

Law on Economic Zones: its impact in the development of business parks

INTRODUCTION

To facilitate the work of businesses, in 2009, Kosovo Government approved the Law on Economic Zones¹ that aimed the creation of specific zones², where the businesses would have better conditions in comparison to other parts of Kosovo, respectively easier access to transport, energy, water and other necessary services for the business. The operation of economic zones, from experience of developed countries, has been an important factor in the overall development of a country. This practice should be seen as very useful for Kosovo as well.

However, besides drawing the legal grounds in establishing economic zones, their functioning in Kosovo was not very successful until now. From the time when the Law on Economic Zones entered into force, Kosovo Government has declared only two regions as economic zones: Industrial Park in Drenas and Technological Park in Skenderaj, of which the latter has completely failed as a project. On the other hand, in six other municipalities of Kosovo, business parks or business incubators have been created, but none of them has been declared as an economic zone by the Government. However, the Government continues to promote them as economic zones although it has not legalized them. Besides not being legalized by the Government, one can notice a series of problems in these business parks: some business parks are far from completing the infrastructure, there are different businesses that by their nature of activity are considered dangerous for each other, there are different organizations and associations located in business incubators instead of businesses, etc. On the other hand, the recent reports of World Bank (Doing Business in Kosovo) give a negative evaluation to Kosovo concerning the environment of doing business, according to World Bank, the environment of doing business has deteriorated in the last two years.

¹ Law no. 03/L-129 on Economic Zones, approved on 30 April 2009. http://kuvendikosoves.org/common/docs/ligjet/2009_03-L-129_al.pdf

² According to the Law on Economic Zones in Kosovo “economic zones” means a geographical area within state territory, of having a special economic status, factitious for purpose of promotion, development of businesses.

With this policy brief, GAP Institute aims to identify problems on enforcement of the Law on Economic Zones, analyze the development level of the business parks and incubators and their economic impact in the respective municipalities. In this policy brief, a range of recommendations have been offered for the new draft law on Economic Zones which is expected to be approved during 2012.

Legal basis for the Economic Zones

The law on economic zones regulates the creation, functioning, supervision and development of economic zones, the rights and duties of the developers, managing operators, utilisers who operate there, type of activities performed there, as well as the means of determining the location for the economic zones. The establishment of the economic zones aims to help economic development in the country, particularly the private sector, attract investments, create new jobs, attract advanced technologies, enhance competition of local businesses, etc. According to the law, municipal Assembly, business community, public-private partnership and the Ministry of Trade and Industry (MTI) have the right to initiate the creation of an economic zone, provided that the building area shall be financed by Kosovo budget. If all conditions are fulfilled for the creation of an economic zone, it is the Kosovo Government who issues the decision to declare it an economic zone, thus declare the status of the zone (economic/industrial zone, industrial/technological park), define the boundaries of the zone, types of activities, etc.

But, how much has this law helped in the development of economic zones in Kosovo and how many of these zones have been declared as such since this law entered into force? Since 2009, Kosovo Government has declared only two economic zones, Business Park in Drenas and Technological Park in Skenderaj.³ When it is known that the latter has completely failed as a project, the outcome of the Government within three years has been the creation of only one zone. However, during these years a number of business parks in six other municipalities of Kosovo have been created. Some of them are quite functional; some are in the stage of completing the infrastructure and some in the initial stage of construction. Even though none of them is 'legalized' by the MTI, and consequently is not declared as an economic zone by the Government, MTI continues to promote them as economic zones.⁴ Promoting them creates the impression that their legalization is not necessary and as a result the business parks can function without the Law on Economic Zones. On the other hand, it upraises the dilemma whether the whole procedure on legalization is too complicated.

In order to fulfill the legal basis, the Law on Economic Zones foresees to issue the sub-legal acts. During 2009, the Government approved five (5) administrative instructions as foreseen with the Law on Economic Zones.

