



# Will a new Law on Economic Zones boost investments in local communities?



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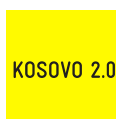
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## Introduction

On December 21, 2020, the Government of Kosovo approved the Draft Law Amending the Law on Economic Zones.<sup>1</sup> The aim of this draft law is to regulate the main aspects of economic zones, including their powers to establish them, ways of administration, location of zones, period of use, and forms of promotion of economic zones. According to this draft law, economic zones can be initiated by the Office of the Prime Minister, ministries, municipalities, and groups of two or more business organizations or business associations. However, regardless of who the initiator is, the draft law requires a series of supporting documents, including a feasibility study (economic justification).<sup>2</sup>

The amendment process of this law, though, has a long history. The first law on economic zones was adopted in 2009<sup>3</sup>, replaced by a new law in 2013<sup>4</sup>. Since 2009, through legislation on economic zones, public institutions aim to create areas which serve to attract investments, create facilities for businesses, enhance domestic production and exports, and increase employment.

However, these laws were not fully implemented, and the economic zones failed to generate the desired effect. Moreover, the decision-making on the establishment of economic zones is based on party, provincial and electoral criteria, rather than on a genuine economic analysis.

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1 Government of Kosovo Decision 04/50, 21.12.2020.

Source: <https://bit.ly/3tZyGR>

2 Government of Kosovo Draft Law amending the Law No. 04/L-159 on Economic Zones. Source: <https://bit.ly/2OJK5ZO>

3 Official Gazette of the Republic of Kosovo. Law No. 03/L-129 on Economic Zones. Source: <https://bit.ly/37i6vYt>

4 Official Gazette of the Republic of Kosovo. Law No. 04/L-159 on Economic Zones. Source: <https://bit.ly/3jTdMmO>

## Implementation of the Law on Economic Zones to date

The Law on Economic Zones aims to create a suitable infrastructure, which includes easier access to transportation routes, regular supply of energy, water and other facilities, and concentration of businesses in a single location. This infrastructure aims to encourage investments, promote production, enhance overall private sector development, create new jobs, and accelerate regional development.

The law defines the procedures for initiating and establishing an economic zone, based on a National Program on Economic Zones. The law provides for the establishment of an inter-ministerial commission, the National Council for Economic Zones, as an advisory body for economic zones. Since 2014, this council is yet to hold a meeting.

In 2014, GAP Institute monitored the implementation of the Law on Economic Zones.<sup>5</sup> At the time of monitoring, there were 10 economic zones in the form of business parks, industrial parks, or business incubators. However, only two were legalized and managed by the Ministry of Trade and Industry (MTI). Other issues observed included delays in completing the necessary infrastructure, failure to profile businesses operating in one economic zone, insufficient incentives to convince businesses to relocate to the economic zone, and withdrawal of businesses from economic zones as a result of unsuitable working conditions.

Although the approval of a national plan for economic zones was a legal obligation, no government approved such a plan. Government decisions to establish economic zones were only based on a concept plan 2014-2018.<sup>6</sup> This concept plan envisaged the drafting of a detailed strategic plan by May 2014. However, it was never approved.

In addition, although feasibility studies were required prior to the creation of economic zones, in many cases this requirement was disregarded by the government. In March 2014, through three separate decisions, the government established three economic zones: Municipalities of Gjakova, Mitrovica<sup>7</sup>, and Prizren<sup>8</sup>. These three municipalities selected as free economic zones were governed by the main parties in the ruling coalition, and the decisions were more for electoral purposes than based on an economic justification.

Furthermore, these decisions were made without being preceded by a feasibility study, as required by law. GAP Institute made three official requests to MTI for access to the feasibility studies for the creation of free economic zones in the cadastral zones of Mitrovica, Gjakova and Prizren, but has never received a reply<sup>9</sup>.

