

GJAKOVË

JATEX ECONOMIC ZONE



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CHAPTER 1

➤ INTRODUCTION

1.1. CURRENT SITUATION

In the second half of the 20th century, municipality of Gjakovë was one of the most industrialized areas of today's Kosovo. There are two large industrial areas located within the municipality – one in the northern part of the city of Gjakovë, adjacent to Gjakovë-Peja road, another one in the southeast perimeter of the city along the road to Prizren. After the 1999 Kosovo-Serbia ceasefire almost all industrial areas were abandoned. Companies operating in these areas were in most cases companies whose mother company was headquartered in Serbia; production facilities were closed down without compensation.

During the Serbian war the city of Gjakovë was heavily damaged. The historical city centre burned down and industrial infrastructure suffered major damage too. After the war and the proclamation of Kosovo independence, the local municipal government seeks to revive the city's industrial past and revitalize the municipality as an economic and intellectual centre of the Republic of Kosovo.

Gjakovë is known for a labour intensive industry and agriculture, and for hard workers in handicraft, trade and services. The most intensive period of economic development was during 1960-1990, notably the years 1975-90, when Gjakovë became a developed industrial city; during this period textile industry with factories for weaving production, knitwear, heavy and light fabric began to appear. Metal industry was also well developed (production of pipes, wire products, enamel dishes, Teflon or zinc); as was electronic industry with production of electro motors; food industry, wine and drinks industry, wood processing industry, rubber industry, production of technical gas, tobacco industry, construction and construction material production.

16,000 workers along with many skilled experts were employed in these industrial branches, including mechanical engineers, electronic and electrical engineers, construction workers, architects, food technology experts, chemists, textile workers, agronomists, and other qualified staff such as economists, jurists, and sociologists. Qualified labour was also found in the fields of marketing, finance, organization, human resource development, economic development, etc.

During the 2004 strategic planning process, the municipality approved its long-term vision to become a leading municipality in Kosovo by 2015.

The municipality of Gjakovë is located in southwestern part of Kosovo. It covers an area of approximately 586 km² and includes the city of Gjakovë and 91 surrounding villages. According to 2011 Kosovo Population and Housing Census total municipality population was 94,556. Albanians create more than 92.7 % of the population. Prior to 1999 conflict Kosovo Serbs also lived in the municipality. They are currently displaced mainly in southern and southwestern part of Serbia.

1.2. DESCRIPTION OF THE PROJECT IDEA

The purpose of the presented feasibility study is to substantiate technical, economic, financial and legal viability of economic zone creation at the “Jatex” site located at the territory of Gjakovë municipality. The feasibility study is a second stage of the economic zone planning:



The economic zone development feasibility study answers the following key questions:

- is the proposed economic zone financially and economically viable?
- does the proposed economic zone meet standard technical and socioeconomic needs of potential investors? If not, can the situation be remedied and how?
- what is the critical path for development of the economic zone?
- what are the financial costs of construction of the proposed economic zone? Are there any more cost-effective alternatives?
- with regard to all of the above, is development of the economic zone viable?

1.3. GOALS

The ultimate goal of Gjakovë municipality is to improve the availability of physical infrastructure at the territory of the municipality using the existing industrial brownfields as a mean for attracting new investors. The presented feasibility study is a methodological tool for the municipal council to take a decision on revitalizing the existing brownfield industrial sites and apply for an industrial park licence at Ministry of Industry and Trade. The selected brownfield is located at the textile plant of “Jatex”.

1.4. OBJECTIVES

The feasibility study focuses mainly on assessing the industrial site of “Jatex” as the future new industrial zone of the city of Gjakovë. The objective is to revitalize in a cost-effective way the existing “Jatex” brownfield so that it meets basic international standards expected by foreign investors and to award the zone a free zone customs status.¹

The objectives of the feasibility study are to answer the question whether the proposed economic zone is financially and economically viable and through subsequent economic zone licensing process whether the site (zone) meets all related national legislative requirements.

¹ While the Government of Kosovo proclaimed the whole municipality of Gjakovë “a free economic zone”, according to Kosovo Customs and Excise Code a free zone must be a fenced area that meets specific customs clearance and security requirements. No zone located at the territory of Gjakovë municipality currently meets these conditions. The **Jatex** site can become a first (pilot) zone that will feature free zone benefits.

1.5. ECONOMIC JUSTIFICATION

The rationale for the development of a (free) economic zone in Gjakovë is twofold: a) to attract foreign direct investment into Gjakovë municipality; and b) to alleviate growing unemployment through robust, job-creating programs. Revitalization of the existing “Jatex” brownfield is to boost municipality’s investment’s competitiveness and reduce business entry and operating costs to incoming investors.

In addition, agglomeration benefits realized from concentrating industries in one geographical area, including efficiencies in provision of off-site infrastructure, improved environmental control, and increased supply and sub-contracting relationships among industries are also important driving forces behind the zone development.

1.6. WORK METHODOLOGY

Based on international best-practice zone development feasibility studies usually contain the following key chapters:

1. Site
2. Socioeconomic analysis of the region / country
3. Market trends
4. Demand forecast
5. Financial analysis
6. Economic analysis
7. Zone development plan
8. Recommendations

Kosovo legislation (Administrative Instruction (MTI) No. 02/2014 on Content of Feasibility study) further specifies the content of a feasibility study for selected types of economic zones (a free zone, industrial park, technological park and business incubator). The presented feasibility study is in line with these legal requirements; in addition, it provides a demand forecast which we regard as an essential element of the feasibility study. The forecast allows the municipality planners to make estimates of the ideal size of land to be developed, identify zone development phases, estimate the cost of zone development and operation, as well as calculate zone revenues and economic benefits.

The feasibility study was prepared for one selected site (“Jatex” site) and as a basis for “industrial park” license application. Based on information provided by Kosovo Customs Office and after consultation with the municipality of Gjakovë the feasibility study will not treat the “free zone” concept. There are two key reasons for this decision: firstly, the Government of Kosovo’s decision to pronounce the whole municipality of Gjakovë as “free economic zone” has effectively eliminated the need for obtaining a “free zone” license from Ministry of Industry and Trade. Secondly, according to information provided by Kosovo Customs Office administrative orders outlining technical requirements for fenced free zones in Kosovo do not exist yet and are only in the process of preparation (expected issuance date: end of 2014). It was agreed with the Municipality of Gjakovë that since the brownfield technical and construction regeneration (i.e. de facto creation of an industrial park) is the first step in developing the economic zone, the initial feasibility study and license application will focus on **developing an industrial park**.

Should the incoming investors require free customs zone benefits, the Municipality can later enter into negotiations with Kosovo Customs Office and upgrade the zone’s status to that of “a free zone” after meeting Customs Office’s requirements concerning the customs clearance and site security. Given the Government’s declaration of Municipality of Gjakovë as a “free economic zone”, it is unlikely that besides meeting the Customs Office requirements additional licensing will be necessary (see Chapter 5.10. for detailed description).

CHAPTER 2

➤ SOCIO-ECONOMIC ANALYSIS

This chapter looks into key socio-economic parameters of the zone catchment areas (availability, quality and cost of labour force) and structure of economy in the region and Kosovo in comparison with competing locations.

2.1. LABOUR FORCE AVAILABILITY

According to 2011 Kosovo Population and Housing Census a total population of Kosovo was 1 252 248 people, out of which 508 100 were economically active population in the age range 15-64 years (Figure 1a).² While the Census was carried out in accordance with internationally recognized methodology, its results cannot be interpreted verbatim due to a partial boycott of the event by a significant part of the Kosovo public (mainly the Serbian-based population). Kosovo 2012 Labour Force Survey carried out by Kosovo Agency of Statistics states that in 2012 the total population of Kosovo was 1 807 126, out of which 36,9% were participating in the labour force (economically active).³ The remaining 63,1% were economically inactive.

Figure 1a: Economically active population in Kosovo (31st December 2011)

EDUCATIONAL ATTAINMENT	CURRENT ACTIVITY STATUS						
	Economically active	Employed	Unemployed, worked before	Unemployed, never worked before	Unemployed, waiting to start a job already obtained	Not economically active	Total
Not completed education	5 874	1 532	891	3 419	32	72 034	77 908
Primary education	14 455	4 334	2 488	7 136	497	116 122	130 577
Lower secondary	137 590	50 637	25 699	60 090	1 174	361 356	498 946
Upper secondary	256 867	146 665	39 802	68 890	1 510	171 038	427 905
Post secondary vocational	22 615	18 968	1 993	1 578	76	8 953	31 568
Degree bachelor	61 708	49 998	4 440	6 910	360	13 505	75 213
Postgraduate degree/master	7 847	7 223	328	253	43	948	8 795
Postgraduate degree/PhD	1 144	1 107	16	13	8	192	1 336
Total	508 100	280 454	75 657	148 289	3 700	744 148	1 252 248

Source: Kosovo Population and Housing Census 2011

²Kosovo Population and Housing Census 2011. "Economically active population" includes both employed and unemployed (i.e. actively seeking work and available to work) population.

³Results of the Kosovo 2012 Labour Force Survey, Kosovo Agency of Statistic, 2013. "Economically inactive population" includes students, housewives, discouraged workers, and other people who are not actively looking for work.

Figure 1b - Economic activity of the working-age population (15-64) (2012)

	MALE	FEMALE	TOTAL
number of labour force (economically active)	333 800	104 800	438 500
labour force participation rate	55,4%	17,8%	36,9%
number of employed	240 000	62 800	302 800
employment to population ratio	39,9%	10,7%	25,36%
number of unemployed	93 800	41 900	135 700
unemployment to population ratio	28,1%	40,0%	30,9%
inactive population	268 200	482 300	750 500
share to working-age population	44,6%	82,2%	63,1%
total working-age population (15-64)	602 000	587 100	1 189 000
share to total population			65,8%
total population in Kosovo			1 807 100

Source: Kosovo Population and Housing Census 2011

Figure 2 – Monthly registered job vacancies by qualification and by years (in ths.)

Year	TOTAL	Unskilled	Semi-skilled	Skilled	Secondary school	High school	University
2003	237	43	6	11	127	14	36
2004	468	132	24	44	209	15	44
2005	267	66	31	20	112	1	37
2006	185	59	4	21	77	4	20
2007	314	128	0	3	132	10	41
2008	278	94	3	11	118	10	42
2009	398	205	5	8	126	1	53
2010	448	174	3	7	218	2	44
2011	295	101	8	11	109	1	65
2012	227	105	7	2	120	0	43

Source: Kosovo Population and Housing Census 2011

While high unemployment is a serious social problem and political challenge to tackle, it is good news for potential investors as it increases the size of the pool of available labour force.

The overall population figures are, however, of limited importance for a single economic zone as it is unlikely that future zone employees will commute from distant municipalities. For the purpose of the feasibility study, we use the concept of a zone labour catchment area, which is the area from which the zone draws most of its workforce. Typically, the catchment area is defined as a 30-minute commuting perimeter around the zone. Given Kosovo's high unemployment, it is likely that zone's future employees will be willing to commute from more distant places.

Figure 3 – Zone labour catchment area (a 30 minute commuting perimeter)



Figure 4 – Inter-municipal zone labour catchment area



Based on available statistics, the estimated availability of labour force within the zone catchment area is around 190 000 people (30-minute driving perimeter), i.e. approx. 76 000 economically active population.

Figure 5 – Population of the zone catchment area

No.	Municipality	Estimated population (31.12.2011)	Natural growth (01–12/2012)	Migration balance (01–12/2012)	Total increase 2012	Total estimated population (31.12.2012)
1	Gjakovë	95 363	977	-269	708	96 071
2	Decan	40 392	346	-124	222	40 614
3	Junik	6 151	54	7	61	6 212
4	Kline	39 047	522	-102	420	39 467
5	Rahovec	56 932	734	-215	519	57 451
6	Pejë	97 360	1 063	-186	877	98 237
7	Prizren	179 869	1 933	-46	1 887	181 756
8	Prishtinë	201 804	2 520	809	3 329	205 133
9	Kosovo total	1 798 645	20 363	-3 402	16 961	1 815 606

Source: Estimation of Kosovo Population 2012, Kosovo Agency of Statistic, 2013

Figure 6 – Cumulative job seekers in Gjakovë by years

Year	TOTAL	Ferizaj	Gjakovë	Gjilan	Mitrovica	Peja	Pristina	Prizren
2003	282 305	28 118	32 105	28 520	56 227	34 689	60 430	42 216
2004	301 314	30 502	34 156	31 187	59 213	36 088	63 044	47 124
2005	319 721	32 683	36 804	32 991	62 863	37 168	65 113	52 099
2006	326 026	33 868	37 564	34 246	62 871	37 289	66 933	53 255
2007	334 595	34 877	38 860	36 068	62 735	38 154	68 437	55 464
2008	335 942	35 868	40 006	36 470	62 816	39 016	64 340	57 426
2009	338 895	36 064	40 600	36 231	64 338	39 734	63 488	58 440
2010	335 260	36 052	40 821	34 975	64 790	35 113	64 374	59 135
2011	325 261	34 110	39 398	33 384	62 114	34 708	61 433	60 114
2012	259 341	31 032	14 321	29 773	53 963	18 527	64 695	47 030

Source: MLSW, Labour and Employment Department

2.2. LABOUR FORCE EDUCATION, AGE, GENDER, QUALIFICATIONS, UNEMPLOYMENT

This chapter looks at labour force education, age, gender and skills within the zone catchment area (data are based on 2011 Kosovo National Census).

Figure 7 – Population by age

municipality	0-9	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80+	total
Gjakovë	15 426	20 327	16 079	12 940	11 288	8 426	5 548	3 417	1 105	94 556
	16,31%	21,50%	17,00%	13,69%	11,94%	8,91%	5,87%	3,61%	1,17%	100%
Decan	6 656	7 996	7 273	6 039	4 755	3 196	2 094	1 434	556	40 019
	16,63%	19,98%	18,17%	15,09%	11,93%	7,99%	5,23%	3,58%	1,39%	100%
Klina	7 225	8 438	6 932	5 268	3 938	2 988	2 000	1 279	428	38 496
	18,77%	21,92%	18,01%	13,68%	10,23%	7,76%	5,20%	3,32%	1,11%	100%
Junik	1 117	1 136	1 089	1 032	691	445	280	218	76	6 084
	18,36%	18,67%	17,90%	16,96%	11,36%	7,31%	4,60%	3,58%	1,25%	100%
Rahovec	9 759	12 575	9 805	8 701	6 458	4 088	2 673	1 623	526	56 208
	17,36%	22,37%	17,44%	15,48%	11,49%	7,27%	4,76%	2,89%	0,94%	100%
Peja	15 874	18 514	1 451	13 919	11 859	9 040	6 018	3 686	1 079	96 450
	16,46%	19,20%	17,06%	14,43%	12,31%	9,37%	6,24%	3,82%	1,12%	100%
Prizren	31 317	35 828	30 916	26 462	21 781	15 262	8 835	5 713	1 667	177 781
	17,62%	20,15%	17,39%	14,88%	12,25%	8,58%	4,97%	3,21%	0,94%	100%
Kosovo	30 651	351 858	302 735	255 454	203 130	146 164	97 104	55 951	16 778	1 739 825
	17,85%	20,22%	17,40%	14,68%	11,68%	8,40%	5,58%	3,22%	0,96%	100%

Source: Kosovo National Census, 2011

Kosovo population distribution by age is heavily skewed towards young age groups, with the largest representation of the group of youth <20 yrs. Municipality of Gjakovë's population structure fully corresponds to this trend. In comparison with national statistics, there is slightly higher representation in the age group of >60 yrs. (by 1%), however given the high unemployment of youth this has no impact on economic potential of the population.

Figure 8 – Population by ethnic / cultural background

municipality	not avail-able	Albanian	Serb	Turkish	Bosniak	Roma	Askali	Egyptian	Goran	Prefer not to ansfer	Other	Total
Gjakovë	134	87 672	17	16	73	738	613	5 117	13	92	71	94 556
	0,14%	92,72%	0,02%	0,02%	0,08%	0,78%	0,65%	5,41%	0,01%	0,10%	0,08%	100%
Decan	64	39 402	3	0	60	33	42	393	1	19	2	40 019
	0,16%	96,67%	0,25%	0,01%	0,15%	0,08%	0,10%	0,98%	0,01%	0,05%	0,01%	100%
Klina	32	37 216	98	3	20	78	85	934	0	23	7	38 496
	0,08%	96,67%	0,25%	0,01%	0,05%	0,20%	0,22%	2,43%	0%	0,05%	0,02%	100%
Junik	9	6 069	0	0	0	0	0	0	0	4	2	6 084
	0,15%	99,75%	0	0	0	0	0	0	0	0,07%	0,03%	100%
Rahovec	83	55 166	134	2	10	84	404	299	0	11	15	56 208
	0,15%	98,15%	0,24%	0,01%	0,02%	0,15%	0,72%	0,53%	0	0,02	0,03	100%
Peja	79	87 975	332	59	3 786	993	143	2 700	189	132	62	96 450
	0,08%	91,21%	0,34%	0,06%	3,93%	1,03%	0,15%	2,80%	0,20%	0,14%	0,06%	100%
Prizren	159	145 718	237	9 091	16 896	2 899	1 350	168	655	386	222	177 781
	0,09%	81,9%	0,13%	5,11%	9,50%	1,63%	0,76%	0,09%	0,37%	0,22%	0,12%	100%
Kosovo	1 840	1 616 869	25 532	18 738	27 533	8 824	15 436	11 524	10 265	2 352	912	1 739 825
	0,11%	92,93%	1,47%	1,08%	1,58%	0,51%	0,89%	0,66%	0,59%	0,14%	0,05%	100%

Source: Kosovo National Census, 2011

Figure 9 – Population by religion

Municipality	Islamic	Orthodox	Catholic	Other	No religion	Prefer not to answer	Not available	Total
Gjakovë	77 299	22	16 296	142	1299	515	153	94 556
	81,75%	0,02%	17,23%	0,15%	0,14%	0,54%	0,16%	100%
Decan	39 343	11	408	21	2	100	134	40 019
	98,31%	0,03%	1,02%	0,05%	0,00%	0,25%	0,33%	100%
Klina	31 185	100	7 124	13	1	29	44	38 496
	81,01%	0,26%	18,51%	0,03%	0,00%	0,08%	0,11%	100%
Junik	6 022	0	1	2	2	48	9	6 084
	98,98%	0,00%	0,02%	0,03%	0,03%	0,79%	0,15%	100%
Rahovec	55 810	134	89	5	6	72	92	56 208
	99,29%	0,24%	0,16%	0,01%	0,01%	0,13%	0,16%	100%
Peja	92 914	365	2 507	93	48	4	114	96 450
	96,33%	0,38%	2,60%	0,10%	0,05%	0,42%	0,12%	100%
Prizren	170 640	250	5 999	74	85	541	192	177 781
	95,98%	0,14%	3,37%	0,04%	0,05%	0,30%	0,11%	100%
Kosovo	1 663 412	25 837	38 438	1 188	1 242	7 213	2 495	1 739 825
	95,61%	1,49%	2,21%	0,07%	0,41%	0,14%	0,14%	100%

Source: Kosovo National Census, 2011

The war at the end of 90's of the last century that took place between Kosovo Serbs and Kosovo Albanians was sometimes misinterpreted as a war of religions. Municipality of Gjakovë is a good example of this misinterpretation: nowadays, more than 17% of the population adheres to Roman Catholic religion, most of them being ethnic Albanians. There are three Catholic churches in the city of Gjakovë that are in use. Animosity that led to burning down the old city in 1999 had ethnic, not religious undertone. Both Kosovo national and local governments strive to further minimize any existing ethnic problems. In the zone catchment area ethnic Albanians are in majority, Serbs represent only 0,2% of total population. The ethnic issue, however, is still reflected in unsettled ownership rights related to privatization of ex-Yugoslav (Serbian) properties abandoned in early 90's.