³ More on this Government decision: <http://www.gapmonitor.org/?id=2&n=155>

⁴ http://sme-ks.org/repository/docs/Zonat_Ekonomike.pdf

These administrative instructions regulate the method of how to establish an economic zone, the application procedures, responsible persons of relevant institutions, supervision of businesses and tax standards for the operation of businesses. A brief summary of these sub-legal acts is given below:

- ***Administrative Instruction No. 2009/14 for the establishment of the Division of Economic Zones*** – stipulates organization, field of activity operation and functioning of the Division of Economic Zones. This division operates under the Agency for Promotion of Small and Medium Enterprise, respectively Ministry of Trade and Industry. The division for economic zones is responsible for drafting policies and projects for developing the economic zones, zones' operation, management, etc.

- ***Administrative Instruction No. 2009/23 for application procedure and criteria for obtaining the decision by the developer*** – specifies application procedures and criteria that shall be fulfilled by the initiator to obtain the decision for creation of an economic zone. According to this document there are 11 procedures and 8 approvals from the relevant ministries that shall be executed to obtain the license for the creation of an economic zone:
 - Act of establishment (registration, statute, etc)
 - Justification (elaboration/feasibility study) for creation of Economic Zone
 - Proof of Economic Zone ownership – copy of the plan and possession certificate, which shall not be older than six months
 - Urbanization planning and its infrastructure
 - Approval of corresponding institutions:
 - Ministry of Agriculture, Forestry and Rural Development
 - Ministry of Environment and Spatial Planning - EIA
 - Ministry of Energy and Mines
 - Independent Commission for Mines and Minerals
 - Respective Municipal Assembly
 - Ministry of Culture, Youth and Sports – Cultural Heritage
 - Ministry of Transport and Telecommunication
 - Financing resources and financial support
 - Duration of the operation of economic zone,
 - Other conditions and criteria as set forth in article 4, 5 and 7 of Law on Economic Zones
 - Waste water treatment plan
 - Water supply plan
 - Application invoice

According to this administrative instruction, in case of incomplete documentation, the initiator shall be given another 30 days for its fulfillment. However, this administrative instruction does not specify what happens if the documentation is not fulfilled even after 30 days.

- *Administrative Instruction No. 2009/24 for relations between responsible institutions, developer of the zone and other institutions* – regulates relations between the parties by assigning duties to each of them, and also binds them to maintain continuous contact on all the issues concerning the Economic Zone.
- *Administrative Instruction No. 2009/25 for inspection procedures on Economic Zones* - specifies procedures and actions taken for supervision and inspection of economic zones. According to this document if the developer of the economic zone does not comply with the rules set by this contract, Agency for Promotion of Small and Medium Enterprise gives a written notice for a period of 60 days to correct the irregularities, and if the developer does not correct them even after 60 days, then the Agency initiates the procedure to change the decision, orders the developer to stop user's activities within a 24 hours period.
- *Administrative Instruction No. 2009/26 about the form, content, validity and tax for issuing the decision.* This decision is issued by the competent institution and contains the criteria defined by this administrative instruction. If the applicant does not fulfill the conditions, it shall be issued a rejecting decision. After the closing date of the operation, the applicant has a period of 6 months for re-application. Upon the submission of the request the applicant shall pay a tax in the amount of 1,000 Euros. Tax for issuing the decision is 200 Euros per hectare; meanwhile if the decision is extended then the applicant pays 50 % of the value of the tax for obtaining the decision.

Despite the existence of the law on economic zones and of five administrative instructions that explain the procedures for the creation and legalization of the economic zones, today Kosovo declared only one of a kind. Finally, the law on economic zones has not been so influential in attracting foreign investors, in opening new job positions or concentrating productive businesses in one place. For this, Kosovo Government, in the 2012 Legislative Program has foreseen to supplement and amend the Law on Economic Zones.

Functionality of business parks in Kosovo

In general, economic zones are known as business parks, technological parks or industrial parks. Meanwhile inside the parks as well as outside, there are business incubators whose purpose is to gather small and medium enterprises inside the same building. Until now, 10 initiatives have been undertaken in creating economic zones in 8 different municipalities in

Kosovo from which 5 are classified as “business parks,” 4 are classified as “business incubators” and 1 is classified as “industrial park.” According to a promotional brochure issued by the Ministry of Trade and Industry (2010), Economic Zones in Kosovo include following business parks: Business Park and Business Incubator - Drenas, Dutch Business Park - Prizren, Business Park - Suharekë, Business Park - Mitrovicë, Industrial Park and Business Incubator - Shtime, Business Incubator - Deçan, Business Incubator - Gjilan.