Similarly, on June 5, 2018, the government, headed by Prime Minister Ramush Haradinaj, decided to establish the Malisheva Economic Zone<sup>10</sup>. As with the free economic zones in Gjakova, Mitrovica and Prizren, this decision was also politically motivated. The Economic Zone of Malisheva was proposed by the

5 GAP Institute Law on Economic Zones: its impact on the development of business parks. May 2014  
Source: <https://bit.ly/3dgsjZy>

6 Ministry of Trade and Industry. National Concept Plan for the Development of Economic Zones in Kosovo 2014-2018. Source: <https://bit.ly/3plm8ob>

7 Government of Kosovo Decisions 02/178 and 03/178. Date 18.03.2014. Source: <https://bit.ly/3b5pqa5>

8 Government of Kosovo Decisions 01/180. Date 28.03.2014. Source: <https://bit.ly/3rY7QvE>

9 The first request was made on April 4, 2014. The request was repeated on April 14, and lastly on April 22, 2014, but no reply was every provided. Source: GAP Institute. Uncertainties in the creation of free economic zones. May 28, 2014 Source: <https://bit.ly/2ZkhSul>

10 Government of Kosovo Decision 11/50. Date 05.06.2018. Source: <https://bit.ly/3akEm4V>

Minister of MTI, who came from the political party NISMA, governing the Municipality of Malisheva, and a section of the economic zone would be located in the cadastral zones in the village where the party president came from.

Decisions to establish the Malisheva Economic Zone were repealed in early 2020<sup>11</sup> by the government led by Prime Minister Albin Kurti. The Malisheva Economic Zone was annulled on the grounds that the previous government had taken a decision contrary to the Law on Economic Zones. The zone had no feasibility study, it wasn't planned in the concept document for economic zones, no public hearings were held, and its rollout was expected to reach private properties previously privatized at a price of 10 Euro per 100 square meters, now being expropriated with 807 Euro per 100 square meters.<sup>12</sup>

## Proposed amendments to the Law on Economic Zones

On April 7, 2017, the government approved the Concept Paper for the Field of Economic Zones.<sup>13</sup> It identifies the main issues in the implementation of the Law on Economic Zones. According to this document, the following are the main challenges in implementation:

- Legal uncertainty between the local and central levels regarding the rights to establish economic zones;
- Lack of concrete definition of what is meant by the term “free” economic zone;
- Lack of deadlines for starting activities in the economic zone;
- Lack of a need for the National Council for Economic Zones;
- Numerous bureaucratic procedures for obtaining permits for economic zones;
- Economic zones are not divided on the basis of economic activities;
- No facilities are provided for economic zones in Kosovo to be competitive with the economic zones in the countries of the region.

The new draft law approved by the government replaces the vast majority of the current law and, as a result, should be adopted as a new law rather than amendments to the law in force. The draft law completely replaces or deletes 10 of the 25 articles of the current law, and 10 new articles added comprise the main part of the law. Two new articles are added, and five articles are amended.

The proposed amendments to the Law on Economic Zones relate to procedures for establishing an economic zone, and the management of these zones. The biggest difference is that the initiators and founders of economic zones are not required to obtain the consent of Kosovo Customs, meaning that businesses in economic zones will not have customs facilities. The proposed changes remove the right of municipalities to establish economic zones, only allowing them the right to initiate a request to the MTI.

The new amendments provide for the dissolution of the National Council for Economic Zones and the removal of the government's obligation to approve a national plan for economic zones.

<sup>11</sup> Government of Kosovo Decision 03/15. Date 23.03.2020. Source: <https://bit.ly/3bajEUD>

<sup>12</sup> Ibid.

<sup>13</sup> Government of Kosovo Decision 04/141. Date 07.04.2017. Source: <https://bit.ly/3rVjPKm>

## Current situation in economic zones

The Kosovo Investment and Enterprise Support Agency (KIESA), under the Ministry of Trade and Industry, is responsible for managing economic zones. KIESA notifies potential investors on the legislation on economic zone, provides information on physical infrastructure in economic zones, accepts and reviews economic zone applications, reviews business complaints, and promotes economic zones.

According to data published by KIESA, 10 economic zones and three free economic zones have been established thus far.