Figure 10 – Population aged 10 years and over by educational attainment and literacy

Municipality	Respondent can read and write	Respondent can't read and write	Completed 4 grades (old system)	Completed 4 grades (new system)	Completed 8 grades (old system)	Completed 4 grades (new system)	Completed 12 grades (old school)	Completed 13 grades (new system)	Post secondary vocational	Degree (bachelor)	Post graduate degree (magister)	Doctorate / PhD	Total
Gjakovë	4 435	3 485	4 953	8 325	20 271	9 338	15 281	6 540	2 237	3 820	407	38	79 130
	5,60%	4,40%	6,26%	10,52%	25,62%	11,80%	19,31%	8,26%	2,83%	4,83%	0,51%	0,05%	100%
Decan	2 048	1 380	1 735	3 256	8 614	3 800	6 347	3 3336	829	1 828	172	18	33 363
	6,14%	4,14%	5,20%	9,76%	25,82%	11,39%	19,02%	10,00%	2,48%	5,48%	0,52%	0,05%	100%
Klina	2 102	1 187	2 664	3 666	8 384	4 320	4 735	2 382	646	1 040	127	18	3 271
	6,72%	3,80%	8,52%	11,72%	26,81%	13,81%	15,14%	7,62%	2,07%	3,33%	0,41%	0,06%	100%
Junik	243	72	258	433	1 62	554	1 027	399	70	163	22	2	4 867
	4,99%	1,48%	5,30%	8,90%	33,37%	11,38%	21,10%	8,20%	1,44%	3,35%	0,45%	0,04%	100%
Rahovec	2 924	1 90	4 773	5 277	14 974	5 922	4 901	3 292	705	1 547	134	10	46 449
	6,30%	4,28%	10,28%	11,36%	32,24%	12,75%	10,55%	7,09%	1,52%	3,33%	0,29%	0,02%	100%
Peja	4 115	2 836	5 509	7 6661	17 058	8 750	19 005	7 306	2 574	5 206	495	61	80 576
	5,61%	3,52%	6,84%	9,51%	21,17%	10,86%	23,59%	9,07%	3,19%	6,46%	0,61%	0,08%	100%
Prizren	8 211	3 937	10 866	15 127	47 516	18 532	23 477	9 292	3 189	5 63	615	73	146 465
	5,61%	2,69%	7,42%	10,33%	32,44%	12,65%	16,03%	6,34%	2,18%	3,84%	0,42%	0,05%	100%
Kosovo	82 188	55 001	100 788	144 764	339 965	161 652	304 245	123 660	31 568	75 213	8 795	1 336	1 429 175
	5,75%	3,85%	7,05%	10,13%	23,79%	11,31%	21,29%	8,65%	2,21%	5,26%	0,62%	0,09%	100%

Source: Kosovo National Census, 2011

Government of Kosovo understands the importance of education for further development of the country and supports education at all levels. The school network in Gjakovë municipality is organized through main and satellite schools. There are 39 primary schools with 16,171 pupils including 1,614 from non-Albanian communities and 962 teachers; seven secondary schools with 5,636 students including 115 from non-Albanian communities and 279 teachers, and one kindergarten with six units and 569 children including 60 from non-Albanian communities and 48 educators.⁴

Figure 11 – Population aged 6 to 29 years attending schools by school currently attended

Municipality	Not attending school	Primary (grades 1 to 5)	Lower secondary (grades 6 to 9)	Upper secondary (grades 10 - 13)	College / University (as undergraduate)	College / University (as post-graduate)	College / University (as doctorate/PhD student)	Total
Gjakovë	16 900 39,32%	9 233 21,37%	7 435 17,21%	5 943 13,76%	3 308 7,66%	282 0,65%	15 0,03%	43 206 100,00%
Decan	7 062 39,40%	3 595 20,06%	2 948 16,45%	2 668 14,89%	1 448 8,08%	198 1,10%	4 0,02%	17 923 100,00%
Klina	7 616 41,27%	4 220 22,87%	3 139 17,01%	2 432 13,18%	951 5,15%	89 0,48%	5 0,03%	18 452 100,00%
Junik	1 021 38,34%	602 22,61%	416 15,62%	435 16,33%	170 6,38%	18 0,68%	1 0,04%	2 663 100,00%
Rahovec	10 496 39,45%	6 087 22,88%	4 802 18,05%	3 381 12,71%	1 609 6,05%	227 0,85%	4 0,02%	26 606 100,00%
Peja	15 315 36,81%	8 900 21,39%	6 901 16,59%	6 136 14,75%	3 947 9,49%	389 0,93%	17 0,04%	41 605 100,00%
Prizren	33 983 42,57%	17 705 22,18%	13 763 17,24%	9 443 11,83%	4 38 5,49%	544 0,68%	14 0,02%	79 834 100,00%
Kosovo	292 064 37,18%	177 616 22,61%	133 292 16,97%	12 841 14,36%	62 350 7,94%	7 117 0,91%	316 0,04%	785 596 100,00%

Source: Kosovo National Census, 2011

On March 7th 2013 the first public university of Gjakovë “Fehmi Agani” was opened, 2650 students are currently enrolled. Given relatively short distance between the city of Gjakovë and Prishtina, more students study in the capital, however high enrollment figure demonstrates strong local demand for tertiary education. A new campus and further curriculum expansion is under preparation.

⁴ Source: Municipal directorate of education and MOCR.

Figure 12 – Population aged 15 year and over by current activity status

Municipality	Economically active	employed	unemployed, worked before	unemployed, never worked before	unemployed, waiting to start a job already obtained	not economically active	total (economic active and non active)
	7 463	14 057	4 064	8 650	152	141 793	69 256
Gjakovë	100,00%	51,19%	16,76%	31,50%	0,55%		
	39,65%	20,30%	6,65%	12,49%	0,22%	60,35%	100,00%
	10 728	4 396	1 379	4 737	216	18 820	2 548
Decan	100,00%	40,98%	12,85%	44,16%	2,01%		
	36,31%	14,88%	4,67%	16,03%	0,73%	63,69%	100,00%
	9 031	3 822	1 282	3 860	67	18 067	27 098
Klina	100,00%	42,32%	14,20%	42,74%	0,74%		
	33,33%	14,10%	4,73%	14,24%	0,25%	66,67%	100,00%
	1 279	537	273	456	13	3 124	4 403
Junik	100,00%	41,99%	21,34%	35,65%	1,02%		
	29,05%	12,20%	6,20%	10,36%	0,30%	70,95%	100,00%
	14 402	8 487	1 989	3 828	98	25 725	
Rahovec	100,00%	58,93%	13,81%	26,58%	0,68%		
	35,89%	21,15%	4,96%	9,54%	0,24%	64,11%	100,00%
	29 161	16 490	4 060	8 410	201	42 296	71 457
Peja	100,00%	56,55%	13,92%	28,84%	0,69%		
	40,81%	23,08%	5,68%	11,77%	0,28%	59,19%	100,00%
	52 451	29 710	9 966	12 311	464	76 131	128 582
Prizren	100,00%	56,64%	19,00%	23,47%	0,88%		
	40,79%	23,11%	7,75%	9,57%	0,36%	59,21%	100,00%
	508 100	280 454	75 657	148 289	3 700	744 148	1 252 248
Kosovo	100,00%	55,20%	14,89%	29,19%	0,73%		
	40,58%	22,40%	6,04%	11,84%	0,30%	59,42%	100,00%

Source: Kosovo National Census, 2011

The ratio of persons employed to total economically active population is slightly lower in Gjakovë (by 4%) than the national average figure. This corresponds to a higher share of unemployed economically active population; in case of Gjakovë again slightly more alarming for the group of unemployed active population that has never been employed before (2% higher than national average) as these people may not have the skills nor working morale sought by foreign investors. On average, however, almost 5,000 unemployed people with previous work experience present a good pool of labour force for the future zone operation.

Figure 13 – Employment by main occupation

Municipality	Gjakovë		Decan		Klina		Junik		Rahovec		Peja		Prizren	
	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%
legislators	93	0,66	48	1,09	32	0,84	9	1,68	45	0,53	100	0,61	122	0,41
corporate managers	552	3,93	134	3,05	85	2,22	16	2,98	179	2,11	505	3,06	632	2,13
small organisation managers	358	2,55	73	1,66	62	1,62	19	3,54	103	1,21	339	2,06	563	1,89
physical, mathematical and engineering science professionals	321	2,28	94	2,14	72	1,88	15	2,79	121	1,43	379	2,30	381	1,28
life science professionals	424	3,02	91	2,07	77	2,01	10	1,86	95	1,12	416	2,52	592	1,99
teaching professionals	343	9,55	549	12,49	541	14,15	54	10,06	653	7,69	1388	8,42	2306	7,76
other professionals	791	5,63	448	10,19	227	5,94	51	9,50	449	5,29	971	5,89	1227	4,13
technical associate professionals	398	2,83	92	2,09	82	2,15	12	2,23	163	1,92	407	2,47	582	1,96
life science and health associate professionals	524	3,73	116	2,64	91	2,38	13	2,42	115	1,36	479	2,90	814	2,74
teaching associate professionals	125	0,89	20	0,45	29	0,76	2	0,37	27	0,32	12	0,68	149	0,50
public administration and com. work associate professionals	578	4,11	116	2,64	114	2,98	14	2,61	179	2,11	775	4,70	776	2,61
office clerks	610	4,34	194	4,41	248	6,49	34	6,33	261	3,08	761	4,61	1111	3,74
customs service clerks	339	2,41	88	2,00	110	2,88	21	3,91	116	1,37	457	2,77	566	1,91
personal and protective services workers	1 764	12,55	549	12,49	663	17,35	81	15,08	640	7,54	2 429	14,73	3443	11,59
models, safepersons and demonstrators	1506	10,71	328	4,46	369	9,65	36	6,70	618	7,28	1 975	11,98	3584	12,06
skilled agricultural and fishery workers	778	5,53	434	9,87	146	3,82	64	11,92	2564	30,21	797	4,83	837	2,82
miners and building trades workers	703	5,00	301	6,85	247	6,46	17	3,17	592	6,98	873	5,29	2812	9,46
metal, machinery and related trade workers	577	4,10	125	2,84	151	3,95	13	2,42	267	3,15	687	4,17	1081	3,64
precision, handicraft, printing and related trades workers	121	0,86	12	0,27	9	0,24	1	0,19	45	0,53	164	0,99	235	0,79
other craft and related operators	827	5,88	47	1,07	26	0,68	2	0,37	94	1,11	49	2,98	3945	13,28
stationary-plant and related operators	45	0,32	17	0,39	4	0,10	1	0,19	16	0,19	48	0,29	79	0,27
product machine operators and assemblers	77	0,55	26	0,59	30	0,78	5	0,93	59	0,70	174	1,06	220	0,74
drivers and mobile-plant operators	464	3,30	179	4,07	156	4,08	19	3,54	352	4,15	689	4,18	1344	4,52
sales and services elementary occupations	432	3,07	174	3,96	141	3,69	12	2,23	222	2,62	661	4,01	943	3,17
agricultural, fishery and related labours	12	0,09	19	0,43	1	0,03	1	0,19	51	0,60	15	0,09	15	0,05
elementary occupations in mining, construction, manufacturing and transport	210	1,49	91	2,07	81	2,12	13	2,42	335	3,95	285	1,73	849	2,86
elementary occupations not elsewhere classified	85	0,60	31	0,71	28	0,73	2	0,37	126	1,48	113	0,69	502	1,69
TOTAL	14 057	100,0	4 396	100,0	3822	100,0	537	100,0	8487	100,0	16 490	100,0	29 710	100,0

Legend: Figures in **red** highlight occupations with >10% employment share, figures in **bold** occupations with >7% employment share.

Source: Kosovo National Census, 2011

Gjakovë has a long tradition in labour intensive industries. Twenty years ago 16,000 workers along with many experts were employed in industrial branches in the municipality. A good skill base is still present, even among unemployed people.

Figure 14 – Employment by main industry

Municipality Main industry	Gjakovë		Decan		Klina		Junik		Rahovec		Peja		Prizren	
	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%	abs.	%
agricultural, hunting and forestry	815	5,80	436	9,92	155	4,06	9	12,85	2583	30,43	761	4,61	812	273
fishing	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	5	0,02
mining and quarrying	77	0,55	24	0,55	49	1,28	0	0,00	103	1,21	97	0,59	115	0,39
manufacturing	1584	11,27	638	14,51	309	8,08	38	7,08	1034	12,18	1 833	11,12	6237	20,99
electricity, gas, water supply	423	3,01	78	1,77	50	1,31	9	1,68	93	1,15	334	2,03	440	1,48
construction	909	6,47	333	7,58	275	7,20	39	7,26	909	10,71	942	5,71	3720	12,52
wholesale and retail trade; repair of motor vehicles, motorcycles, and personal household goods	3028	21,54	613	13,94	663	17,35	76	14,15	1108	13,06	3 707	22,48	5770	19,42
hotel and restaurants	865	6,15	201	4,57	248	6,49	31	5,77	305	3,59	96	5,86	1817	6,12
transport, storage and communication	576	4,10	193	4,39	201	5,26	30	5,59	248	2,92	803	4,87	1169	3,93
financial intermediation	335	2,38	86	1,96	101	2,64	16	2,98	142	1,67	474	2,87	466	1,57
real estate, renting and business activities	455	3,24	122	2,78	114	2,98	16	2,98	153	1,80	532	3,23	808	2,72
public administration and defence, compulsory social security	1149	8,17	597	13,58	601	15,72	113	21,04	524	6,17	1809	10,97	1928	6,49
education	1732	12,32	637	14,49	670	17,53	63	11,73	779	9,18	1820	11,04	2813	9,47
health and social work	1233	8,77	220	5,00	193	5,05	20	3,72	180	2,12	1140	6,91	1563	5,26
other community, social and personal service activities	677	4,82	178	4,05	154	4,03	14	2,61	224	2,64	847	5,14	1264	4,25
activities of households	45	0,32	14	0,32	6	0,16	0	0,00	55	0,65	7	0,45	229	0,77
extra-territorial organizations and bodies	154	1,10	2	0,59	33	0,86	3	0,56	42	0,49	350	2,12	554	1,86
TOTAL	14057	100,0	4 396	100,0	822	100,0	537	100,0	8 487	100,0	16 430	100,0	29 710	100,0

Legend: Figures in **red** highlight occupations with >10% employment share, figures in **bold** occupations with >7% employment share.

Source: Kosovo National Census, 2011

Nowadays, the largest employers are companies operating in service sector (trade, repair of motor vehicles, etc.) and manufacturing sector. Education and civil services (local government, health, etc.) also play an important part in employment in Gjakovë municipality.

Figure 15 – Employment by type of workplace (travelling between home and place of work)

Municipality	Same municipality and settlement as current usual residence	Same municipality as current usual residence but different settlement	Different municipality from the one of current usual residence	Abroad - Albania	Abroad - Serbia	Abroad - Montenegro	Abroad - Macedonia	Abroad - other countries	Not applicable	Not available	Total
Gjakovë	10 856	718	1 248	128	59	65	6	154	615	208	14 057
	77,23%	5,11%	8,88%	0,91%	0,42%	0,46%	0,04%	1,10%	4,38%	1,48%	100,0%
	84,67%	5,60%	9,73%								
Decan	2 321	353	963	16	0	1	2	25	567	148	4 396
	52,80%	8,03%	21,91%	0,36%	0,00%	0,02%	0,05%	0,57%	12,90%	3,37%	100,0%
	63,82%	9,71%	26,48%								
Klina	20523	344	625	11	2	12	2	17	198	88	3 822
	66,01%	9,00%	16,35%	0,29%	0,05%	0,31%	0,05%	0,44%	5,18%	2,30%	100,0%
	72,25%	9,85%	17,90%								
Junik	380	0	138	0	0	0	0	3	10	6	537
	70,76%	0,00%	25,70	0,00%	0,00%	0,00%	0,00%	0,56%	1,86%	1,12%	100,0%
	73,36%	0,00%	26,64%								
Rahovec	6 425	354	814	22	0	6	2	130	521	213	8 487
	75,70%	4,17%	9,59%	0,26%	0,00%	0,07%	0,02%	1,53%	6,14%	2,51%	100,0%
	84,62%	4,66%	10,72%								
Peja	13 384	1 017	813	51	1	17	10	175	828	194	16 490
	81,16%	6,17%	4,93%	0,31%	0,01%	0,10%	0,06%	1,06%	5,02%	1,18%	100,0%
	87,97%	6,68%	5,34%								
Prizren	21 951	1 352	1 570	163	412	194	73	2 458	1 254	283	29 710
	73,88%	4,55%	5,28%	0,56%	1,39%	0,65%	0,25%	8,27%	4,22%	0,95%	100,0%
	88,25%	5,44%	6,31%								
Kosovo	189 283	26 834	40 465	723	842	457	293	5 521	10 219	5 817	280 454
	67,49%	9,57%	14,43%	0,26%	0,30%	0,16%	0,10%	1,97%	3,64%	2,07%	100,00%
	73,77%	10,46%	15,77%								

Source: Kosovo National Census, 2011

Most people employed within Gjakovë municipality find their jobs within their settlement or usual residence, i.e. do not commute. This finding is in line with statistics on employment opportunities – manufacturing and services in the city employ mainly urban population, villages provide mostly employment opportunities in small agricultural and food-processing companies. In neither of these cases commuting is usually required. Future investors are likely to recruit employees from Gjakovë rather than from distant communities where commuting would be necessary.

Figure 16 – Population by main source of livelihood

Municipality	Work (including work in own land, work in own or family business)	Property or investments (rent, interests)	Pension	Social care	Other transfers (unemployment benefits, sickness and maternity allowances, scholarship)	Remittances from abroad	Supported by other persons (excluding remittances)	Other sources	Total
Gjakovë	18 573	544	6 196	4 149	403	5 512	54 994	4 185	94 556
	19,64%	0,58%	6,55%	4,39%	0,43%	5,83%	58,16%	4,43%	100,0%
Decan	8 599	129	3 123	2 734	408	2 881	18 484	3 701	40 019
	21,39%	0,32%	7,80%	6,83%	1,02%	7,20%	46,19%	9,25%	100,0%
Klina	9 844	69	2 623	2 972	270	2 772	17 153	2 793	38 496
	25,57%	0,18%	6,81%	7,72%	0,70%	7,20%	44,56%	7,26%	100,0%
Junik	836	15	414	442	9	334	3 721	313	6 084
	13,74%	0,25%	6,80%	7,26%	0,15%	5,49%	61,16%	5,14%	100,0%
Rahovec	21 791	159	2 662	1 683	120	4 014	23 849	1 930	56 208
	38,77%	0,28%	4,74%	2,99%	0,21%	7,14%	42,43%	3,43%	100,0%
Peja	27 928	489	6 514	3 887	413	5 261	45 879	6 079	96 450
	28,96%	0,51%	6,75%	4,03%	0,43%	5,45%	47,57%	6,30%	100,0%
Prizren	40 276	585	9 533	4 980	545	11 175	95 646	15 041	177 781
	22,65%	0,33%	5,36%	2,80%	0,31%	6,29%	53,80%	8,46%	100,0%
Kosovo	390 281	6 330	112 020	84 683	7 102	92 317	922 464	124 628	1 739 825
	22,43%	0,36%	6,44%	4,87%	0,41%	5,31%	53,02%	7,16%	100,0%

Source: Kosovo National Census, 2011

The statistics on main source of livelihood reveals relative poverty and underdevelopment of Kosovo. Only slightly more than 1/5 of households claims work as their main source of income. In Gjakovë this ratio is even lower; on the other hand dependence on remittances and support by other persons is higher than Kosovo national average. This statistics documents high degree of solidarity among family members but also points to lack of employment opportunities in the municipality.