Before analyzing the efficiency of business parks and their impact on the economy of the country, it should be analyzed how functional they are. Today, most of the business parks are half functional, there are delays in establishing proper infrastructure of the parks and there is a mixture of business activities within the park even dangerous to each other, there are business incubators without a single business, as well as there are parks which have totally failed as a project, initiated under public-private model. Below we have reflected the current situation in some of the business parks in Kosovo.

Although construction in building the **Business Park in - Drenas** has commenced since 2005, nowadays no more than 12 firms have started their business, some facilities are under construction and some have not yet established the foundations. This park has 57 parcels which are all occupied. Many of the beneficial firms not only have not commenced to operate but did not even build their business premises. In order for the park to become functional as soon as possible, MTI had to specify in the contract, the time when a business should start operating. The business incubator which is located inside the park apart from being is not functional yet. One of the advantages of this park is its location near the highway, security and control in the entrance, free internet and good maintenance. However, the problem remains with electricity and water shortages as in other parts of the country. Construction of this park was founded by the Kosovo Government, which is also managing it.

Business Park in Skenderaj, also known as technological park, was one of the most promoted parks from the Government, as an initiative to boost economic development. In this park, initiated by the public-private partnership, 33 businesses were planned to be opened, which would create approximately 400 jobs. In 2008, Skenderaj Municipality has taken a decision to give real estate property to a Slovenian company ‘Technopolis’ L LC-Celje, for long term use for the construction of technological park. On July 26, 2011 as a result of noncompliance with the terms of the contract to construct the Technological Park, near the Ammunition and Haunting Factory in Skenderaj, Municipal authorities had taken the decision to terminate the contract with Slovenian company ‘Technopolis’ from Celje.⁵ Finally this project has failed.

⁵ Skenderaj Municipality <http://kk.rks-gov.net/skenderaj/News/Deshton-Parku-Teknologjik--Tehnopolis%E2%80%9D.aspx>

Construction of **Business Incubator in Gjilan** was financed by the Liaison office of the European Commission and the grand opening was in 2007. Today, 20 businesses can start work in the incubator. However, there are only 8 businesses that currently operate in this incubator which perform the following services: private auditing, medals manufacturers, printing-photocopy, geodetic measurements, accounting, salt importer, and repair of computers.⁶ In order to be placed inside the incubator, the business should be a new one, have a business plan and be innovative. An advantage for the companies is that they do not pay rent for the first three months, whereas afterwards the rent is 2 Euros per square meter. At present, the number of the employees in this incubator is not more than 25. Gjilan Municipality, which manages the incubator, has declared it as a public enterprise, but according to the Law on Public Enterprises it is not recognized as a public enterprise.⁷

In **Shtime**, neither the **Industrial Park** nor the **Business Incubator** are running properly. In the industrial park, only two buildings are constructed whereas only one of them is operating. This is a domestic company dealing with vegetables processing. Generally, the work in this park has stopped and besides leveling the land, not much is done. Parcels in this park have not been divided, except 2 of them for the above mentioned firms. Meanwhile, not a single business operates in the business incubator. Incubator is located in a former school building and the offices are given to different associations, like youth association, bees association, etc. Associations are also exempt from rent. In general, the industrial park and the business incubator presently are far from meeting their objectives.

