Park	2017	15	-	-
Vushtrri Industrial Park	2018	15	-	-
Rahovec Industrial Park	2020	35	-	-

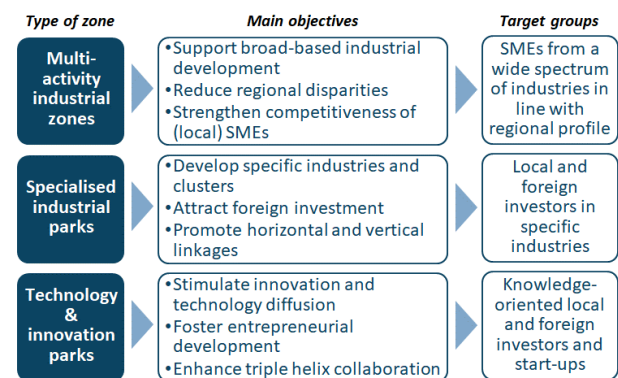
Source: GAP Institute, KIESA, interviews with municipalities

The assessment carried out identified considerable constraints in all four dimensions that play a critical role for the success of zones: (1) strategic focus, (2) value proposition, (3) core planning and selection processes, and (4) institutional model.

### Lack of a coherent strategic framework

The lack of a coherent strategic framework constitutes a key limiting factor. There is no guiding strategy setting objectives and priorities regarding target groups and types of zones. Against this background, most zones have been created on an ad-hoc basis. All operational zones have the character of multi-activity industrial zones focusing on broad-based regional and SME development. Not all created multi-activity 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. While many economies have started their zone programmes with multi-activity industrial zones, they later shifted the focus towards the development of specialised industrial parks or technology & innovation parks.

#### Different zone types and their objectives and target groups



Source: Own research

### Value proposition focusing strongly on low rents

Compared with international good-practice, 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 are mainly limited to low rents and a basic infrastructure. 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 differenti-

ated approach addressing these different needs – including the needs of target groups that are not yet present – with different types of zones.

### Need to strengthen efficiency of core processes

Considering the results from the interviews and the review of the legal framework, there is a need to strengthen the efficiency of the selection processes for new zones and the allocation of land plots to investors. While the legal 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 political motivations also played a role in decisions to establish new zones. Compared with other countries, 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 not apt for advanced zone types

Kosovo is the only country in the SEE / CEE region with zones that do not have an on-site zone management. 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. While the municipalities as owners of the land – with the exception of the Drenas Business Park – receive the rental revenues, the necessary infrastructure for the zones is mostly developed and financed by the Kosovo Investment and Enterprise Support Agency (KIESA). This division of costs and revenues is not conducive for a needs-oriented and efficient approach.

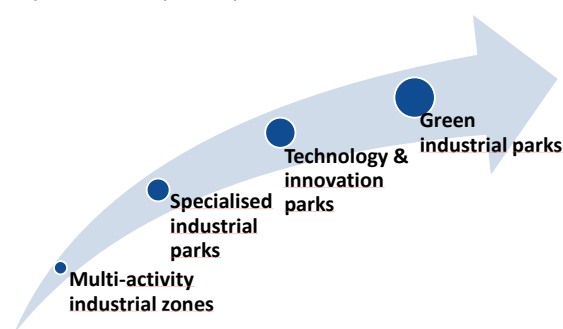
### Recommended reforms to increase the effectiveness

Taking into account the results from the assessment of the performance and the four strategic dimensions, there is a need and potential to increase the effectiveness of the economic zones based on a more strategic and differentiated approach. As a starting point, 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 and entailing clearly defined KPIs.

The guiding strategy should form the basis for refining the value proposition, institutional model and core processes for the development and operation of zones. The future value proposition of the zones should focus more

strongly on target-group-oriented infrastructure and services and less on low rents. 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. For future specialised, green industrial and technology & innovation parks, an adjusted institutional and financing model should be used. The model should entail a public or private on-site zone management entity / unit as well as a 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).

### Proposed development path



Source: Own research and illustration

### Outlook

The findings have already been discussed intensively with the Ministry of Industry, Entrepreneurship and Trade of the Republic of Kosovo and the Kosovo Investment and Enterprise Support Agency (KIESA). The Ministry is planning to incorporate the recommendations in the new law on industrial parks, which is currently being drafted, and in the corresponding administrative instructions.

This newsletter is based on the Policy Paper [“Identifying reform options for Economic Zones in Kosovo”](#).

**Financed by the Federal Ministry for Economic Affairs and Climate Action, 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.**

*\*Advisory activities in Belarus are currently suspended.*

#### Editor

Dr. Ricardo Giucci

[Subscribe / unsubscribe newsletter](#)

**German Economic Team**

[www.german-economic-team.com](http://www.german-economic-team.com)

 **Berlin  
Economics**

Implemented by  
BE Berlin Economics GmbH  
Schillerstraße 59 | 10627 Berlin  
+49 30 / 20 61 34 64-0  
[info@berlin-economics.com](mailto:info@berlin-economics.com) | [Imprint](#)