In conclusion, based on the available statistical data we conclude that within the zone predefined labour catchment area there is enough qualified labour force to supply the Jatex zone with both skilled and unskilled labour with previous industrial work experience. The abundant supply of labour outweighs the fact that a high share of unemployed people has no previous work experience and that the labour force has relatively low mobility and is not used to commute for work outside its permanent settlement. This could, however, also be explained by very limited supply of vacancies in the municipalities (labour force supply dramatically exceeds demand). This creates a considerable competitive advantage of the municipality for investors for whom the cost of labour is a decisive decision factor in selecting the investment site.

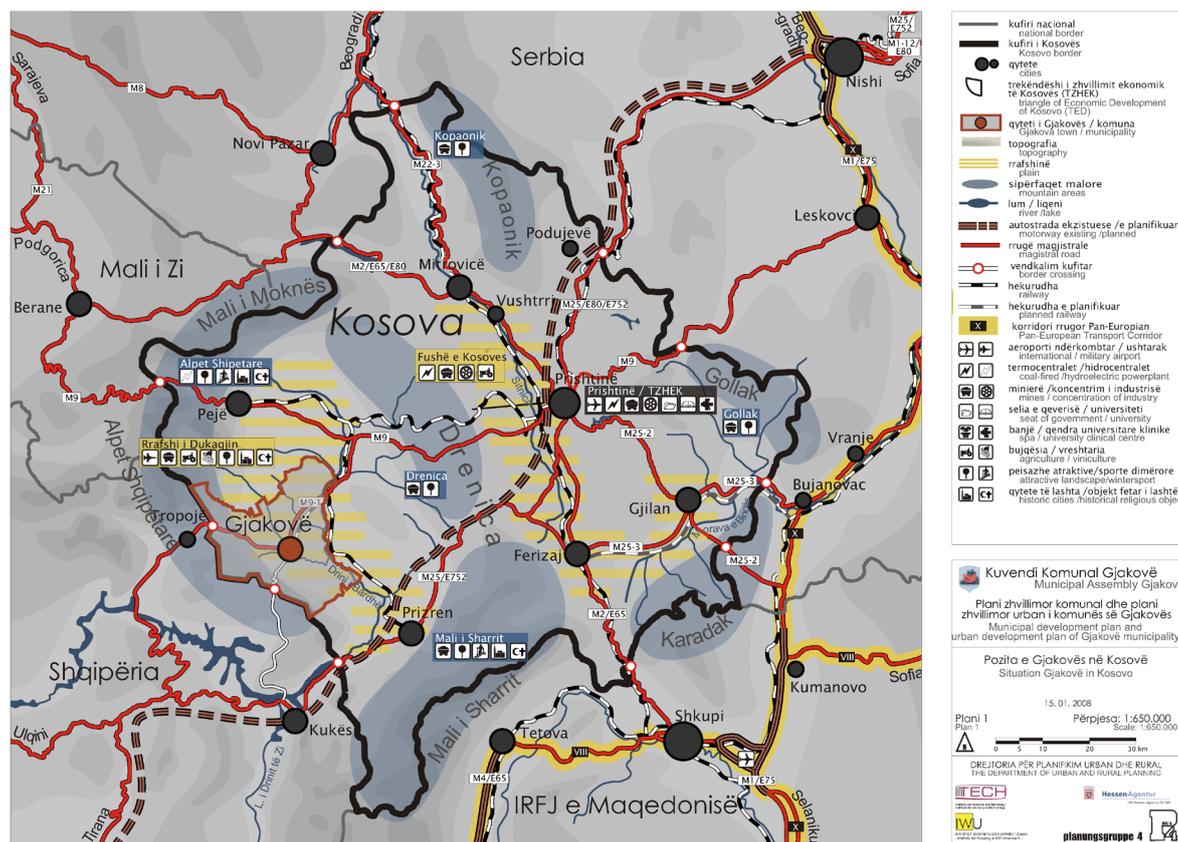
2.3. GEOGRAPHICAL POSITION IN REGARDS TO THE REGION

Municipality of Gjakovë is situated in the western part of Kosovo, adjacent to northern Albania. It has good connectivity with all key industrial centres in the region – both towards the north-western municipalities of Decan and Peja, south-eastern municipality of Prizren and north-eastern municipalities of Mališevë and Pristina. All state roads connecting these municipalities have been included in the Government’s physical infrastructure improvement and extension plans. There is also an important international road connection with Albania, although the road capacity on the Albanian side is limited.

The municipality of Gjakovë is intersected by now disused railway line Peja – Prizren, which has, however, been included into the national transport network development plan for reconstruction and reopening. Gjakovë’s municipal development then contains a plan for railway side connection that would allow for connecting both the city of Gjakovë and its industrial zones to the national railways system.

In 2008 the municipality of Gjakovë adopted its strategic development plan that builds on the work of UN Millennium Development Goals planning documents. This plan is still valid and has been gradually implemented by the local government.

Figure 17 – Map of Gjakovë connectivity to national public infrastructure



2.4. MACROECONOMIC BASIS

Over the past few years Kosovo's economy has shown significant progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance.

Kosovo is one of the poorest countries in Europe. In 2012 GDP per capita was less than 2 800 EUR. The unemployment rate is the highest of all European countries; long-term unemployment rates run at over 40% (out of which 60% is unskilled labour force).⁵ In November 2012 there were 258,238 registered unemployed people, out of whom 148,131 were unskilled job seekers and over 90% long-term unemployed.⁶ In 2009 the employment rate was only 26.1%, while according to various estimates, the share of the informal economy was between 25 and 35%.

The inflation rate is on decline - from 9.4% in 2008 to 2.5% in 2012 (in 2009, the economy even recorded for a short period of time a deflation of -2.4%). Over the last five years the country has experienced economic growth of about 4%, mainly due to foreign aid funded investment into public infrastructure. Except for the decline of foreign remittances into the country, the global economic recession has not had a significant impact on Kosovo, mainly due to low integration of Kosovo's economy into global economic environment and a very low share of export in GDP.

Figure 18 - Kosovo basic macroeconomic indicators (2008 – 2012)

	2008	2009	2010	2011	2012
GDP at current prices [million €]	3 851	3 912	4 216	4 637	4 911
GDP per capita at current prices [€] (according to Kosovo Population and Housing census 2011)	2 323	2 325	2 468	2 674	2 823
Real growth of GDP [%]	6,9	2,9	3,9	5,0	2,7
The rate of inflation [CPI,%]	9,4	-2,4	3,5	7,3	2,5
Unemployment rate (since 2010 are estimates only)	47,5	45,4	45,0	45,0	45,0

Source: Kosovo Agency of Statistics, IMF

The sector of services plays a significant role in the structure of Kosovo economy: it makes 64.5% of GDP, compared to 22.6% of industry and 12.9% of agriculture.⁷

⁵ The unemployment figures are even more alarming when broken down by demographics, with female population (56.4%) and persons under 25 years (73%) being hit particularly hard by the lack of labor market opportunities. The rate of real unemployment may be, however, somewhat lower given the significant share of informal sector in the economy.

⁶ Source: Territorial information published by Ministry of Foreign Affairs of the Czech Republic (April 2013)

⁷ CIA World Factbook at www.cia.gov/library/publications/the-world-factbook (August 2013)

2.5. TAX SYSTEM

Kosovo's tax policies are streamlined; unlike many other countries in the region, Kosovo has laid out a taxation system that is simple and that reduces the tax burden for individuals and businesses. Low tax rates enhance Kosovo's international competitiveness.

Corporate tax. Depending on annual income, domestic legal entities and permanent establishments of foreign legal entities are taxed as follows (Law Nr. 03/L-113):

Annual income	Tax rate
€ 0 - € 5,000	37.5 € / quarter
€ 5,001 - €50,000	3-10% of income
Over € 50,000	10% of income

Source: ECIKS (Economic Initiative for Kosovo),
at www.eciks.org/english/publications/investing_in_kosovo/content/iguide_12.html

Corporate income tax is paid quarterly in advance, based on quarterly net income predictions.

Value added tax. Value added tax (Law Nr. 03/L-114) is applied to all importers and businesses with an annual turnover in excess of 50,000 Euro. The common VAT rate is 16 percent on all goods and services, with exemption for certain agricultural and capital goods on which VAT is zero percent. Exporters receive full VAT reimbursement for goods exported.

Personal income tax. Personal income tax (Law Nr. 03/L-115) applies to natural persons receiving income from Kosovo sources and also to foreign incomes, received by Kosovo residents. The rate of personal income tax depends on annual income and ranges from zero percent to 10 percent.

Annual income	Tax rate
€ 0 - € 960	0%
€ 960 - € 3,000	4% of the amount over € 960
€ 3,001 - € 5,400	€ 81.6 + 8% of the amount over € 3,000
> € 5,401	€ 273,6 + 10% of the amount over € 5,400

Source: ECIKS (Economic Initiative for Kosovo),
at www.eciks.org/english/publications/investing_in_kosovo/content/iguide_12.html

Specific tax code on depreciation. According to section 14.5 of the Law Nr. 03/L-113 on Corporate Income Tax the amount allowed as a depreciation deduction for the tax period is to be determined by applying the following percentages to the capital accounts under the reducing balance method:

- (a) Category 1: Buildings; five percent (5%);
- (b) Category 2: Vehicles and office equipment; twenty percent (20%); and
- (c) Category 3: Machinery and heavy transport vehicles; fifteen percent (15%)

Repatriation of profits. The transfer of profits and invested capital in foreign currency outside Kosovo is free and unrestricted. The law states that subject to tax and other business liabilities, foreign investment may freely transfer lawfully acquired funds, regardless of their source and without delay to and out of Kosovo.

Property taxes. Property tax was introduced in 2002 and is collected at local government level by the Municipal Assemblies.

The Municipal Assembly of each municipality defines tax rates on property on an annual basis. The tax rates range between 0.05 percent to one percent of the market value of the property for each of the following property categories:

- Commercial property
- Residential property
- Industrial property
- Agricultural property
- Immovable abandoned property and uninhabited buildings

Accounting practices. Kosovo has a modern financial reporting system based on the International Accounting Standards. In 2001, with the UNMIK Regulation No.2001/30, the Board on Standards for Financial Reporting was established and to date 18 accounting standards in conformity with IAS have been issued. According to this regulation, all business organisations with annual turnover in excess of 100.000 EUR or total assets worth in excess of 50.000 EUR are obliged to prepare four statutory financial statements on an annual basis (balance sheet, income statement, cash flow statement, and changes in equity, and accompanying notes, along with a tax return). Businesses with a turnover below 100,000 EUR are required only to prepare a tax return.

2.6. BANKING SYSTEM

The banking sector in Kosovo consists of two levels where the Kosovo Central Bank operates as the first level bank and the commercial banks as the second level banks. The banking system was formed as an important component of the Kosovar financial system which consists of the Banking Sector, the Insurance Market and the Microfinance Institutions. The banking network system of the Republic of Kosovo has been developing significantly since the country declared its independence in 2008. The banking network of the country was devastated during the Kosovo War. As a new country Kosovo has gone through state building institutions and public reforms. The country's banking network system has been developed from scratch.

The Kosovo banking network system is an informal and complex network in a sense that it ensures the flow of financial transactions and macroeconomic stability in the country including the Central Bank and other micro financial institutions. The central hub of the network is considered to be the Central Bank of Kosovo (CBK) which is a successor of the Banking Payments and Authority of Kosovo established in June 2008. It is an independent legal entity and reports directly to the Kosovo Assembly. The Central Bank is considered as a central hub because all other micro financial institutions are connected to the Central Bank and are under its supervision.

The nodes of the Kosovo Network Banking system are the main commercial banks and other micro financial institutions. The Kosovo network banking system consists of eight commercial banks, ten saving and credit associations, 14 micro-finance institutions, four other non-banking financial institutions and eleven insurance companies.

Figure 19 - Financial System Structure (2007 – 2012)

	December 2007			December 2010			June 2012		
	Number	Assets (euros mn)	Percent of total assets	Number	Assets (euros mn)	Percent of total assets	Number	Assets (euros mn)	Percent of total assets
Commercial banks	9	1,435	77	8	2,455	77	8	2,652	75
Foreign	5	1,231	66	6	2,188	69	6	2,333	66
Domestic private	4	204	11	2	267	8	2	319	9
State-owned	0	0	0	0	0	0	0	0	0
Nonbank financial institutions	26	437	23	30	715	23	33	892	25
Insurance companies	9	71	4	11	97	3	13	120	3
Life insurance	...	...	...	1	4	...	3	11	0
Non-life insurance	9	71	4	10	93	3	10	109	3
Pension funds	2	278	15	2	494	16	2	659	19
Public	1	278	15	1	489	15	1	654	18
Private	1	0	0	1	5	0	1	5	0
Micro-finance institutions	15	88	5	13	102	3	14	79	2
NBFi (lending)	...	...	...	4	23	1	4	34	1
Total financial system	35	1,872	100	38	3,170	100	41	3,544	100

Source: Central Bank of Kosovo and IMF staff estimates.

2.7. EXPORT AND IMPORT

Located in the heart of Balkans, Kosovo offers a unique opportunity for local production with good accessibility to regional and international markets.

Kosovo Investment and Enterprise Support Agency currently develops a new export promotion strategy that aims at increasing the value of exported goods and services produced by local companies. Moreover, this strategy is intended to improve and strengthen the legal framework for foreign investors that choose Kosovo as their production facility location and export goods and services from here.

Kosovo is a small open economy that has a share of exports and import to the GDP estimated to be approximately 0.56 for the year 2012. Foreign trade is significantly dominated by imports (2,492 mil EUR), while exports account for only 319 mil EUR. While the trade deficit represents a serious economic challenge for the policy makers, it also represents many import substitution investment opportunities for foreign investors.

For the past ten years, exports have shown a constant increase, with the annual increase during this period of around 49%, compared to 14% annual increase in imports. The global financial crises has placed, however, a large burden on the exports; the falling prices on international markets contributed to 16,7% drop in Kosovo goods and services exports from Kosovo.⁸

⁸ www.invest-ks.org

Figure 20 - Export and Import by Category for 2010 and 2011 (in ths.)

	EXPORT		IMPORT	
	2010	2011	2010	2011
FOOD AND LIVE ANIMALS	18,710	17,552	354,396	413,054
BEVERAGES AND TOBACCO	5,368	8,097	102,099	114,472
CRUDE MATERIALS	73,944	81,108	65,897	86,306
MINERAL FUELS	10,845	16,229	339,225	452,498
ANIMALS AND VEGETABLE OILS	100	45	17,346	119,292
CHEMICALS	2,426	4,174	205,055	256,657
MANUFACTURED GOODS	165,993	168,766	421,836	488,804
MACHINERY AND TRANSPORT EQUIPMENT	9,745	16,162	439,861	422,316
MISCELLANEOUS AND MANUFACTURED ARTICLES	8,735	6,902	202,580	226,544
COMMODITES	91	131	9,432	12,401
TOTAL	295,957	319,165	2,157,725	2 492,348

Source: <http://www.invest-ks.org/en/Main-Export-Sectors>

2.8. INTEGRATION INTO THE REGIONAL MARKET

Situated in South Eastern Europe, Kosovo economy has become part in the region's economic integrations, which provide opportunities for market expansion in a very wide area. Kosovo concluded a number of commercial cooperation agreements that positively impact on country's international competitiveness as they ease access to key export markets. Kosovo is part of CEFTA since 2007, and also benefits from ATP with EU and costume free with US, and trade connections with Japan, Norway and Turkey.

CEFTA. Kosovo currently enjoys free trade within the Central European Free Trade Agreement - CEFTA - enabling its producers to access the regional market comprising 28 million consumers, free of any customs duties. In 2011 the total export with CEFTA members was 82,4 million and import 899,5 million EUR.

ATP. In addition, Kosovo benefits from nonreciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference Regime EU Council Resolution (ATP). In 2011 the total export to EU was 136,4 million and import 2,479.3 million EUR.

United States. Kosovo also enjoys customs-free access to the US market. In 2011 the total export to USA was 0,2 million and import 38,2 million USD.

Turkey. Free trade agreement with Turkey started on 1st January 2014.

2.9. PRODUCTION OF GOODS FOR CONSUMPTION, EXPORT, ETC.

Recognising the opportunities that the local market is offering, and benefiting from various cross-sector incentives introduced by the Government, local production has grown exponentially in recent years. Not only does local demand continuously rely on local production but Kosovo is increasing its exports to its main trade partners, EU-countries and CEFTA-members.

The greater share of exports in 2010 with 51% accounted for processed goods, worth about 150.9m €, other unprocessed goods included 25% of exports amounting to 60.1 million. The rest includes: food and live animals 6%, fuel 4%, machinery and equipment 3%, beverages and tobacco 2%, chemical products 1% of the total value of exports. Below are comparisons with the previous year.

Exported Goods: processed goods (56%), unprocessed materials (25%), food and live animals (6%), fuel (4%), machinery and transport equipment (3%), etc.

Imported Goods: machinery and transport equipment (21%), processed goods (20%), fuel (16%), food and live animals (16%), chemical products (10%), etc.

Natural Resources: lignite, zinc, lead, ferronickel and agricultural arable land.

Since the Yugoslavia times metal industry is traditionally the most important industry in Kosovo. This is mainly due to presence of rich metal ore fields in Kosovo (lead, zinc, nickel, chrome, aluminium, magnesium, bismuth, gold, silver, selenium, tellurium, etc.) as well as available energy sources – Kosovo has the largest reserves of brown coal (lignite) in Europe (12.5 billion tons of confirmed reserves). Metal ores mining is mainly concentrated in the zone along the Kosovo-Serbian border within the mining and metallurgical conglomerate Trepca.

Two thermal power plants burning local lignite are the main source of electricity in Kosovo. Strategic plans foresee lignite as the main source of primary energy in Kosovo in the future. Lignite mining was started at a new location Sibovc where some new modern thermal power plants will be built.

Until recently textile industry was the second largest industry in Kosovo. However, most textile factories closed or have significantly limited their activities due to overall changes in the region, severing traditional trade ties and pressure of foreign competition. Currently, the industry is experiencing a slow recovery, but so far it operates only at the level of family micro-enterprises whose production supplies domestic market only. The largest enterprises with foreign capital, which have modernized their production and export abroad, are Kosovatex (denim clothing) and Rematex (yarn). Textile production in Kosovo, however, has potential for further development due to the existence of textile industry skilled and cost competitive labour force.

Kosovo has a tradition and potential for development of wood industry. It has a large inventory of quality beech wood used primarily for the production of furniture, windows, etc. Beech wood is partly exported as well. Stock of other kinds of wood, however, is not sufficient and Kosovo must import them, mainly from Montenegro, Croatia and Serbia.

The relatively small size of most companies in conjunction with the lack of specialization is reflected in the inability to rapidly increase productivity. Rationalization of production is often hampered by lack of equipment, as well as managerial skills. In many cases the privatized former state enterprises use original equipment and production facilities, but do not have enough capital for the replacement and modernization.

Construction was one of the most important sources of economic growth in the last decade. Urgently needed new housing construction as well as repairing of roads and building new roads were financed largely with funds provided by foreign donors. Construction of housing units and related infrastructure continues with substantial rate due to the relatively high population growth in Kosovo. Transport infrastructure needs significant investment; the Kosovo-Albanian motorway is the largest construction project in the years 2011 - 2013. The government is also preparing the construction of a highway to Macedonia.

Chapter 3 provides a detailed market and investment trends analysis with implications to potential future foreign direct investment that could be located at the Jatex site.

2.10. OPERATIONAL COSTS COMPARED TO EU AND REGIONAL CITIES

Cost competitiveness is one of the key factors businesses consider when selecting a country to locate in. Although each investment project is unique and weight assigned to each of the location determinants (costs) differs, several key cost factors are always being considered: labour cost, cost of land, taxes, transport and utility costs.