Business Park in Suharekë, also known as industrial zone, is among the most functional parks in Kosovo. At present, there are 40 businesses that started work in this park, while 20 others are waiting for a building permission from the MTI. Competitive businesses shall fulfill the following requirements: have a registered business, bank guarantee, project idea, number of workers, etc.⁸ The activity of the existing firms includes: grocery store, manufacturer of concrete elements, manufacturer of doors and windows from plastic and aluminum, leather manufacturer, beverage production, grape manufacturer, etc. In this Park there are also companies on processing and storage of gas, hippodrome, and kindergarten. Not specifying the business activities in these parks leads to different businesses being close to each other such as a gas storage business and a kindergarten, which should not be the case. The highest amount of an investment is 3 million Euros. The level of rent depends from the parcel, whereas the duration of the contract is 99 years. The number of workers declared by the existing companies is 764. The problem in this park is that only 5 companies

⁶ Interview with the manager of this Incubator Mr. Sahit Abazi, 26.04.2012

⁷ Gjilan Municipality has now region to declare it as economical zone. Despite this, as the agreement was reached with Novoberdo Municipality whereas in Llabjan village is expected to be constructed an economical zone with 74 acres space. But firstly there is a need for feasibility study for which MTI has no budget and then after permission should be taken from the AKP to use that land.

⁸ Discussion with Mrs. Arlinda Gashi, Business Center, Suhareka Municipality, 2.5.2012

got construction permit, some others are in the process and some have obtained approval but still are waiting for a construction permit.

Deficiencies of the Law on Economic Zones

The market of the small and medium enterprises in Kosovo is quite poor, despite the fact that the majority of businesses currently operating in Kosovo are of the same nature. Apart from a small market, these enterprises struggle with additional structural problems, i.e. complicated and tough procedures for loans, bureaucratic procedures to start a business, taxation, lack of legal and technical advice, etc. Economic zones established in Kosovo did not contribute satisfactorily to the growth and development of these enterprises. Moreover, they have failed in attracting foreign investments in Kosovo, which was the main goal behind the idea of establishing economic zones at first place. On the other hand, if we take a look at the foreign investment trends in Kosovo, we would find that the trend is constantly declining since 2007.

Although operating in these zones provides the investors with many advantages, i.e. easier access in infrastructure, main road exits, convenient rent costs, higher security for businesses, yet, at the same time, there are many problems which investors confront.

A problem encountered by Kosovo businesses that have invested or plan to invest in these zones is the physical infrastructure, which significantly differs from what was initially planned and promoted. Prolongations of the workings and excessive procedures have affected negatively the interest of the domestic, as well as, foreign investors for any investment activity. This has further contributed to the increase in forecasted investment costs, as would be the case of the investment in energy supply in Drenas which has increased from the initially planned 2.000 kV to 8.000kV. Moreover, the Law on Economic Zones itself did not offer an investing stimulation and did not have a successful model of feasibility. As a result, many businesses, even after signing contracts, have left and terminated the contract, respectively their obligation towards these zones. Such was the situation in the Business Park in Drenas, whereby out of 44 engaged businesses in contract initially; today only 33 of them have valid contracts⁹.

It should be noted that many zones have existed even before the entry into force of this law. Besides, the construction activity in these zones has started before the approval of this law, which has caused for a lack in coordination between the law itself and the functioning of the zones. Accordingly, many zones have failed, which is the case with the Business Park in Skenderaj.

The approval of this law after the establishment of the economic zones has caused that many of them continue to exist today without being legalized. Beside the Business Park in Drenas, which was initiated by the central public institutions, as well as, the business park in Skenderaj, which has

⁹ Local Media, 26 May 2011: Gazeta Express, KTV, RTK, Kosovo Portal, info, telegrafi, etc

failed completely, the legalization process of the other parks remains uncompleted to date. This is happening mainly due to the lack of completed documents handed in the Agency for Promotion of SME, based on which the agency issues a decision for legalization.

Looking at the Law and the Administrative Directives, we would notice law deficiencies for such cases. In the administrative instruction for the application procedures and the criteria provided by the developer's decision, Article 4 item 1.1 says, in case of lack of documentation, the zone applicant shall be given a timeframe of 30 days to complete the documents; but neither in this administrative instruction or any other one is it specified what happens to the economic zones that cannot be legalized. Nonetheless, they continue to function and be promoted by the Agency for Promotion of SME, which in its official website has published a brochure where all economic zones are promoted (legalized or not). In some municipalities, like the case of the Municipality of Suhareka, preparations are going on for a request to declare a new economic zone, although the first is not yet legalized.