**Table 1. Economic zones in Kosovo**

Year of establishment	Economic zone	Type of activity	Number of businesses	Space (ha)
2010	Business Park in <b>Glogoc</b>	Pharmaceutical products, production of elevators, metalworking, wood sector, plastic recycling.	41	24
2012	Business Park in <b>Mitrovica</b>	Recycling of plastics, carpentry, textiles, production of paper bags, metal products, etc.	24	3.5
2013	Technology Park in <b>Shtime</b>	Vegetable conservation, manufacturing of concrete electric poles, quartz and marble tiles, glass processing, etc.	10	10.7
2014	Industrial Park in <b>Mitrovica</b>	Contracts signed with businesses to be established whose activity includes: manufacturing of furniture, paints and adhesives, wooden doors, medical waste processing, etc.	1	48
2015	Agro-Industrial Zone in <b>Suhareka</b>	Physical infrastructure for the relocation of businesses is yet to be finalized	-	28
2016	Industrial Park in <b>Lipjan</b>	Works have not been completed yet	-	56
2017	Industrial Park in <b>Suhareka</b>	Operating businesses exercise various activities such as manufacturing of shoes, facades, processing of soft drinks, manufacturing of concrete elements, processing and canning of vegetables, processing of marble and granite, etc.	-	162
2017	Industrial Park in <b>Viti</b>	investments in the construction of physical infrastructure for the establishment of businesses in this park are ongoing.	-	15.5
2018	Industrial Park in <b>Vushtrri</b>	Investments in the construction of physical infrastructure for the establishment of businesses in this park started in 2019.	-	14.86
-	Economic Zone in <b>Opterushë - Rahovec</b>	Data missing	-	-

Source: KIESA, 2021

In addition, three free economic zones have been established:

- **Gjakova** Free Economic Zone
- **Mitrovica** Free Economic Zone
- **Prizren** Free Economic Zone

There are official decisions issued for these three free economic zones, but nothing has changed in practice. Furthermore, the proposed amendments to the Law on Economic Zones envisage the removal of the designation “free zone” thus removing the benefits provided for free zones under the Customs and Excise Code of Kosovo. According to the Customs and Excise Code, free zones and free custom warehouses are sections or premises located in Kosovo or separated from the main section, in which:

- a. “Non-Kosovo goods are considered, for the purpose of import duties and commercial policy import measures, as not being within Kosovo, provided they are not released for free circulation or placed under another customs procedure or used or consumed under conditions other than those provided for in the customs legislation;
- b. “Kosovo goods for which such provision is made under Kosovo legislation governing specific fields qualify, by virtue of being placed in a free zone or free warehouse, for measures normally attaching to the export of goods.”<sup>14</sup>

The expansion of the Drenas Industrial Park with an additional space of 60 hectares is also underway.

At least four municipalities have applied to KIESA for the establishment of new economic zones: Malisheva, Istog, Ferizaj and Dragash. In the last local elections, at least 11 current mayors made promises to create new economic zones.<sup>15</sup>

## Conclusion

Despite having the legal basis on the establishment of economic zones in place since 2009, there were legal uncertainties and conflicts of powers on the establishment of economic zones throughout this period. Although the Customs and Excise Code envisages the creation of free economic zones, and the government having established three such zones, there was no practical action to make these zones operational.

Government decisions to establish economic zones were politically motivated, rather than based on cost-benefit studies and analysis. The government has also used economic zones as a means of expropriating private property for the benefit of certain groups. Works on the finalization of infrastructure in economic zones were delayed for many years, and many businesses terminated their contracts to relocate in these zones, as a result.

Although housing over 76 businesses and occupying at least 422.5 hectares of land, there is no detailed analysis of economic benefits, investment growth and employment of economic zones.

Other than clarifying the legal procedures, the proposed amendments to the Law on Economic Zones fall short of providing sufficient incentives for enterprises to relocate in economic zones.

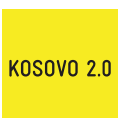
<sup>14</sup> Official Gazette of the Republic of Kosovo. Customs and Excise Code No. 03/L-109 in Kosovo. Source: <https://bit.ly/2NwGZYA>

<sup>15</sup> Mayors who promised economic zones during the 2017 election campaign: Dragash, Ferizaj, Istog, Junik, Lipjan, Podujeve, Prizren, Rahovec, Shtime, Viti, Vushtrri. Source: <https://bit.ly/3qyidER>



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