Labour costs. Labour costs represent the single largest operational cost for all industries. For service operations, labour typically represents approximately 75 to 90% of total location sensitive costs, while the typical range for manufacturing operations is 45 to 60% of location sensitive costs.⁹ With the average monthly wage estimated at €360 (minimum monthly wage at 170€) Kosovo labour cost is one of the most competitive in Europe. Personal income tax ranges from 0-10% (progressive), while mandatory pension contribution is 5%.¹⁰

Figure 21 - Labour costs comparison

Labour cost	Kosovo	Albania	Macedonia	Turkey	Slovakia
Min. wage/month €	170	157	179	442	338
Ave. wage/month €	360	373	502	722	805

Source: National Plan for Economic Zones Development, 2014

Industrial land cost. While in general cost of land very much depends on the type and size of the investment as well as size of the site, many sites provide land purchase/lease conditions at better than markets terms. Figure 22 summarizes comparison of conditions for industrial land acquisition.

Figure 22 - Industrial land acquisition

	Kosovo	Albania	Macedonia	Turkey	Slovakia ¹¹
Land purchase possible	NO	YES	NO	NO	YES
99 yrs. lease possible	YES	YES	YES	NO (only for 49 years)	YES
Purchase / lease at symbolic price	N/A	YES ¹²	YES	YES	YES
Additional land related incentives	All economic zones must have a one stop shop	All economic zones must have a one stop shop	All economic zones have a one stop shop	Some zones have a one stop shop facility	N/A

Source: National Plan for Economic Zones Development, 2014

Transport costs. Transportation costs vary widely by industry, typically representing 7 to 24% of location-sensitive costs for manufacturing operations. Transportation costs vary by products and markets served, however they play an important role in location selection for export-oriented manufacturing industries which need to transport their goods to customers abroad. For the purpose of cost comparison, we used a model situation of transporting 10 – 25 tons of goods from the investment site to Munich (Germany) and Paris (France) by truck.

Figure 23 - Transport costs comparison ¹³

	From Kosovo (Prishtina)	From Albania (Tirana)	From Macedonia (Skopje)	From Turkey (Istanbul)	From Slovakia (Bratislava)
to Munich (10 tons)	1900 – 2100 \$	1800 – 2000 \$	1900 – 2100 \$	2600 – 2900 \$	750 – 850 \$
to Munich (25 tons)	2900 – 3200 \$	2900 – 3200 \$	2900 – 3200 \$	4000 – 4500 \$	1150 – 1300 \$
to Paris (10 tons)	2700 – 3000 \$	2900 – 3200 \$	2900 – 3200 \$	3700 – 4200 \$	1750 – 2000 \$
to Paris (25 tons)	4200 – 4600 \$	4400 – 4900 \$	4500 – 5000 \$	5700 – 6400 \$	2700 – 3000 \$

Source: National Plan for Economic Zones Development, 2014

⁹ Competitive Alternatives – KPMG's Guide to International Business Location Costs (2014)

¹⁰ KIESA at <http://www.invest-ks.org/en/Low-Operating-Costs>

¹¹ <http://www.state.gov/e/eb/rls/othr/ics/2011/157356.htm>

Utility costs. Utility costs represent up to 8% of total location-sensitive costs. While they are usually not the key decision factor, they can play an important part in the overall cost structure.

Figure 24 - Utility costs comparison

	Kosovo	Albania	Macedonia	Turkey	Slovakia
Electricity (kWh) (EU average 0,22 EUR)	0,06-0,09 EUR	0,12 EUR	0.0606 EUR ¹⁴	0.04– 0.07 EUR	0.129 EUR
Water (m ³)	0.72 EUR	0.64 EUR	0.54 EUR	1.23 EUR	
Waste water (m ³)	0.16 EUR		0.38 EUR	0.61 EUR	
Gas (m ³)	N/A	1.31 EUR	0.55–0.85 EUR	0.02 - 0.26 EUR	0.037 EUR ¹⁵

Source: National Plan for Economic Zones Development, 2014

Taxes. Taxes typically represent 6 to 14% of location-sensitive costs across the sectors and operations. While most taxes are collected at the national level, some taxes/fee may be subject to municipal administration. Corporate income tax is usually regarded as the core investment site location decision factor; other taxes are usually of less importance, unless they represent a significant cost.

Figure 25 - Comparison of Tax Systems in the region

	VAT	Corporate tax	Income tax
Kosovo	16%	10%	0-10%
FYROM	18%	10%	10%
Serbia	18%	10%	10-20%
Bosnia and Herzegovina	17%	10%	5-30%
Croatia	22%	20%	0-45%
Germany	17,3%	17,3%	34,6%

Source: ECIKS (Economic Initiative for Kosovo), at www.eciks.org/english/publications/investing_in_kosovo/content/iguide_12.html

¹² Symbolic price of 1 euro when in the state property will be carried out industrial production activities with an investment value ten million or when it comes to solving social and economic problems in particular areas.

¹³ Prices are calculated in USD and are variable on type of transport and time request. <http://worldfreightrates.com/freight>

¹⁴ For industry use only: http://www.kvkmk.org/OPERATIONAL_COSTS.pdf

¹⁵ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Electricity_and_natural_gas_price_statistics

2.11. ACCESS TO UTILITIES

The following two figures present overview of access points to main utilities both in Gjakovë municipality and the city of Gjakovë itself. For detailed description of the utility situation at the Jatex zone see chapters 4.9. – 4.11. of the feasibility study.

Figure 26 - Map with access to main utilities in Gjakovë municipality

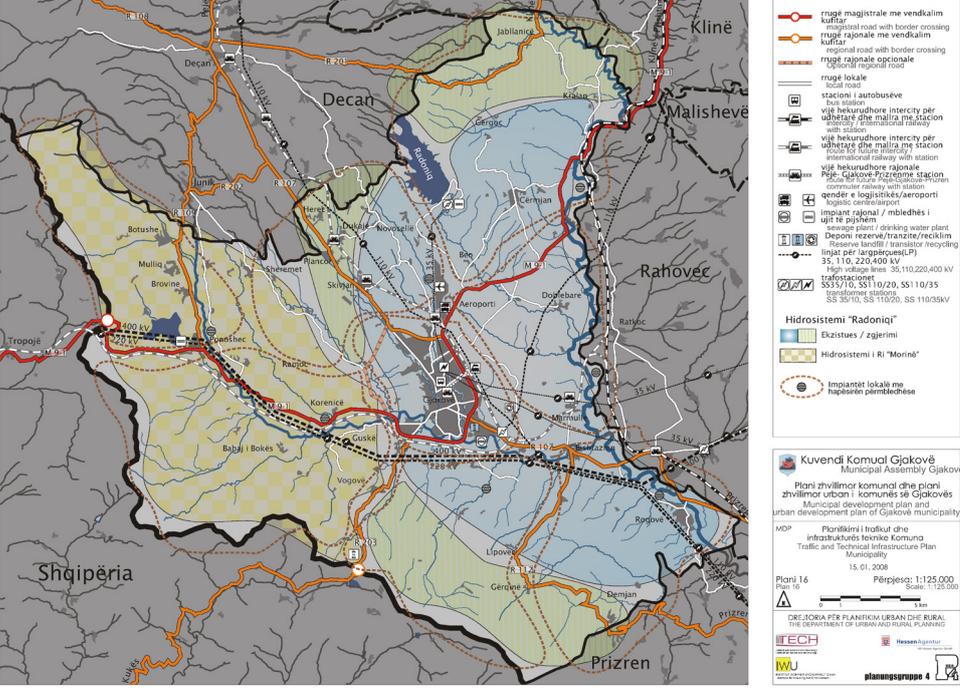
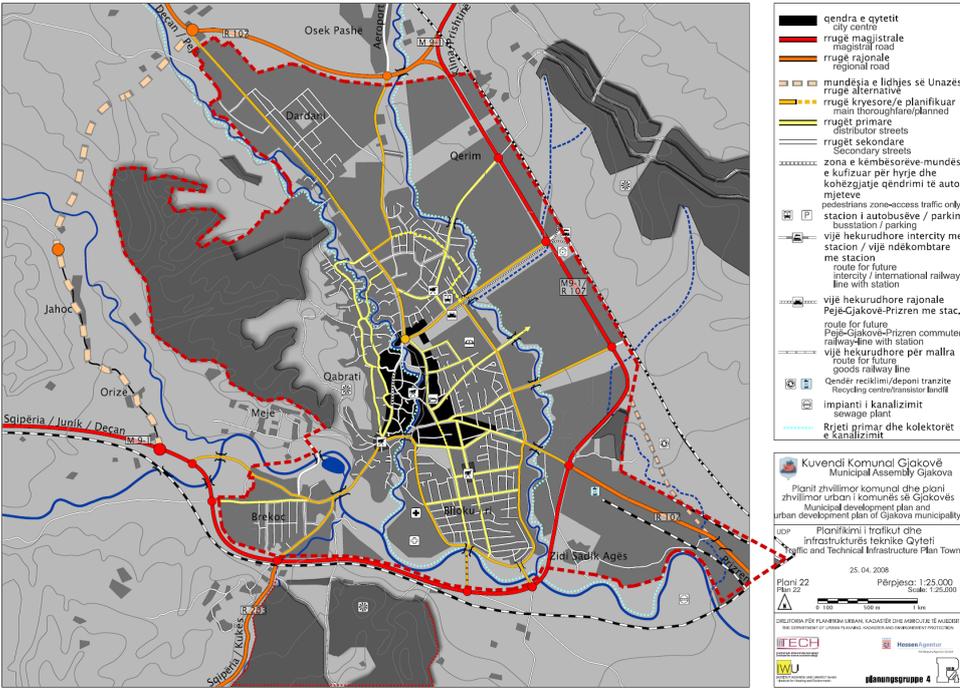


Figure 27 - Map with access to main utilities in the city of Gjakovë



CHAPTER 3

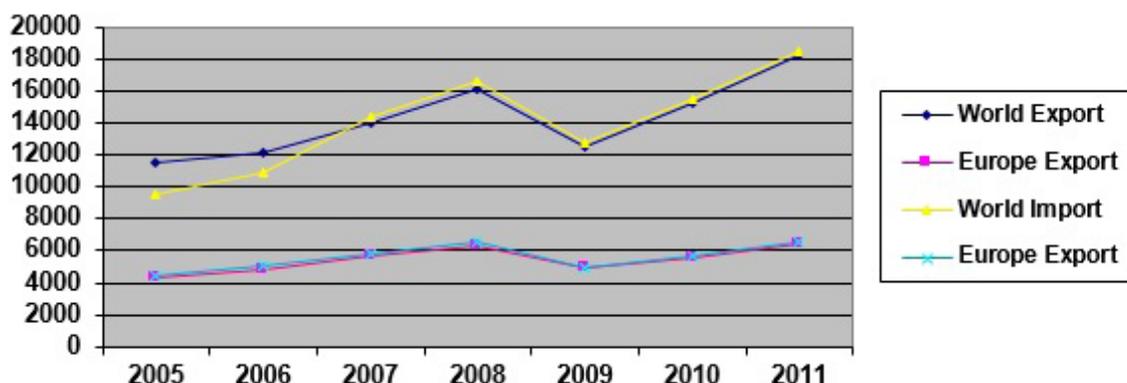
➤ MARKET ANALYSIS - DEMAND ESTIMATE

This chapter deals with market trends. In international perspective, Kosovo is a small country with a relatively small internal market. The success or failure of the industrial zone to attract investors will therefore to a large extent depend on external trends, particularly on the development of international trade and foreign direct investment. The current situation is quite favorable, because after several years of decline after the start of the global financial crisis in 2008, global trade and global flows of foreign direct investment are growing again.

3.1. TRENDS IN FOREIGN TRADE

As can be seen from the data below, global trade has recovered from the global crisis. In Europe and Northern America it has returned to the 2008 level while data for the whole world have already surpassed the 2008 level due to the less-affected development in the fast-growing developing countries.

Figure 28 - World merchandise trade, 2005-2011, bn. USD

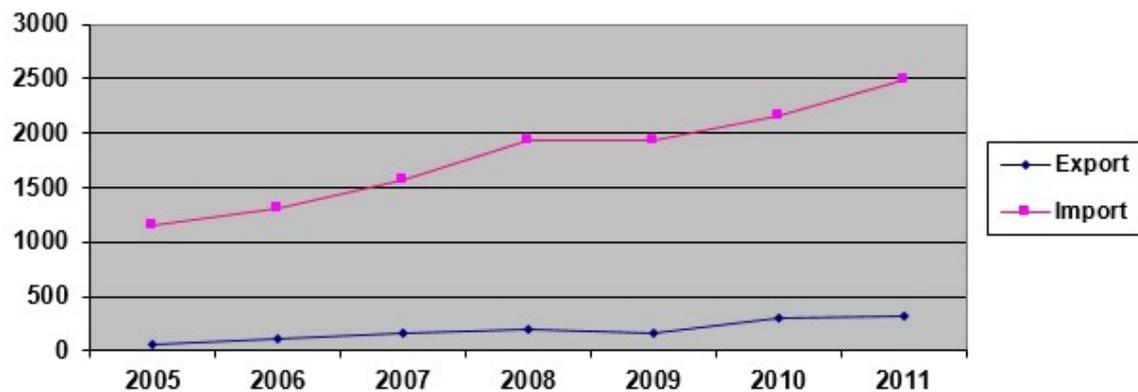


Source: United Nations, World Trade Statistics, 2013

Kosovo has very unfavorable balance of trade. The country did not have a rich industrial history and its industrial base is somewhat limited. Combined with a small internal market, this has resulted in a relatively small number of final products, which are sold on the retail market in Kosovo. The majority of products available in shops are of foreign origin and have been imported. Trade statistics show negative balance of trade in all categories. Massive import of mineral fuels, lubricants and related materials is natural, as Kosovo does not have any sources of oil. Nevertheless, significant imbalances also exist in other areas, such as food, manufactured goods and machinery.

At the same time, as Kosovo GDP per capita and purchasing power of the population are growing, it might be expected that demand for all kinds of goods and products will continue to grow. Once the local demand for some products has reached a critical mass, some of the producers of these products might consider setting up a production facility in Kosovo or one of the neighboring countries. This may stimulate inflow of direct investment into new production facilities in Kosovo – both greenfield and brownfield investment.

Figure 29 - Kosovo's foreign trade, 2005-2011, mil. EUR



Source: United Nations, World Trade Statistics, 2013

Figure 30 - Kosovo's foreign trade, 2005-2011, by sector (000's EUR)

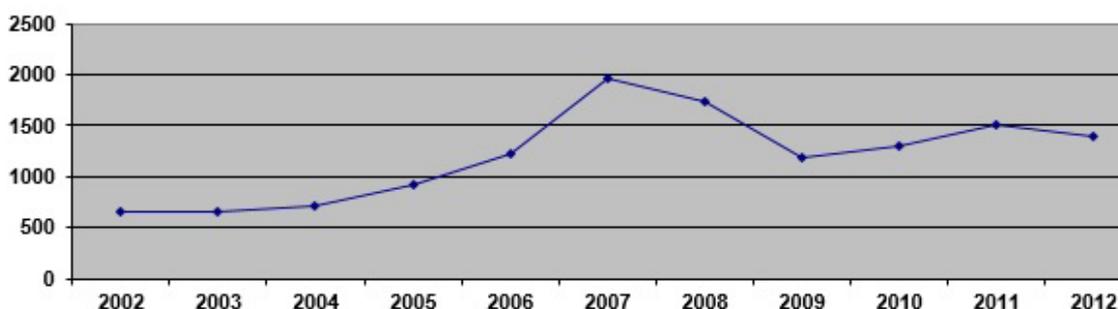
Kodi Code	EXPORT	2005	2006	2007	2008	2009	2010	2011
0	Food and live animals	5 076	8 526	14 215	14 684	14 550	18 710	17 552
1	Beverages and tobacco	2 754	2 785	3 887	5 808	5 088	5 368	8 097
2	Crude materials, inedible, except fuels	26 852	42 904	53 513	45 582	38 341	73 944	81 108
3	Mineral fuels, lubricants and related materials	1 721	8 540	12 576	8 313	7 213	10 845	16 229
4	Animal and vegetable oils, fats and waxes	143	247	:	23	76	100	45
5	Chemicals and related products	1 327	1 386	1 356	2 389	2 421	2 426	4 174
6	Manufactured goods	6 678	31 885	50 689	104 909	84 111	165 993	168 766
7	Machinery and transport equipment	8 829	8 940	22 697	10 727	7 847	9 745	16 162
8	Miscellaneous manufactured articles	2 895	5 561	6 180	6 027	5 680	8 735	6 902
9	Other	8	:	:	:	:	91	131
	TOTAL EXPORT	56 283	110 774	165 112	198 463	165 328	295 957	319 165
	IMPORT							
0	Food and live animals	206 183	228 336	272 443	336 901	323 764	354 396	413 054
1	Beverages and tobacco	65 679	73 439	91 333	110 462	87 284	102 099	114 472
2	Crude materials, inedible, except fuels	23 486	24 528	36 421	40 801	44 298	65 897	86 309
3	Mineral fuels, lubricants and related materials	182 381	217 116	258 356	343 537	282 766	339 225	452 498
4	Animal and vegetable oils, fats and waxes	9 932	13 940	15 524	20 152	15 994	17 346	19 292
5	Chemicals and related products	115 956	138 780	156 484	183 523	193 694	205 055	256 657
6	Manufactured goods	220 165	264 818	307 628	361 977	372 622	421 836	488 804
7	Machinery and transport equipment	234 273	232 228	294 302	362 637	436 205	439 861	422 316
8	Miscellaneous manufactured articles	99 438	112 694	143 656	168 187	178 874	202 580	226 544
9	Other	:	:	40	60	39	9 432	12 401
	TOTAL IMPORT	1 157 492	1 305 879	1 576 186	1 928 236	1 935 541	2 157 725	2 492 348
	BALANCE							
0	Food and live animals	-201 107	-219 810	-258 227	-322 217	-309 214	-335 686	-395 503
1	Beverages and tobacco	-62 925	-70 655	-87 447	-104 654	-82 196	-96 730	-106 375
2	Crude materials, inedible, except fuels	3 366	18 376	17 092	4 782	-5 957	8 048	-5 201
3	Mineral fuels, lubricants and related materials	-180 659	-208 576	-245 780	-335 224	-275 553	-328 380	-436 270
4	Animal and vegetable oils, fats and waxes	-9 789	-13 694	:	-20 129	-15 919	-17 246	-19 247
5	Chemicals and related products	-114 630	-137 394	-155 128	-181 133	-191 274	-202 629	-252 483
6	Manufactured goods	-213 487	-232 932	-256 938	-257 068	-288 511	-255 843	-320 038
7	Machinery and transport equipment	-225 445	-223 287	-271 606	-351 910	-428 358	-430 116	-406 154
8	Miscellaneous manufactured articles	-96 542	-107 133	-137 477	-162 160	-173 194	-193 845	-219 643
9	Other	:	:	:	:	:	-9 341	-12 270
	TOTAL BALANCE	-1 101 209	-1 195 105	-1 411 074	-1 729 774	-1 770 214	-1 861 769	-2 173 184

Source: ASK External Trade

3.2. INVESTMENT TRENDS

Global flows of foreign direct investment have shown a mild recovery, despite a small (11%) decline in 2012 (preliminary data). It is possible that the global flow of FDI will not reach the 2007-8 levels for several years to come, but even if the annual flow of FDI stays at approximately 1,400 trillion USD as in 2011-12, it would be nearly the double of the pre-crisis average.¹⁶

Figure 31 - Global flow of foreign direct investment, 2002-2012 (in trillion USD)



Source: UNCTAD, World Investment Report 2013, 2013

Countries neighboring or comparable to Kosovo have mostly been hit hard by the global recession in foreign investment - in some countries annual inflow of FDI dropped by more than 70% in 2009-10. Nevertheless, 2011 brought some recovery. In some countries this recovery continued in 2012 while other countries experienced decline, usually a moderate one. Overall, there seems to be recovery in FDI flows although annual flows will probably not reach the pre-crisis level in the next few years.