Kosovo has confronted many difficulties in terms of the applicability of the law on economic zones, not only in regards of the failure of this law to achieve its goal, but also in terms of it failing to be successfully implemented. Inefficiency of this law has also affected negatively the evaluations of the European Commission in the last progress report on Kosovo in regard to implementation and monitoring of the laws, as well as, caused for a poor ranking in the World Bank Report "Doing business", where Kosovo is marked poorly in terms of providing a convenient and favorable environment for doing business.

Successful models of economic zones in the world and region

Since the current law on economic zones has not been successful, the Ministry of Trade and Industry, during the preparation of the annual plan, took a decision to change the law in order to make it more functional. Therefore, in order for the law to be more functional and to achieve its goal, it is worth to look at some of the most successful models of economic zones in the world, from which good lessons could be obtained during the amendment of the law on economic zones in Kosovo.

One of the most successful states in the region in making the economic zones functional is Macedonia. Macedonia has been very successful, notably in the suburbs of Skopje, Tetovo and Stip. Macedonian Government, other than awarding the land for use with very attractive prices, has also offered exemptions from taxes in the initial 3-10 years of business operation (depending on the type of business production). Moreover, they offer exemption from taxes on profit up to 50% on 5 initial

years for the domestic employees hired by the firm.¹⁰ Furthermore, contrary to other countries in the Balkans, the government itself has engaged in offering assistance and training in developing the businesses with the aim to attract investors to Macedonia. Moreover, depending on the type of business production, Macedonian state is promoting the country through the cheap labor force, especially in agriculture and the industrial sector. Statistics show that there has been an economic growth, whereas the trend of foreign investments has increased continuously - even during the global financial crisis (although not with the same pace of development)¹¹. Macedonian Government is providing favorable conditions to access financing for the investing companies in the country. However, the report of investment policy in the Republic of Macedonia 2009-2014 reflects on the focus of the country in promoting economic zones mainly for the investors oriented towards exporting, which has caused for other manufacturers not to consider Macedonia as an attractive country for their investments. Therefore, a review has been recommended and an amendment of the law in such a manner as to provide favorable conditions for non-exporting businesses, respectively domestic economies, as well.

On the other hand, Turkey is another successful model for economic zones which is specifically known for a division of areas based on activities, i.e. gold refinement zone, the zone for agriculture, as well as, the one for textile. This state provides very convenient and appropriate conditions for a specific sector. Turkey has managed to gather around the economic zones manufacturers by stimulating them through offering tax exemption, government benefits as per the amount of export, etc. Investment companies in the economic zones are exempted from taxes in the initial 3-5 years of their business functioning¹², with the idea that a business should have enough time to stand on its own. Moreover, for every lorry exported government offers financial stimulation in order to increase the export and to expand the market share. Initial benefits from the investment companies in these zones are employment increment and generation of production, while in the future there are other benefits from taxes and the opportunity for growth of these companies.

In addition, China is known as a success model for economic zones, as they have drawn the attention of manufacturing factories around the world from those interested in electronics to those interested in textile manufacturing. These zones brought huge incomes to China and are among the main factors which make China known as a state with the biggest trade and exporting capacity in the world. China as a state with a developed economy except for the establishment of the economic zones, it also offers the investors with the opportunity to establish sectors divided based on individual activity within these zones. At the same time, it also offers better conditions for different types of manufacturing, as well as, a specialized

¹⁰ Law on developed industrial and technologic zones, <http://www.fez.gov.mk/>

¹¹ United nation Conference on Trade and Development, "Review of Investment Policies in the Republic of Macedonia", 2011

¹² Law No. 3218 on Economic Zones, June 1985

and cheap labor force. By identifying its strengths, China decided to specialize in the fields of technology and textile manufacturing, therefore even the division of the economic zones has been made based on these two practices. Hence, every zone offers more appropriate investment conditions for these two manufacturing activities. Accordingly, specialized zones for technology offer better investment conditions for the internet network, sophisticated programming for technical manufacturing, a more specialized labor force etc, while the textile specialized zones offer an easier access to textile resources, cheap labor force, etc¹³.