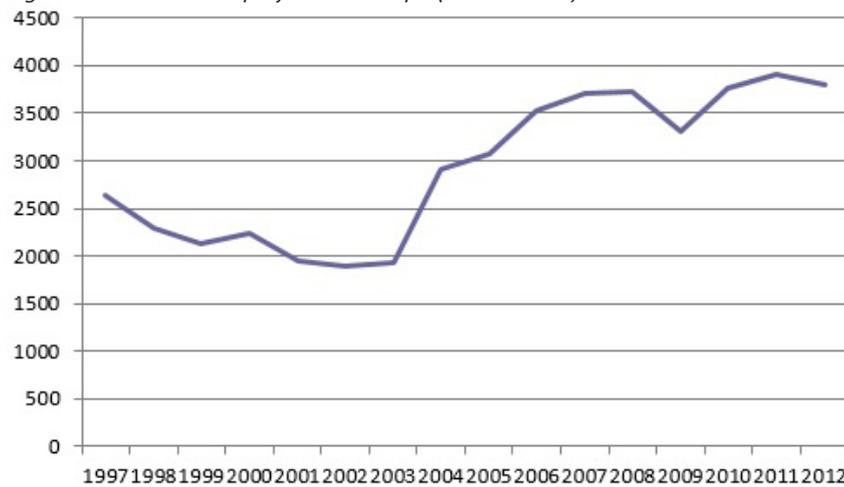
Figure 32 - Inflow of FDI, 2007-2012 (in millions USD)

	2007	2008	2009	2010	2011	2012
Albania	652	1241	1343	1089	1368	1265
Bosnia & Herzegovina	1804	1065	139	325	378	633
Bulgaria	13875	10297	3897	1867	2097	2047
Croatia	5016	6057	3401	798	1260	1275
Kosovo	603	538	408	487	546	293
Macedonia	733	612	260	300	495	325
Moldova	536	726	135	202	294	169
Montenegro	934	960	1527	760	558	n/a
Romania	10290	13849	4926	3204	2557	n/a
Serbia	3432	2996	1936	1340	2700	n/a

Source: World Bank, 2013

¹⁶World Investment Report 2014, UNCTAD

Figure 33 - Investment projects in Europe (1997 – 2012)



Source: Ernst & Young, European Attractiveness Survey, various issues.

Figure 34 - Value of greenfield FDI projects in selected countries (in millions USD)

	2006	2007	2008	2009	2010	2011
Albania	2,346	4,454	3,505	124	68	488
Bosnia & Herzegovina	643	2,623	1,993	1,368	283	1,252
Bulgaria	19,330	7,695	11,422	4,780	4,780	5300
Croatia	600	1,795	3,194	1,707	2,397	1,788
Macedonia, FYROM	1,460	505	2,622	763	470	956
Moldova	130	162	163	488	301	320
Montenegro	344	1,794	851	120	360	436
Romania	19,251	21,959	32,596	15,019	7,774	16,188
Serbia	600	1,795	3,194	1,707	2,397	1,788
Slovenia	657	1,037	612	282	748	658

Source: Ernst & Young, European Attractiveness Survey, various issues.

Figure 35 - Number of greenfield FDI projects in selected countries (in millions USD)

	2006	2007	2008	2009	2010	2011
Albania	11	8	16	7	6	7
Bosnia & Herzegovina	19	25	27	20	21	29
Bulgaria	290	154	157	108	126	94
Croatia	39	32	41	35	46	51
Macedonia, FYROM	27	10	26	18	14	25
Moldova	6	13	6	9	13	12
Montenegro	3	5	14	1	10	6
Romania	389	389	368	212	232	248
Serbia	44	88	116	62	83	110
Slovenia	24	23	24	12	26	18

Source: UNCTAD, World Investment Report 2012

On the basis of these data, it may be estimated, that global flows of foreign direct investment and inflow of foreign direct investment into Kosovo will continue to rise in the coming years, although the growth will probably not be as strong as growth experienced in 2006-8.

3.3. FOREIGN INVESTMENT IN KOSOVO

Kosovo's main sources of foreign direct investment from 2007 to 2011 were mainly European countries:

Germany	€ 292 million
United Kingdom	€ 251 million
Slovenia	€ 195 million
Austria	€ 133 million
Switzerland	€ 115 million
the Netherlands	€ 109 million
Albania	€ 70 million
Turkey	€ 64 million
USA	€ 31 million
France	€ 5 million

Source: ASK, Investment Statistics

Foreign direct investment still makes a relatively small contribution to the national economy, compared with other transition economies. There are several reasons for this: a late start in 2000-2001 when other countries embarked on privatization attracting FDI, legal and political uncertainties, and a rather slow system of privatization. While there remain some significant disincentives to investment in Kosovo such as a small domestic market, relatively weak industrial history, residual political uncertainty, perceptions of corruption, and a slow judicial system, Kosovo can also offer significant advantages to investors. These include a young workforce which has been exposed to Western European culture and has higher linguistic standards than in any of the neighboring countries, a well-developed ICT infrastructure, a low corporate tax-rate, access to the EU and CEFTA markets, and a government with low debt.

One of the weaknesses of Kosovo is the shortage of real estate, which would be readily available to potential investors: plots of land with developed infrastructure and zoned for industrial use, and / or modern industrial buildings which potential investors could buy or rent. For example, Serbia was quite successful in attracting foreign investment projects in 2012 as it attracted 78 projects, 16% more than in the previous year. These projects will create more than 10,000 new jobs in Serbia, each more than 130 new jobs on average. Nearly 90% of these projects came from European companies: Italian, German, and Austrian, and the majority of the projects were in manufacturing, particularly in the production of automotive components and manufacture of machinery and other equipment.

Similar trends are likely to repeat in Kosovo: the majority of new greenfield investment projects are likely to come from European companies as well as from Turkey, and the majority of them are likely to be in the manufacturing sector with production destined for exports.

3.4. DOMESTIC INVESTMENT

Number of domestic companies is rising steadily. For evaluation of potential demand for land or premises in the zone, the number of industrial (manufacturing) companies (sector D) and the number of companies engaged in business services (sector K), are the most important, although the number of companies in the transportation sector (sector I) would also be relevant if warehouses and logistics centers are allowed in the zone.

From the data below it may be calculated that on average:

- approximately 70 new industrial companies are established and registered every year
- approximately 470 new companies providing business services are established and registered every year
- some 50 new transportation companies are established and registered every year

From these figures it is evident that some 500-600 companies are established and registered every year which would need some type of business premises: industrial halls, workshops, warehouses and other types of business premises.

Unfortunately, there are no data available on how many business premises are sold or rented every year, but these figures allow us to make an estimate that every year several companies in the Gjakovë region are looking for industrial / business premises they could buy or rent.

Figure 36 - Number of business according to economic activities (according to TAK)

Sectors	2005	2006	2007	2008	2009	2010	Description
C	144	152	154	207	200	205	Mining
D	3.914	3.698	3.794	4 313	4 353	4 356	Industry
E	13	17	18	50	56	68	Production, distribution of electricity, gas and water
F	1.894	1.648	1.658	2 297	2 390	2 474	Construction
G	20.281	18.985	22.185	20 795	21 105	19 755	Wholesale and retail trade, repair of vehicles and household equipment
H	3.226	2.990	3.325	3 498	3 559	3 364	Hotel and restaurants
I	3.676	3.110	3.185	3 610	3 655	3 377	Transport, post and telecommunications
K	1.297	1.330	1.430	3 846	4 197	4 112	Business services
O	2.180	2.095	2.090	2 501	2 564	3 345	Other services
	36.625	34.025	37.839	41.117	42.079	41.056	TOTAL

Source: Kosovo Agency of Statistics, Results of Structural Business Survey

3.5. POTENTIAL COMPETITION FROM THE NEIGHBORING COUNTRIES AND KOSOVO

Kosovo is facing relatively strong competition for foreign direct investment. Many from the neighboring countries have already stimulated the creation of industrial zones / economic zones, not only by adopting the relevant legislation but also by taking practical steps to ensure that the zones are developed:

ALBANIA	Albania passed legislation on economic zones and industrial parks in 2007. At least 10 economic zones have been built, either as industrial parks or as free trade zones. In addition, an industrial park has been created in Porto Romano as a part of a revitalization project. There is also the privately owned Tirana Logistics Park.
BOSNIA & HERZEGOVINA	Bosnia & Herzegovina has some 10 industrial zones and 4 free trade zones. The government has also co-financed re-development of several old industrial complexes, especially in the Sarajevo area.
BULGARIA	Bulgaria has more than 60 industrial zones of various sizes under public and private ownership. Of these, 14 zones fully or partly occupied, 21 zones are not occupied but ready or almost ready with most infrastructure already built, and 27 zones are at various stages of planning or development.
KOSOVO	There are 8 industrial zones / economic zones / business parks in Kosovo. However, only very few have vacant plots of land for immediate use (e.g. Suhareka zone).
MACEDONIA, FYROM	There are 11 industrial zones in Macedonia, occupying in total 800 hectares.
MONTENEGRO	Montenegro passed a new law on free trade zones in 2005 but only one has been created, in the Port of Bar. A science & technology park is under development in Podgorica and will contain a business park for high-tech and light industries. There is a large brownfield industrial zone in Berane.
ROMANIA	Since legislation on industrial parks was adopted by Romania in 2001 and 2002, some 40 industrial zones have been built. These are complemented by 5 free trade zones and several pilot projects of technology and industrial parks built with the support of the EU's PHARE programme in 2000-2.
SERBIA	Serbia has 11 free zones and a number of mainly small greenfield and brownfield industrial zones. There was an attempt to build a privately owned Italian industrial zone in Indjija, near Belgrade, but it does not seem to be very successful. An Indian company Embassy Group announced a plan to build an IT park on this location.
MOLDOVA	Moldova originally had 6 free trade zones of which only one had any tenants in 2009. Since a training and consultancy project implemented by CzechINVENT in that year, initiatives have been taken to build new industrial zones. Moldovan Ministry of Economy plans to build 13 industrial zones on both public and privately owned land. Several feasibility studies have been carried out to assess the potential for establishing industrial zones in selected towns.

3.6. ANALYSIS OF POTENTIAL DEMAND FOR LAND PLOTS AND/OR BUILDINGS FOR INDUSTRY OR LOGISTICS

Investment trends described in the previous chapter provide an insight into potential inflow of investment into Kosovo. For estimation on potential demand from foreign investors, the following data from the neighboring similar countries were examined.

Figure 37 - Value of greenfield FDI projects in selected countries (in millions USD)

	2007	2008	2009	2010	2011	2012	2013
Albania	4,454	3,505	124	68	525	288	57
Bosnia & Herzegovina	2,623	1,993	1,368	283	1,253	1,287	880
Bulgaria	7,695	11,231	4,780	3,680	5,300	2,756	1,906
Croatia	1,795	3,194	1,707	2,397	1,798	1,141	1,039
Macedonia, FYROM	497	2,622	763	470	956	1,179	579
Moldova	162	163	488	301	320	118	285
Montenegro	694	851	120	360	436	355	613
Romania	21,006	30,474	15,019	7,764	16,156	9,852	9,210
Serbia	3,131	9,196	3,816	4,040	4,295	4,459	3,721
Slovenia	1,037	612	282	748	692	469	175

Source: UNCTAD, World Investment Report 2014.

Figure 38 - Average annual value of greenfield FDI projects per capita (USD)

	Total value of greenfield FDI projects 2008-2013 (mil. USD)	Average per year (mil. USD)	Number of inhabitants	Average annual value of greenfield FDI projects per inhabitant (USD)
Albania	10,985	1,831	2,800,000	654
Bosnia & Herzegovina	8,162	1,360	3,800,000	358
Bulgaria	53,307	8,885	7,300,000	1,217
Croatia	11,481	1,914	4,300,000	445
Macedonia, FYROM	6,775	1,129	2,000,000	565
Moldova	1,564	261	3,600,000	73
Montenegro	3,905	651	600,000	1,085
Romania	112,787	18,798	20,000,000	940
Serbia	11,481	1,914	7,200,000	266
Slovenia	3,994	666	2,000,000	333
Average				594

Source: UNCTAD, World Investment Report 2014.

Based on these figures and considering that Kosovo has approximately 1,800,000 inhabitants, Kosovo could annually attract this amount of greenfield FDI:

How much greenfield FDI could Kosovo potentially attract under different scenarios	Value of annual inflow of greenfield FDI per capita (USD)	Total value of annual inflow of greenfield FDI (mil USD)
If as attractive as Montenegro (optimistic scenario)	1,085	1,953
If as attractive as Moldova (pessimistic scenario)	73	131
If as attractive as Albania (average scenario)	654	1,177

Based on these calculations, Kosovo should every year attract greenfield FDI in the value of just over 1 billion USD.

For an estimate of potential success of the zone, it is more useful to consider the number of greenfield projects, such as new production plants, new warehouses or logistics centers, new service establishments, new office buildings, new commercial establishments, or new large-scale residential properties.

Figure 39 - Number of greenfield FDI projects in selected countries, in millions USD

	2006	2007	2008	2009	2010	2011	2012	2013	Average per year
Albania	10	8	16	7	6	8	11	4	8.8
Bosnia & Herzegovina	19	25	27	20	21	30	28	27	24.6
Bulgaria	188	154	156	108	125	94	64	66	119.4
Croatia	39	32	41	35	46	52	41	35	40.1
Macedonia, FYROM	27	9	26	18	14	25	32	25	22
Moldova	6	13	6	9	13	12	7	11	9.6
Montenegro	3	4	14	1	10	6	7	7	6.5
Romania	388	380	365	212	232	249	198	209	279.1
Serbia	44	88	116	61	83	109	112	118	91.4
Slovenia	24	23	24	12	26	20	16	10	19.4

Source: UNCTAD, World Investment Report 2014

Kosovo's neighboring countries are every year attracting between 2.7 and 12.7 greenfield FDI projects per 1 million inhabitants:

Figure 40 - Average number of greenfield FDI projects per year per 1 mil. inhabitants

	Average number of greenfield FDI projects per year	Number of inhabitants	Average number of GF FDI projects per year per 1 mil. inhabitants
Albania	8.8	2,800,000	3.1
Bosnia & Herzegovina	24.6	3,800,000	6.5
Macedonia, FYROM	22	2,000,000	11
Moldova	9.6	3,600,000	2.7
Montenegro	6.5	600,000	10.8
Serbia	91.4	7,200,000	12.7

Based on these figures and considering that Kosovo has approximately 1,800,000 inhabitants, Kosovo could annually attract this number of greenfield FDI projects:

How much greenfield FDI could Kosovo potentially attract under different scenarios	Value of annual inflow of greenfield FDI per capital (USD)	Total value of annual inflow of greenfield FDI (mil USD)
If as attractive as Montenegro (optimistic scenario)	1,085	1,953
If as attractive as Moldova (pessimistic scenario)	73	131
If as attractive as Albania (average scenario)	654	1,177

Based on these calculations, Kosovo should attract approximately 10 greenfield FDI projects every year.

No similar data are available on domestic investment, but data on new company registrations presented in the previous chapter indicated that some 500-600 new companies active in industry, business services or transportation are established and registered every year and these companies will need suitable premises for their activities: industrial halls, workshops, warehouses, or other types of business premises.

3.7. OCCUPANCY SCENARIOS

On the basis of the data presented in this and preceding chapter it is possible to create the following scenarios about the possible demand for land and buildings in municipality of Gjakovë.

A. optimistic scenario

- 1-2 larger foreign investors which will each build an industrial hall of approximately 10,000-15,000 square meters and will each create approximately 500 new jobs
- 2-3 smaller foreign investors which will each build an industrial hall of approximately 4,000 - 7,000 square meters and will each create some 50 - 100 new jobs
- 3-5 local companies from Kosovo or diaspora investments, each building an industrial hall of 3,000-5,000 square meters and creating some 30 - 50 jobs.
- 3-5 logistics/warehousing halls with average size of 3,000 square meters each and each creating some 20-50 jobs

B. pessimistic scenario

- 1-2 smaller foreign investors who will each build an industrial hall of approximately 4,000 - 7,000 square meters and will each create some 50 - 100 new jobs
- 2-3 local companies from Kosovo or diaspora investments, each building an industrial hall of 3,000-5,000 square meters and creating some 30 - 50 jobs.
- 1-2 logistics/warehousing halls with average size of 3,000 square meters each and each creating some 20-50 jobs

C. middle scenario

- 1 larger foreign investor which will build an industrial hall of approximately 10,000-15,000 square meters and will create approximately 500 new jobs
- 1 smaller foreign investors which will build an industrial hall of approximately 4,000 - 7,000 square meters and will create some 50 - 100 new jobs
- 3-4 local companies from Kosovo or diaspora investments, each building an industrial hall of 3,000-5,000 square meters and creating some 30 - 50 jobs
- 2-3 logistics/warehousing halls with average size of 3,000 square meters each and each creating some 20-50 jobs.

The revitalised JATEX site can significantly contribute to meeting this demand and can accommodate:

- 1 smaller foreign investor requiring an industrial hall of approximately 4.000 sq. meters (50-75 jobs)
- 1-2 local companies from Kosovo or foreign diaspora investments requiring an industrial hall of approximately 3.000 - 5,000 sq. meters (30 - 50 jobs each)
- 2-3 logistics/warehousing halls with average size of 3,000 square meters each (20-50 jobs each).

CHAPTER 4

➤ SITE ANALYSIS

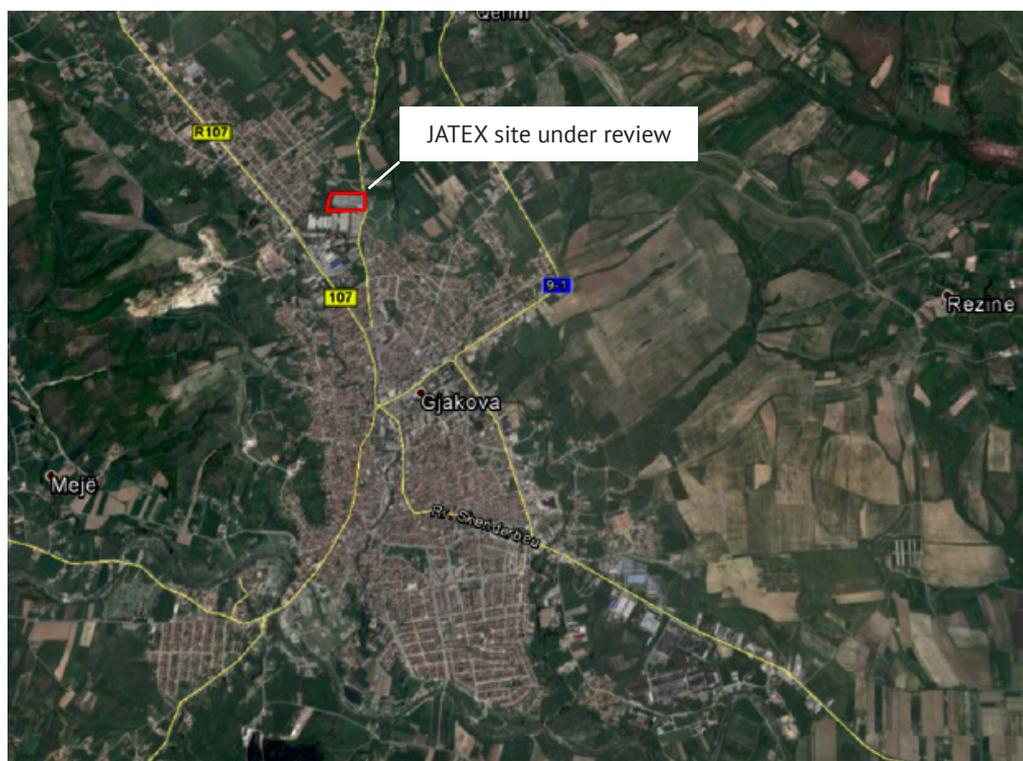
This chapter provides an overview of the proposed site, its location, ownership, and the environmental and social issues key to the development of the lands. This data will be used in the financial model to help determine the feasibility of the site.

4.1. LOCATION OF THE SITE

The proposed zone site is situated within the northern perimeter of Gjakovë city in the industrial area of the city, which was used by the company Jatex (previously named Napredak). Jatex produced textile that was sold in its chain stores located throughout the former Yugoslavia. Jatex existed under the name 'Napredak' from 1947 to 1980.

Then from 1980 to 1990 it merged with Emin Duraku, and it was known as 'Industria e Bashkuar e Tekstilite Emin Duraku'. In 1990 it split from Emin Duraku and since it has been known as 'Jatex'. Number of employees in 1990 was 1,888; in 1990 it was 70. Currently, the main activity undertaken at the site is shops rental.¹ According to the information from public sources there was litigation between shareholders of the Holding Corporation "Jatex" and Kosovo Agency for Privatization (KAP) that has not led to any conclusive outcome; property rights of the site remain contested.

Figure 41 – Site location

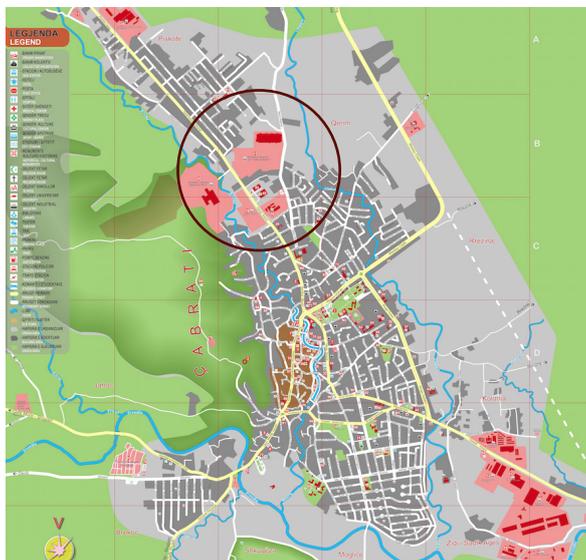


¹⁷ Source: IKS, Policy Paper "En Route to the EU: Area-Based Development Opportunities" (IKS interview with Gazmend Tuzi, Director of Jatex, 15 June 2010)



The site is bounded by the Gjakovë - Pristina road to the east, two industrial sites to the south (DEVA GAS and ELAST). Adjacent the property on the western edge there is area with both residential and agricultural use.

Figure 42 – Location of the site within the city of Gjakovë



4.2. SITE DESCRIPTION

The site is approx. 3,8 hectares in size. The site is a brownfield area, i.e. an old industrial area of the "JATEX" company containing one production hall. The site has not been in use for at least ten years and the entire existing physical infrastructure as well as the on-site production halls is in poor and dilapidated state. As there are no maps or exact data on flood situation *in situ*, it is difficult to assess the risk of flooding; however, a certain risk of floods is to be taken in consideration when planning the site development. The site is fenced, although the existing fence is also in a rather poor state. Given the previous use the utilities and access to the production hall are in place. There is an electrical substation located in the vicinity of the site.

The site has very good road access directly from the Gjakovë - Prishtina road. The existing road is a paved dual carriageway with a connection to the main highway connecting Kosovo with Albania and Serbia. There are access points to the site from the road and their capacity to accommodate future traffic flows to/from the industrial site are sufficient.

Unfortunately the building and adjacent infrastructure is in bad conditions and dilapidated (see Figure 43). While in 2003 the building was evidently in good shape, in 2014 the large part of the roof structure and cladding was already missing. If no action towards the regeneration or protection of the building is taken, further (accelerated) degradation is to be expected. The skeleton and bearing structures of the building might, however, still be partly used for future revitalization and reasonable use of the building, as their technical condition is reasonable.

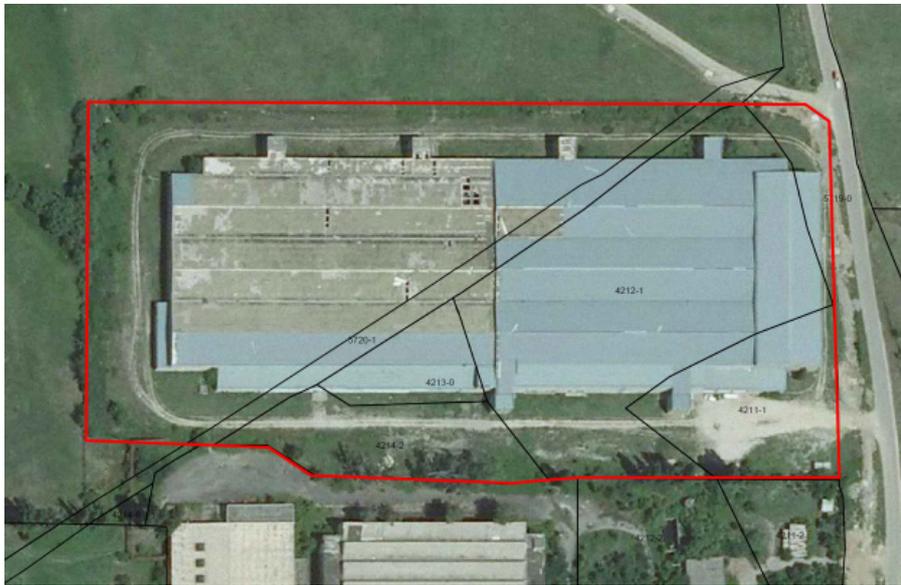
Figure 43 – Evidence of site structures degradation



4.3. BORDERS OF THE ECONOMIC ZONE – GEODESIC MEASUREMENTS

According to information provided by Municipality of Gjakovë the digital cadastral map is not available and the borders of the site are just approximately marked, see Figure 44 for borders visualization.

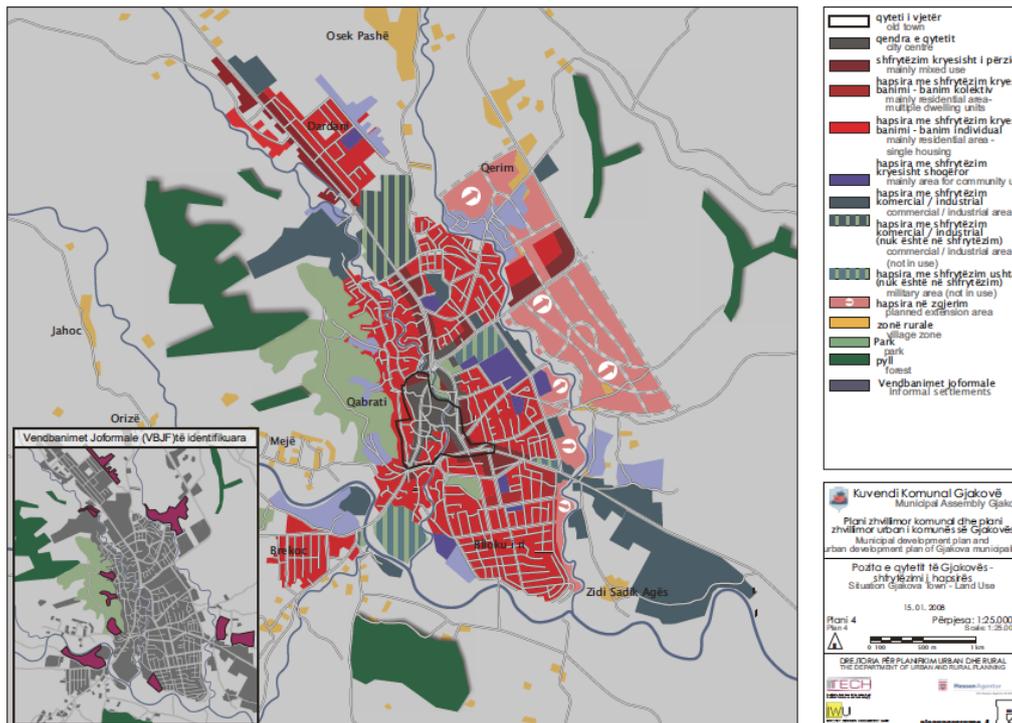
Figure 44 – Cadastre map with zone location and individual parcel units



4.4. LAND CATEGORIZATION

The site is located within an area defined according to the Land use map of Gjakovë as “commercial/ industrial area not in use”, however, a detailed cadastre land categorization of individual parcels is not available.

Figure 45 - Land use map of Gjakovë



4.5. OWNERSHIP RIGHTS

At the time of writing this feasibility study (August 2014), the ownership rights could not be confirmed as there was no certificate for the immovable property rights issued by Kosovo Cadastral Agency. The Municipality of Gjakovë Municipality claims the site is the property of the municipality, however, to avoid any future ownership disputes the ownership rights should be regulated and recorded by Kosovo Cadastral Agency prior to the zone being offered to investors.

4.6. GENERAL CHARACTERISTICS OF THE SITE (TOPOGRAPHY)

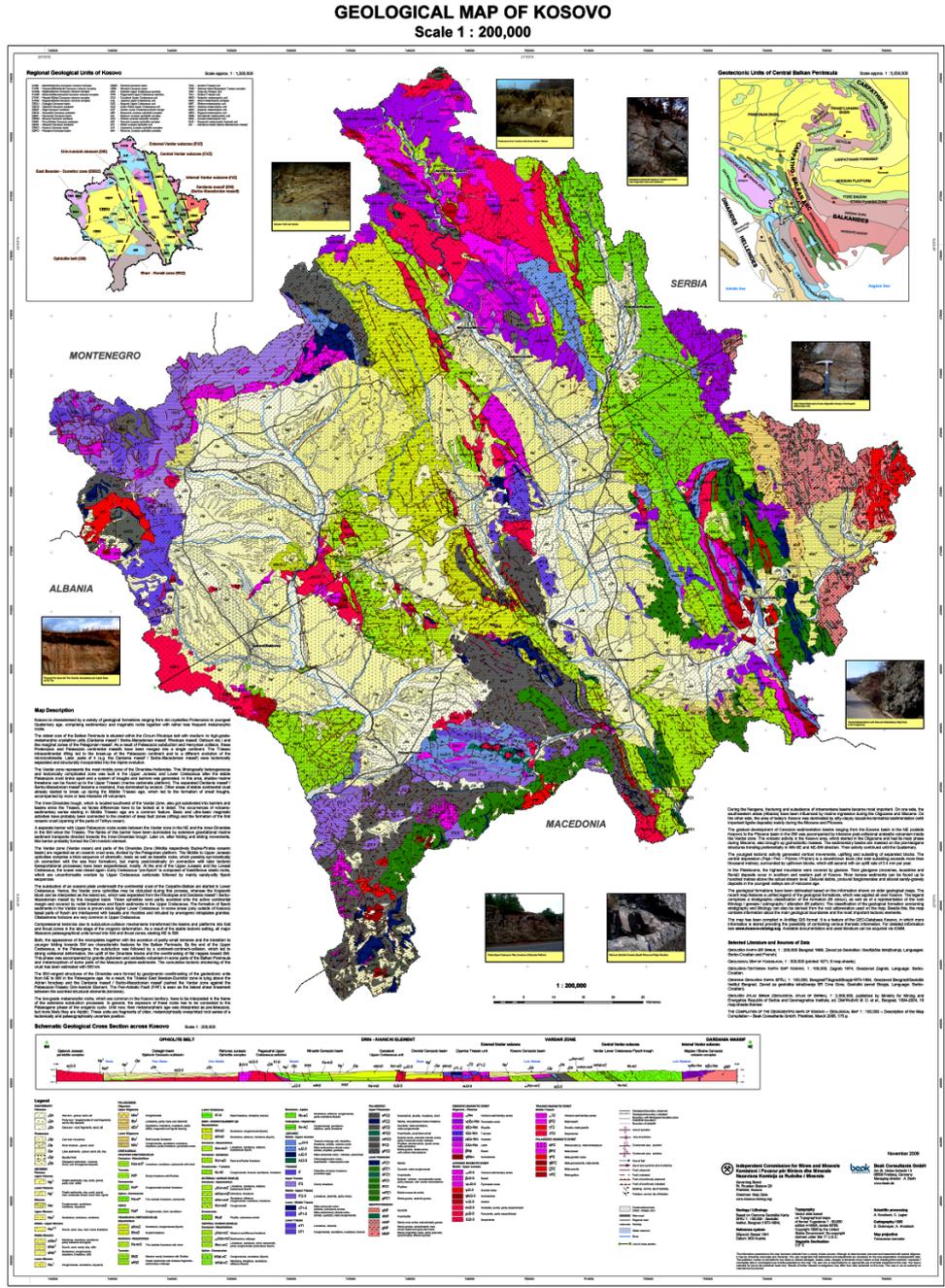
The zone is located on a flat site approx. two kilometres from the centre of the Gjakovë City by the local road Rruga per Novosell with good connection to the road R107 from Gjakovë to the city of Decan and Pejë. The zone is part of the large industrial area consisting of several industrial complexes. There is a water flow approx. 200 m far from the zone, which is a tributary of the Ereniku River. On the west and north side of the zone at a distance of about 200 m there is situated a residential area.

The location is well connected on the traffic and utilities infrastructure and is suitable for the new business activities, which will represent no disturbing effects on the neighbouring residential area.

4.7. GEOLOGICAL AND HYDROLOGIC CHARACTERISTICS

Given the site is located in a previously extensively used industrial area, general geological and hydrological requirements for an industrial site are met. Whole no additional geological drills and laboratory analysis were necessary to evaluate the site's appropriateness for industrial use and construction requirements, we present in the following chapter a brief environmental risk assessment to estimate the probability of harm to, or from, the environment, the severity of harm, and uncertainty. Both generic principles as well as domain-specific risks, such as from river flooding or hazardous waste were applied.

Figure 46 – Geological map of Kosovo



Kosovo has a varied geology that ranges in age from the Neo-Proterozoic to the Holocene. The geology is characterised by substantial structural features on a regional scale, including normal faulting and thrusting. General simplification of the stratigraphic sequence is as follows:

Holocene:	scree formed from weathering of mountains and alluvium deposited by the rivers.
Pliocene:	andesitic chert.
Upper Miocene-Pliocene:	formation of lignite from the accumulation and subsequent decay of vegetation in sedimentary basins.
Oligo-Miocene:	conglomerates, clays and lime stones, accompanied by acidic to intermediate magmatism. Late Cretaceous 'molasse': shallow-water carbonates and clastics.
Upper Cretaceous 'flysch':	marly limestones, sandstones and conglomerates.
Early Cretaceous:	conglomerates, sandstones and silts.
Late Jurassic:	massive limestones.
Triassic-Jurassic:	basic and acidic magmatism, and associated ophiolitic crustal rifting and obduction of ultrabasic rocks.
Triassic:	clastics with volcanics giving way to carbonate platforms that grade up into dolomites, some of which have been metamorphosed to marble.
Permo-Triassic:	carbonates, clastics, phyllite, schists and quartzites that have been invaded by acidic magmatism (quartz porphyries).
Late Palaeozoic:	schists.
Neo-Proterozoic-Palaeozoic:	basement of schists, gneisses and amphibolites that have been invaded by granitic plutons.

In Late Cretaceous times, extensive continental collision during the Alpine Orogeny led to the formation of the Alps and associated mountain ranges throughout central and southern Europe. The rapid erosion of these contorted rocks of both marine and continental origin resulted in the deposition of the flysch cover sequence, composed of marly limestones and clastics. As the Alpine Orogeny waned, so the young mountain ranges were eroded to produce the continental molasse cover sequence that formed predominantly in intermontane basins throughout the Alpine Zone. Some of the continental clastic sediments preserved in Kosovo probably represent molasse deposits. Basin depressions within Kosovo were sites of luxuriant vegetation growth that finally became overwhelmed by sedimentation and led to the formation of the substantial stratiform lignite deposits. The Pleistocene glaciations that affected Europe removed much of the soil cover from Kosovo's ring of surrounding mountains, leading to the formation of substantial talus deposits along the steep mountain flanks.¹⁸

¹⁸ www.kosovo-mining.org

Main water recipient in Gjakovë municipality is Ereniku River. This river flows in south-east direction along the mountains on the Albanian border. It flows into White Drine River and eventually reaches the Adriatic Sea.

Water is distributed unequally across the country and overall demand is expected to rise due to greater urban, industrial, and agricultural demand. All rivers in Kosovo are classified as being polluted and having unacceptable levels of biological oxygen demand as well as lack of dissolved oxygen due to the lack of operating wastewater treatment systems.

Monitored water pollution comes mainly from bacteriological contamination due to the absence of operational wastewater treatment plants in Kosovo. Twenty-two hydrometric stations operated by the Hydro-meteorological Institute monitor surface water quality. Neither groundwater monitoring nor urban wastewater monitoring exists.

Main industrial polluters are the Kosovo Energy Corporation (KEK), Ferronikeli, and Sharrcem, as well as Trepca, Kishnica, Artana, and other mines. Polluted water from industry and mining is mainly acidic, with heavy metals such as cadmium and lead in the wastewater.¹⁹

Gjakovë town is situated among four rivers. The biggest one is the Ereniku River, which flows by the southern edge of the city. The Krena River runs through the old city center. Llukaci River flows by the eastern part of the city. The smallest water stream is Nakarade Creek. The latter three effluents of the Ereniku River flow from the north. Short Vogovicë River brings water from mountains on the Albanian border and flow into the Ereniku River west of Gjakovë.

4.8. DATA ON THE ENVIRONMENT

The 2007 Sustainable Development Strategy of Gjakovë Municipality lists the following locations as potential environmental hot spots (particularly, if the industrial use of these sites is re-activated):

- (i) Metal factory „Metaliku“: which when it becomes functional, will present a pollution factor for Krena river and the surrounding wells;
- (ii) A part of the village Deva, where the Deva mine was active, which is covered with remains of chrome enrichment. This large field covered with chrome remains has never been cleaned, and presents a permanent risk for inhabitants' health and the environment;
- (iii) The industry for construction material (Deçan) is a polluting factor for the rivers that pass through Gjakovë and the surrounding wells.

When still in use the company JATEX was a producer of textile. It can be expected that there may be some residual pollution within the production hall walls, roofing and insulation materials caused by asbestos fibers. If dyeing was part of the textile production cycle, presence of other synthetic dyes components (sulphur, naphthol, vat dyes, nitrates, acetic acid, soap, heavy metals and certain auxiliary chemicals) that can pose environmental hazard can be expected. If allowed to flow in drains to the nearby water flow which is a tributary of the Ereniku river, it could effect the quality of river water.

Given the brownfield site has not been used for more than a decade, a large amounts of contaminants could have already been broken down by natural attenuation. Possible heavy metals contamination can be re-moved (or minimized) by some of in situ rehabilitation methods (i.e. on site, without the necessity to (re)move the contaminated materials), e.g. by sealing the contaminants under impermeable construction layer or by cementation (i.e. by prohibiting contaminants' movement and thus limiting negative environmental impact). A detailed risk analysis, which goes beyond the scope of the presented feasibility study, can reveal both concrete sites that need rehabilitation and the degree of contamination and associated risks.

¹⁹ Kosovo Country Environmental Analysis, World Bank 2012

CHAPTER 5

➤ 5. INVESTMENT PLAN

This chapter provides a plan for revitalization of the JATEX brownfield along with a proposed building plan, project construction phasing, cost breakdown, and implementation timeframe and zone use guidelines.