Conclusion and Recommendations

- In Kosovo have been established 10 economic zones in 8 different Municipalities of Kosovo. In different Municipalities they are known by different name, i.e. business parks, industrial parks, or business incubators.
- Although the law exists since 2009, only two economic zones have been legalized from the Government, i.e. the Business Park in Drenas and the Technological Park in Skenderaj. The latter has failed completely as a project.
- In general, construction in building the infrastructure in business parks was slow. This has discouraged many firms that were assignee of the parcels to also disengage the contract. In some parks constructions have stopped in half and the project is threatened to fail completely.
- Non division of the zones according to their specific activities has caused for different businesses to operate within the same zone, which by considering the nature of their activity should not be placed next to each other. As a result, we have within one park gas storage and a children garden, as well as, examples of vegetable cultivators being close to metal manufacturers.
- In some business incubators, no business operates, while the building space is given to different government organizations and most of them are relieved from the rent.
- Due to bureaucratic procedures, most of the business parks did not attain the status of an economic zone from MTI. Nonetheless, they continue with their operations based on a permission given from the respective Municipality.

The draft law on amendment of the Law on Economic Zones has been introduced in the legislative program of the Kosovo Government for 2012 and is expected to be approved at the end of April. Therefore, during the drafting process of the new law on economic zones, the Kosovo Institutions should take into account the models of successful economic zones in the

¹³ Yue-man Yeung, Joanna Lee, and Gordon Kee. "Special Economic Zones of China" *Geography and Economy* Vol. 50, no. 2 (2009) Pg. 224;
Kwan-Yiu Wong. "Experiment with Special Economic Zones of China: An evaluation" *Human Geography and Economy* Vol. 69, no. 1 (1987). Pg. 29

world and the region and focus on adapting them to the opportunities that Kosovo may offer. Therefore, GAP Institute recommends that new law on economic zones should contain the following suggestions:

- Provide financial stimulation, respectively to provide opportunities to be exempted from business taxes for 3-5 initial years, as well as, a reduction from 20-50% for domestic employee taxes and contributions for the initial 1-3 years;
- To provide non-financial stimulation, respectively easy access in the services necessary for business operations, i.e. 24/7 electricity and water supply, easy and fast access to the airport, railway, highway etc;
- To provide the opportunity of easy access in the financing of the investment capital, either by offering loans with favorable conditions, drafting legal basis for the establishment of investment companies (“Business angels”), or establishing financial institutions focused in the development of the businesses. Another option is to allocate funds for the Agency for the Promotion of SME, which would offer basic capital investment based on the criteria defined preliminary (number of employees, investment capital from the investing company, etc);
- Specialization of economic zones, e.g.: the region of Dukagjin to be specialized for the investors interested in agriculture, Prishtina Region for those interested in technology, Prizren region for those interested in craft manufacturing (gold refinement, silver), etc;
- Provide dialogue mechanisms, respectively to offer opportunities for the private, public or public-private initiators to create zones themselves;
- To ease bureaucratic procedures and reduce the huge amount of documents necessary to apply for the economic zones, which practice has caused for most of the economic zone initiators not to complete the necessary documentation;
- To amend the law by improving the current law’s deficiencies. One example would be to specify the instructions on how to react when the economic zone initiator does not fulfill all the necessary documentation; to clarify punitive measures and the timeframe;
- To improve communication between the key stakeholders responsible for the development of the economic zones (respective ministries, economic chambers operating in Kosovo, Agency for Promotion of SME) and the compilation of annual reports on the state of economic zones, which would later be distributed to the potential local and international investors;
- Finally, MTI should create a strategy in promoting the new law, because many businesses were not aware of the benefits that these zones offer.



Institute for Advanced Studies GAP is a local think-tank founded in October 2007 in Kosovo. GAP's main purpose is to attract professionals by creating a professional research and development environment commonly found in similar institutions in Western countries. This will include providing Kosovars with an opportunity to research, develop, and implement projects that would strengthen Kosovo society. A priority of the Institute is to mobilize professionals to address the country's pressing economic, political and social challenges. GAP's main objectives are to bridge the gap between government and people, and to bridge the gap between problems and solutions.

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