5.1. CURRENT SITUATION

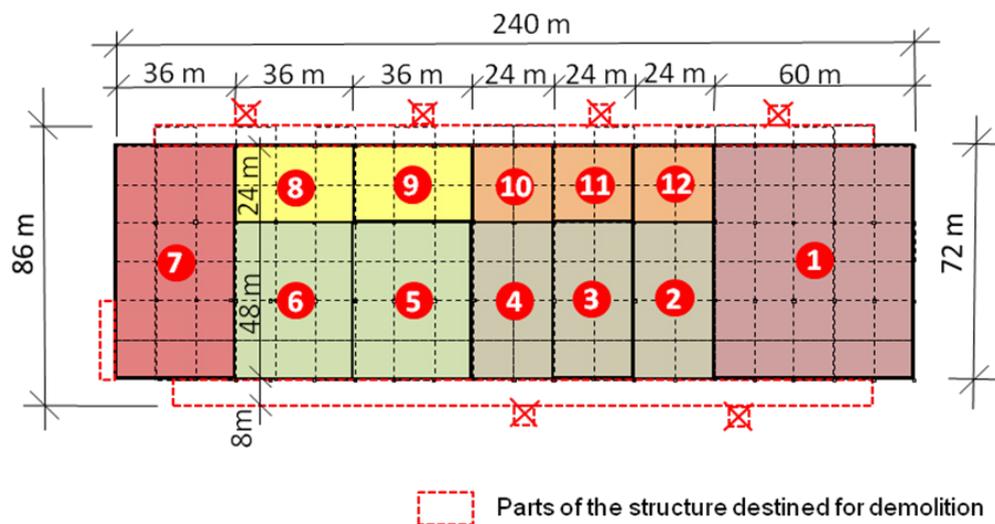
The existing site built-up area covers the surface of 38 000 sq meters. There is currently just one building located on the site, in poor technical conditions. The built-up area of this building is approx. 19 000 sq meters.

5.2. BUILDING PLAN

The existing building cannot be used for business purposes without reconstruction. The aim of the reconstruction is to create new business units.

The size of the business units can be ideally from 576 m² (24 m x 24 m) to 4 320 m² (72 x 60 m). In the reconstructed building there will be room for 12 units.

Figure 51- Proposed new use of JATEX brownfield as individual business units



The proposed size of each unit is shown on the table below:

No.	L (m)	W (m)	Description	Proposed action
1	72	60	4 320	34 560
2	48	24	1 152	9 216
3	48	24	1 152	9 216
4	48	24	1 152	9 216
5	48	36	1 178	13 824
6	48	36	1 728	13 824
7	72	36	2 592	20 736
8	36	24	864	6 912
9	36	24	864	6 912
10	24	24	576	4 608
11	24	24	576	4 608
12	24	24	576	4 608
TOTAL			17 280	138 240

The total size of the useful floor space in the industrial building after completion of its regeneration construction works will be 17.280 sq meters. Expected employment in all business units is approx. 900 people.

Each unit consists of a multifunctional hall with an eaves height of 6 m. Offices, a showroom, a sanitary unit, etc. can be integrated on a tailor-made basis. Each unit will fulfill following conditions: polished concrete floor 3T/m², facade with insulated wall panels (U = 0,30 W/m²K - mineral wool), 1 electrically operated loading door for trucks (3,50m x 4,20m) per unit, Insulated roof (U = 0,23 W/m²K - 160 mm rockwool) with skylights, utility connections (water, gas, electricity, telecom).

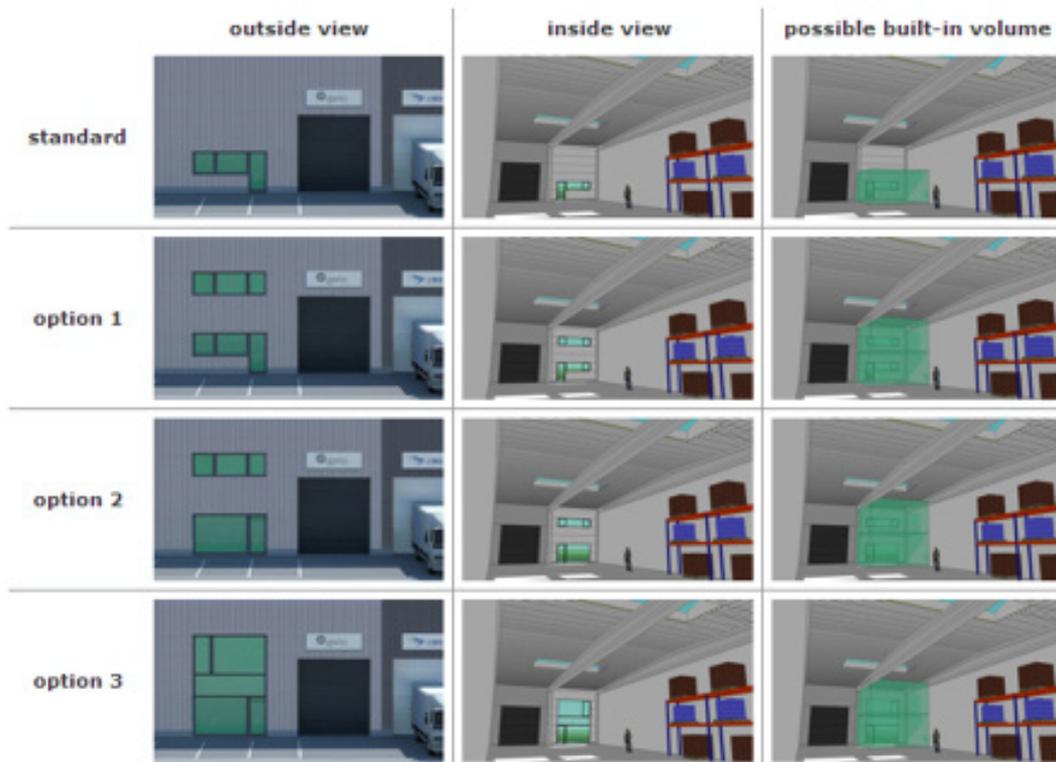
Figure 52- Business units visualization





The following figure displays various options for integrating offices, a showroom, a sanitary unit, etc. on 1 level (standard) or 2 levels (options 1 to 3):

Figure 53- Various options of business units configuration



The future regenerated property will look like the new modern industrial or business premises meeting international standards visualized below in Figure 54.

Figure 54 – Phase 1 building plan (visualization)



5.3. MEANS OF FINANCING

As the zone will be developed using an existing brownfield and provided the Municipality of Gjakovë ownership rights of JATEX site are not disputed by a third party, the overall initial costs can be relatively low in comparison to developing a greenfield.

As the site is relatively small, a phased construction process is not necessary and the site can be developed at once with or without financial participation of an incoming investor.

There are various alternatives as to how to finance the zone development:

- Municipality will cover all construction and operation costs from its own funds
- Municipality will resort to debt financing and will take a loan to cover some / all costs
- National government will provide financial assistance to the municipality (partial or full funding).

Currently, the Municipality of Gjakovë is prepared to finance 20-30% of construction costs out of its own budget. The contribution of the national government remains unclear and so does co-financing by private investors.

5.4. PROJECT FINANCIAL PLAN

See page 57.

5.5. TIMEFRAME

See page 58.

5.6. FENCED ZONE ADMINISTRATION

As the zone will initially be developed as an “industrial zone (park)” rather than a “free zone”, there will be no need to provide a fenced zone administration function apart from providing basic public services (access road maintenance, public lighting, waste collection). This is the most cost effective model for the municipality to follow. Should the investors (tenants) require some additional services (e.g. site security services, site fencing, etc.), these can either be provided on a public-private partnership basis or secured by the investor itself on a commercial basis.

An industrial zone concept does not require the municipality to fence the area; fencing may be, however, a preferred option given the existence of remaining brownfield facilities that should be off limit to general public. Yet, renewing the fence around the site will be a one-time expenditure that is not linked to any administrative function.

5.7. TYPE OF ZONE – PURSUANT TO THE LEGISLATION IN FORCE

The economic zone of Jatex is to be developed as an “industrial park”. Given that Government of Kosovo has already declared the whole municipality of Gjakova “a free economic zone”, the prevailing opinion (confirmed by Ministry of Industry and Trade) is that no further licensing for free zones operating within the municipality is necessary.

However, currently there are no free zones operating in Kosovo. According to information provided by the Customs Office of Kosovo there are close to 160 customs warehouses operating in the country, yet no free zone as defined by Kosovo Customs and Excise Code. The Customs Office is currently preparing internal guidelines, procedures and conditions that will apply to operation of free zones (and their operators), which will come into effect by the end of 2014. The Customs Office indicated that only control type I free zones (i.e. fenced zones) would be allowed in Kosovo and that sites located within the perimeter of municipality of Mitrovica, Gjakova and Prizren that want to benefit from a free zone status will still need to receive a Custom office permission to operate a free zone. This leaves the Government’s declaration of three Kosovo municipalities “free economic zones” in a legal vacuum and is likely to have no legal relevance.

What are free zones?

Free zones are special areas within the customs territory of a given country. Goods placed within these areas are free of import duties, VAT and other import charges. In the EU free zone treatment applies to both non-EU and EU goods. Non-EU goods stored in the zone are considered as not yet imported to the customs territory on the EU whereas certain EU goods in the free zones can be considered as already exported.

On importation, free zones are mainly for storage of non-EU goods until they are released for free circulation. No import declaration has to be lodged as long as the goods are stored in the free zone. Import and export declaration have to be lodged when the goods leave the free zone. In addition, there may be special reliefs available in free zones from other taxes, excises or local duties. These differ from one zone to another. The free zones in the EU are mainly a service for traders to facilitate trading procedures by allowing fewer customs formalities.

There are two types of free zones: control type I free zones and control type II free zones. Control type I free zones have a perimeter fence so that goods placed there, which is supervised by customs, are automatically under this regime. Control I free zones are highly labor intensive for the customs. The rules for control type II free zones are essentially the same as those governing customs warehouses. This means that, unlike with traditional-style free zones, the goods are subjected to a declaration in order to be able to benefit from the arrangement

Today, the EU is home to 56 free zones of type I and 18 type II zones. However, the forthcoming implementation of the Modernized Customs Code will significantly impact on this system. Some major changes include the introduction of EU-wide administrative penalties, progressive computerization of customs procedures and formalities, a merger of customs procedures and treatment in three categories (import, export and special procedures), as well as the abolition of control type II free zones. This means, in practice, that all free zones must be fenced in the future. Kosovo Customs Office confirmed that Given Kosovo’s ambitions to sign the Stabilization and Association Agreement and harmonize its legislation with the EU, Kosovo would also follow these changes and will allow only control type I, i.e. fenced zones.

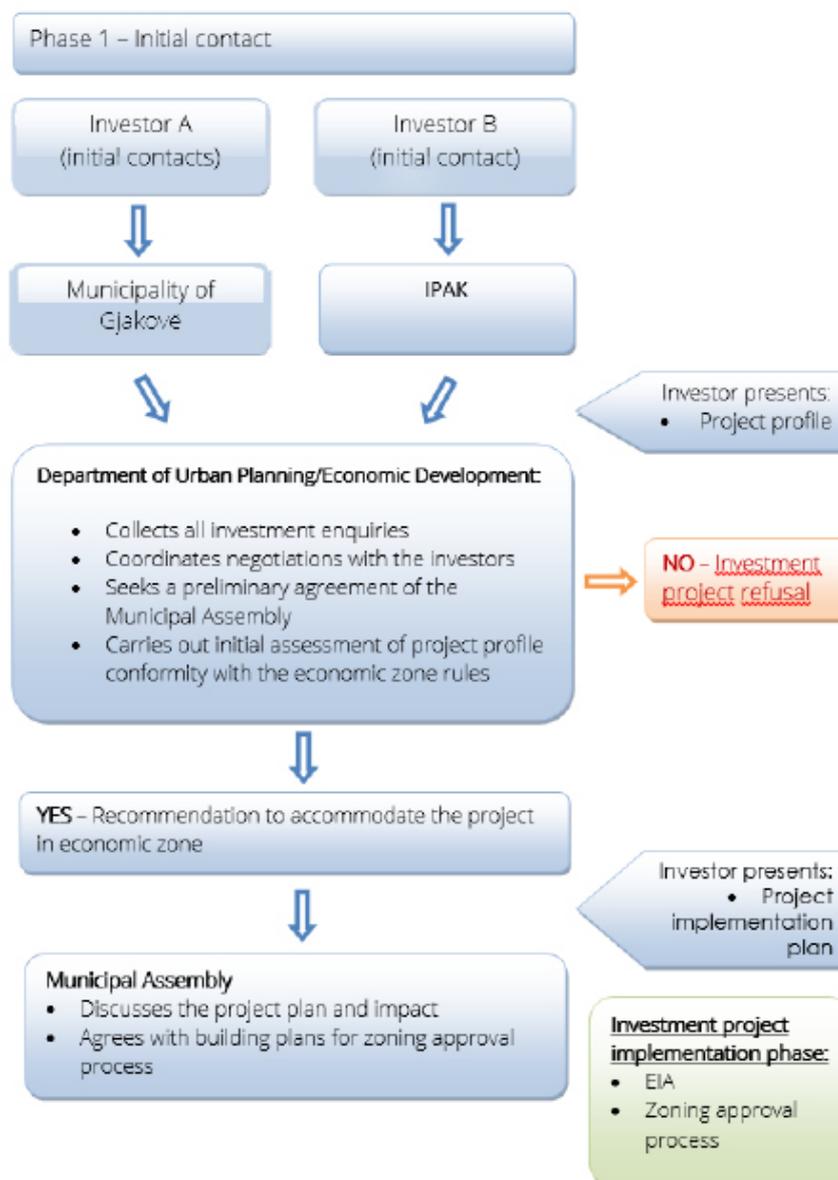
Source: http://ec.europa.eu/taxation_customs/customs/procedural_aspects/imports/free_zones/index_en.htm

Establishment of free zones has direct financial implications on public budgets as free zones operation, security control and on-site presence of customs office will require additional costs that need to be borne by someone – either central government, municipality or by the zone tenants. As at the time of writing this report Kosovo Customs Office has not yet defined the technical parameters that free zones need to comply with, it is impossible to assess the compliance costs that zone developer and operator will incur, neither foregone earnings from exempted taxes, customs duties and fees.

5.8. SELECTION CRITERIA AND STIMULUS WITHIN THE ZONE

The Municipality currently does not plan to provide any particular investment incentives to companies located within the future economic zone apart from those provided by the central government.

Although the Municipality currently does not have any guidelines for selecting the future tenants of the zone, the following outline could serve as a basis for establishing such rules.



Phase 2 – Contract negotiations, signing MoU

Municipality of Gjakovë:

- Prepares text of MoU
- Prepares text of zone lease contract and negotiates lease conditions with the investor
- Discusses with the investor project sustainability and agrees on sustainability guarantees



Municipal Assembly

- Approves MoU

Investor presents:

- Project documentation
 - Zone lease contract documents

Investment project implementation phase:

- Building permit process

Phase 3 – Concluding a (provisional / future) zone use contract

Municipality of Gjakovë:

- Prepares final zone use contract (or provisional use or contingent contracts)
- Presents project sustainability guarantees



Municipal Assembly

- Approves zone use contract (or provisional use of contingent contract)

Investor presents:

- Building construction permit
 - Information on project realization

Investment project implementation phase:

- Construction
- Building approval

CHAPTER 6

➤ ENVIRONMENTAL ASSESSMENT

6.1. OVERALL IMPACT ON THE ENVIRONMENT

Given its previous light industry use, it is unlikely that the site will pose big ecological challenges. Asbestos fibers traces may be present in the old industrial hall walls, roofing and columns, and dyeing chemicals (including heavy metals) are also likely to be found on site in case textile dyeing process was part of the previous production. However, given the time lapse between the last use and today, these risks are unlikely to be substantial unless future construction works uncover these sediments.

6.2. POSSIBLE IMPACT ON THE ENVIRONMENT DURING THE PHASE OF THE CONSTRUCTION OF THE ZONE ALONG WITH THE RESPECTIVE INFRASTRUCTURE

As there may be some environmental impact during the construction phase, it will be necessary as minimum to undertake occasional monitoring of asbestos in the building structures, heavy metals and hydrocarbons in soil and suspended solid particles in the air (and water).

Given the topography of the site and its location to the nearby tributary of the Ereniku river, it will be necessary to eliminate potential river water pollution by flushes and leakages of contaminants present on the industrial site. According to our expert estimate the current environmental impact of the existing brownfield is not significant. As the access (road) infrastructure is already in place, we do not expect any environmental impact from construction infrastructure either.

6.3. POSSIBLE IMPACT ON THE ENVIRONMENT DURING THE OPERATIONAL PHASE OF THE INDUSTRIAL ZONE ALONG WITH THE RESPECTIVE INFRASTRUCTURES

It is difficult to assess the possible impact on the environment during the operational phase of the industrial zone without knowing the type of investment that the site will accommodate. Nevertheless, as the zone is located at the city outskirts and is accessible in various ways than solely through a city center and residential areas with high density of population, transport services and accessibility should not cause a negative impact on environment. Given the size of the zone and the proposed use for light industry manufacturing and/or warehousing, we do not expect any emission pollution caused by small solid particle and fumes. Noise levels are likely to be within tolerable limits given the zone location on the outer perimeter of the city and the distance from residential areas.

In any case, general sustainable development rules and all Kosovo environment related legislation need to be observed by all future zone users (tenants), e.g. Law no. 03/L-024 on Environmental Impact Assessment.

CHAPTER 7

➤ FINANCIAL ANALYSIS

7.1. METHODOLOGY AND ASSUMPTIONS

Financial costs calculation is based on the following assumptions:

1. Reconstruction and infrastructure costs were calculated in a detailed way based on known construction needs and unit costs of work – see chapter 5.4.
2. Maintenance costs were set as 1 % of value of the construction costs.
3. Personal costs - we expect municipality to employ 2 full time employees until the hall is fully “sold out” to investors, after that time it will be only one half of an employee. Costs for 1 employee were set rather high at 5000 € annually to be able to employ necessary experts.
4. Inflation rate is estimated at 2 % annually and all costs (construction, personal) are increased by this factor.
5. All calculations consider twenty years of life of the project.

At the same time we expect the following direct financial revenues:

1. Price of rent – 20 € per 1 square meter per year. The financial model estimates 2% annual increase of the rent.
2. This is the only revenue since property tax is zero for rented small business units and there is no contribution to municipal budget from personal income tax.

7.2. CONSTRUCTION / RECONSTRUCTION

We expect that public sector will sponsor reconstruction of the existing object and create up to twelve individual business units. The size of the business units can start with 576 m² (24 x 24 m), go on to 864 m² (24 x 36 m), 1152 m² (48 x 24 m), 1728 m² (48 x 36 m), 2592 m² (72 x 36 m) up to 4320 m² (72 x 60 m). There will be in total 17 280 m² of available space in these units. Each unit consists of a multifunctional hall with eaves height of 8 m. The necessary public investment for buildings is estimated at 3,859,817 € and investment into infrastructure shall not exceed 547,573 €. If we add 10 % of reserve costs for a reserve then 1 m² of business space costs about 281 € and this number indicates how high the annual rent should be for the project to become financially feasible (to receive invested money back within 20 years of life of the project).

We have calculated financial results for 4 main scenarios (optimistic, realistic, pessimistic and ultra-pessimistic) which differ in time needed to “sell out” all business units. Optimistic scenario expects to find tenants for 50 % of these units in year 2 and 95 % in year 3, while realistic scenario moves these expectations to 25 % in year 2, 60 % in year 3 and 95 % in year 4. The pessimistic scenario plans to rent 25 % in year 2, 50 % in year 3, 75 % in year 4 and 95 % in year 5 and ultra-pessimistic scenario expects that only 60 % of space will ever find tenants.

Figure 55 shows difference between these scenarios, for each of them net present value, internal rate of return are calculated together with annual rent needed to make the project financially feasible both for municipality (20 years of return) and private developer (5 years of return) and grant needed in case the rent is 20 €/m².

Figure 55 – Financial results of different scenarios

	optimistic	realistic	pessimistic	ultra-pessimistic
total costs	6 113 508	6 121 467	6 129 585	6 129 585
total incomes	7 821 792	7 612 013	4 882 091	4 882 091
NPV (net present value)	-1 867 784	-2 059 880	-2 153 156	-3 251 576
IRR (internal rate of return)	2,78%	2,37%	2,17%	2,44%
grant needed for rent of 20 €	1 867 784	2 059 880	2 153 156	3 251 576
rent needed for municipality (grant = 0)	30,40	32,10	33,01	49,50
rent needed for developer (5 year return)	89,70	106,00	115,80	152,50
cost of 1 m ²	280,56	280,56	280,56	280,56
infrastructure costs	4 848 129	4 848 129	4 848 129	4 848 129

Source: own calculations

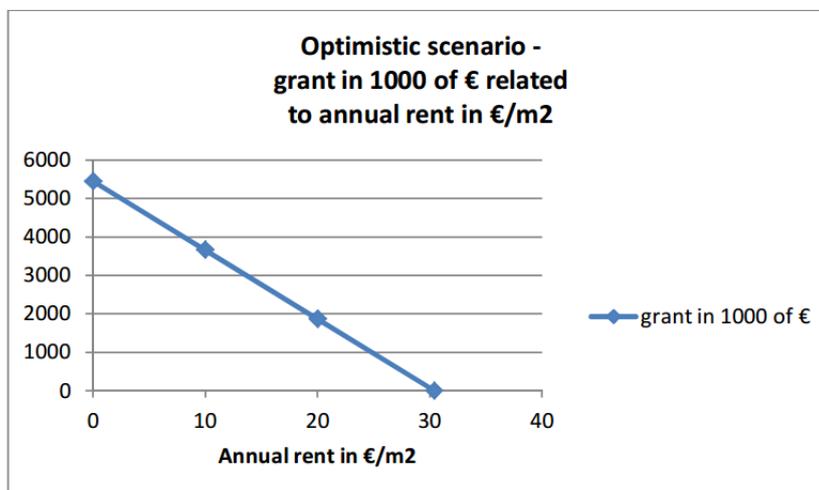
Net present value (NPV) compares the present value of money today to the present value of money in the future, taking inflation and returns into account. To put it simply: 1 euro paid today has a bigger value than 1 euro received 5 years from now. Therefore we cannot just deduct total incomes and total costs to get the value of the project. We usually pay first and receive money later and this “late” money has lower value than money paid today (because of inflation and other opportunity costs how to invest this money to generate profit). NPV represents the difference between the sums of discounted cash inflows and cash outflows. Negative NPV means that the sum of discounted inflows is smaller than the sum of discounted outflows - simply “investor will receive less money than what he has invested”. In this specific project it means that if public sector invests necessary amount of money (for technical infrastructure and reconstruction of the building) and charges rent which is given in assumptions, he will lose money on this project. In order to reach positive NPV, the municipality has to either charge higher rent or to receive external grant (i.e. a subsidy from the central government). That is why we have also calculated “how much money should someone pay you as a grant” to make your project feasible (so that you lose no money) - this is number called “grant needed”. Logically, value of the grant equals to the net present value of the project.

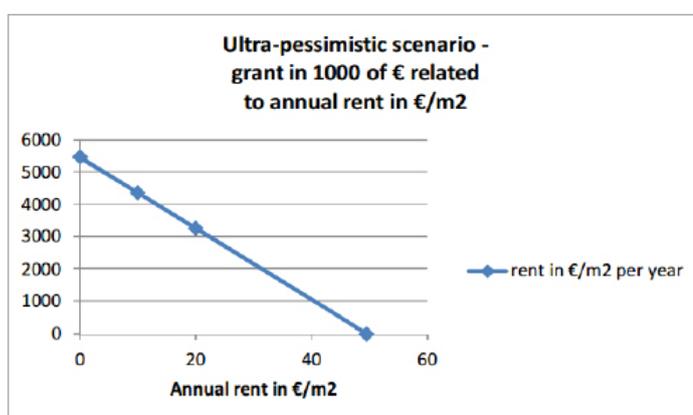
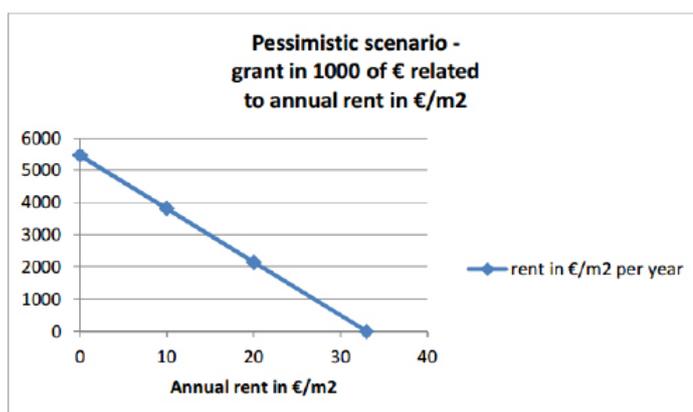
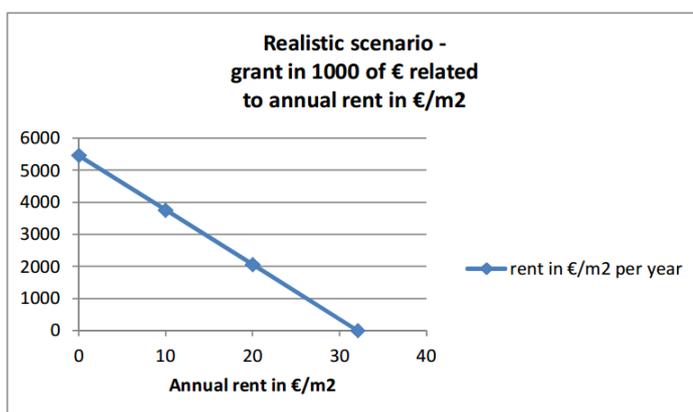
Internal rate of return (IRR) says what should be the discount rate under which the net present value of the project is zero. Note that IRR improves as the zone fills with new tenants.

The number “rent needed for municipality” shows how high the rent should be in case there is no external grant and municipality wants to receive money back within 20 years. The “rent needed for developer” calculates the amount of rent which will return the initial investments within 5 years.

Figure 56 shows how the rent charged influences grant needed to receive the investment back – from about 5,460,000 € in case there is no rent charged to 0.00 € if the rent is 30.40 € per 1 m² annually for optimistic, 32.10 € for realistic and 33.01 € for pessimistic scenario.

Figure 56 – Relationship between annual rent and grant needed for municipality





Source: own calculations

7.3. FINANCIAL ANALYSIS FINAL RESULTS AND CONCLUSIONS

Using the information presented in Figures 55 and 56, one can conclude that:

- The project is feasible without external grant if investors appear and fully occupy the building within 5 years and pay rent between 30 and 33 € per 1 m² of business space;
- There is always a “reasonable combination” of rent and external grant which both makes the project financially feasible and the rent attractive enough for potential investors – even for the ultra-pessimistic scenario which is presented ONLY to prove that the solution always exists;
- Private developer would need to charge around 90 – 100 € per 1 m² of business space in order to receive his money back within reasonable time (five years return on investment);
- In conclusion, we believe that reconstruction of JATEX is a healthy and feasible project with more positive results than reconstruction of Metaliku factory. Initial investment into the building reconstruction is necessary but this money should return relatively fast. When adding the economic benefits of the zone (economic analysis), the zone shows high positive NPV and IRR from the very beginning.

CHAPTER 8

➤ ECONOMIC ANALYSIS

Direct financial costs and revenues are taken from the Financial Analysis. The main purpose of the hall reconstruction however is job creation and jobs should be calculated as the main additional benefits. We were coming out of the following assumptions:

1. There will be 3 jobs created per each 100 m² of (occupied) small business unit.
2. One job will bring 3360 € per year on salaries and social taxes.
3. There may be only symbolical rent charged to tenants and this will be used as financial incentive to attract businesses into the facility/zone.
4. There is no unemployment subsidy in Kosovo – therefore creation of 1 job will not bring additional benefit to national / local budget.
5. Value added tax would be applied to production of the new enterprise (if the goods are not exported). We use a conservative lower estimate of applying VAT just on part of the production equal to salaries.
6. Corporate tax (10 %) will be applied on 10 % of turnover which is estimated as 2 times salaries paid.
7. New enterprise shall also create demand on local raw materials / semi-products / services / energy and we estimate this contribution by 25 % of total production.
8. All benefits are calculated for entire Kosovo since they are either collected by national budget or difficult to distinguish as to their point of origin.
9. No additional costs were considered.

8.1 ECONOMIC ANALYSIS CALCULATIONS

The scenarios are identical as in financial analysis (see chapter 7), however, the results are substantially different – see figures 57 and 58.

Figure 57 - Economic results for basic scenarios when rent is 1.00 €

	optimistic	realistic	pessimistic	ultra-pessimistic
total costs	6 113 508	6 121 467	6 129 585	6 129 585
total incomes	67 944 344	66 904 725	65 962 825	42 910 459
NPV (net present value)	25 676 840	24 406 094	23 632 739	13 978 329
IRR (internal rate of return)	50,57%	43,12%	40,69%	32,07%

Source: own calculations

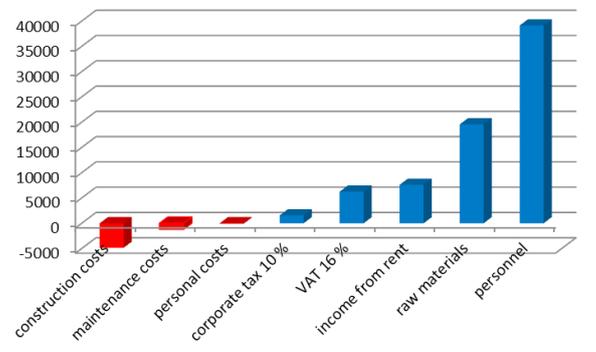
Figure 58 - Economic results for basic scenarios when rent is 20.00 €

	optimistic	realistic	pessimistic	ultra-pessimistic
total costs	6 113 508	6 121 467	6 129 585	6 129 585
total incomes	75 375 047	74 136 137	73 092 432	47 548 446
NPV (net present value)	29 081 152	2 633 917	26 777 619	16 079 709
IRR (internal rate of return)	55,37%	46,70%	43,98%	35,05%

Source: own calculations

Both figures prove that benefits from jobs created in the zone, increased demand for local goods and other taxes paid are significantly higher than the costs necessary for infrastructure and buildings reconstruction. The project is economically feasible under all scenarios and even in case there is no or only symbolical rent charged to businesses in small business units. Figure 59 clearly demonstrates importance of individual factors.

Figure 59 – Main benefits and costs in thousands of € for the realistic scenario



8.2. SENSITIVITY ANALYSIS

Assumptions on which we based the financial and economic analysis include more than 10 variables and each of them influences the final result. However, some of them seem to be more important than others. On the cost side it is the construction cost which is responsible for by far the biggest part of total costs. We believe that the numbers that we are using were estimated in a realistic way. In financial analysis the only revenue comes from rents. It is the ratio “construction cost” / “rent” which influences the financial result more. We can see from the results that construction costs should not be more than ten times higher than annual rent to make the project financially feasible. Namely – if the construction costs are around 280 € / m² (as calculated) then the annual rent should be between 30 and 33 € / m². If we expect that the construction costs will be as high as in the Czech Republic (345 € / m²) the annual rent should be between 36 and 39 € / m.

The second important factor is the “speed” of attracting investors. The later the investor comes, the longer the municipality has to wait before it starts receiving any income and the higher the price of rent should be to cover the costs within 20 years. To wait for an investor for 2-3 years is economically viable and under certain circumstances (see results in financial analysis) also financially feasible. We could not cover all possible scenarios when the investors might appear and how fast they will increase number of jobs from the start-up phase to full production, however we believe that reality will always be within the calculated range.

For economic analysis it is crucial how many jobs will be created. The average 3 jobs per 100 m² of small business unit are based on the best estimates and experience from small businesses. In that case some 500 jobs might be created in the building. Since the results of financial analysis do not depend on this value (income from salaries does not belong to financial benefits) and results of economic analyses are extremely positive, we can reduce this number to 2 jobs per 100 m² of small business unit (creating 330 jobs). In that case NPV will be on some 60 % of the original NPV but still providing sufficient benefits and reasons to invest into reconstruction.

Average salary of employees in the zone is as important as number of jobs. We are using a conservative estimate of 265 € monthly salary (increased by 2 % every year). It is probable that this number will in reality be higher but at the same time Kosovo is attracting mainly efficiency seeking investors who are interested in relatively low salaries. Even 100 € of average monthly salary makes the project economically feasible. The lower threshold of total annual salaries paid in the zone/facility should be around 150,000 €, regularly increased by inflation for at least 16 years. In such case economic benefits outweigh the costs.

Finally, there is the issue of proper value of discount rate. While everyone agrees that the choice of discount rate is a crucial determinant of the value of public projects, there is less agreement on the appropriate discount rate to use to calculate present value. Academics, cost-benefit guides and textbooks give widely conflicting advice. It is generally accepted that the value of discount rate for government (not for profit projects) is lower than discount rate for private business. Therefore it is possible to consider the discount rate $r = 6\%$. The general results will remain the same, however the necessary rent per m² of business space will decrease by some 15 % making the project even more attractive.

There are other variables related to salaries – annual turnover of the company and out of it derived corporate tax, VAT and increased demand on local services / raw materials. We believe that we are using very conservative estimate such as added value equals to salaries paid. However, there are unfavorable scenarios which may decrease even this estimate – it is theoretically possible that there is an investor who imports all raw materials and exports entire production and does not generate any profit. Such case is not very probable and while negotiating with potential investors the municipality should take care of this and maybe even facilitate cooperation with local suppliers so that there is bigger impact on regional / national economy.

8.3. ECONOMIC ANALYSIS FINAL RESULTS AND CONCLUSIONS

It is possible to find combination of external grant and rent charged to make the project financially feasible. Since the economic analysis proves important benefits to national budget, the national government should be willing to provide financing (necessary grant) for this project.

CHAPTER 9

➤ ZONE USE

(ACTIVITIES TO BE EXERCISED WITHIN THE ZONE)

The economic situation in Kosovo can be summarized as follows:

- It is a small country with a small internal market
- Industrial base and industrial history are limited
- Retail markets are flooded with products imported from abroad
- Purchasing power of the population is relatively low but is growing
- The country is located at the edge of the main European markets but with close proximity to the growing markets in the neighboring transitional economies
- Until recently, there were relatively few greenfield investments, especially greenfield ones

From the analogy between Kosovo and Moldova (country in many ways similar to Kosovo) and inflow of greenfield FDI into Central Europe (Czech Republic, Hungary, Poland, Slovakia) in the 1990's, the following developments might be expected:

- Inflow of manufacturing projects producing goods which are difficult/costly to transport, such as food and other fast-moving consumer goods, construction materials, or furniture
- Inflow of investment projects by suppliers of large producers located in the neighboring countries (car makers, electronics producers)
- Inflow of labor-intensive manufacturing projects requiring skilled workforce at reasonable costs
- Inflow of investment projects by the Kosovar diaspora into niche markets and as suppliers of foreign investors

Unlike countries of Central Europe in the period before the start of the global financial crisis, Kosovo probably will not attract in the foreseeable future many large greenfield investment projects which would create more than 500 or even 1,000 jobs each. There are two reasons for this: firstly, the demand in Europe for nearly all kinds of products is currently lower than existing production capacities and producers therefore are not forced to build new production facilities. Secondly, the high unemployment rate in most European countries and resulting political sensitivity is preventing companies based in Europe from considering large relocations to countries with lower production, mainly labor costs. On the other hand, many companies from the fast-growing countries outside of Europe and North America are looking for ways how to penetrate the European market and in some cases they see locations in the countries neighboring with the European Union as the potential gate to that market. It is therefore possible to expect inflow of greenfield investment from the countries which made only very limited investments in Central Europe in the pre-crisis period, such as Turkey, China, India, Brazil or Russia. Turkish companies are already investing in Kosovo and elsewhere in the region.

9.1. SECTORS OF POTENTIAL INVESTMENTS

Data available indicate that several sectors provide the majority of new investment projects in Europe: the automotive industry (production of automobiles and automotive components), manufacture of electronic products (such as computers, TV sets, and other consumer electronics), production of food and drinks, manufacture of industrial machinery and equipment, provision of business services such as repair, accounting, and IT services, and software development.

Figure 60 - Main sectors for FDI in Europe, 2010-2012

Sector	Number of investment projects		
	2010	2011	2012
Automotive manufacturing	258	270	270
Business services	561	666	699
Production of chemicals	154	144	173
Electrical engineering	139	158	112
Manufacture of electronic products	182	168	168
Financial services	178	149	144
Food and drinks production	144	172	142
Manufacture of machinery and equipment	267	283	287
Software	379	436	402
Transportations services	175	180	200

Source: own calculations

Figure 61 - Main sectors for FDI in Central and Eastern Europe, by job creation, 2009

Sector / products	Jobs created in 2009	Share of the total (%)
Automotive industry	27,002	41
Manufacture of electronic products *	7,611	11
Food and drinks production	5,426	8
Manufacture of machinery and equipment	3,774	6
Production of non-metallic mineral products**	2,459	4
Electrical engineering	1,997	3
Manufacture of furniture and sports equipment	1,398	2
Manufacture of rubber and plastic products	1,341	2
Wood processing	1,265	2
Production of fabricated metals	1,259	2
Software	1,258	2
Production of chemicals	1,243	2
Production of oil and gas	1,025	2
Business services	1,009 ***	2

* manufacture of electronic products includes manufacture of computers

** production of non-metallic mineral products includes production of building materials.

*** drop of more than 60% in comparison with the previous year.

Evidence from the surrounding and similar countries suggests, that sectors such as automotive, production of machinery and equipment and food processing are usually among the first to make greenfield investments in a country. Moldova did not attract any greenfield investments until 2010/2011, only privatization projects, mergers and acquisitions, or investment by Moldovan diaspora. In the last few years, however, Moldova managed to attract several greenfield projects, such as:

- manufacturing plant of the multinational firm Lear Corporation (headquarters in the USA), which is producing automotive components such as textile parts of automotive seats and reportedly employs more than 1,000 employees in Moldova
- manufacturing plant of the Germany company Dräxlmayr, which is producing wire harnesses for the automotive industry and reportedly employs several hundreds of employees
- production factory of the Irish company Perri Crisps which produces potato chips and employs several dozens of people in Moldova.

9.2. IMPORT SUBSTITUTION

Another factor contributing to the expected higher inflow of direct investment in the greenfield form is Kosovo's unfavorable balance of trade. Kosovo did not have a rich industrial history and its industrial base is somewhat limited. Combined with a small internal market, this has resulted in a relatively small number of final products, which are sold on the retail market in Kosovo. The majority of products available in Kosovo shops is of foreign origin and has been imported. Trade statistics show negative balance of trade in all categories. Massive import of mineral fuels, lubricants and related materials is natural, as Kosovo does not have any sources of oil. Nevertheless, significant imbalances also exist in other areas, such as food, manufactured goods and machinery.

At the same time, as Kosovo GDP per capita and purchasing power of the population are growing, it might be expected that demand for all kinds of goods and products will continue to grow. Once the local demand for some products will reach a critical mass, some of the producers of these products might consider setting up a production facility in Kosovo or one of the neighboring countries.

Figure 62: Kosovo's foreign trade, 2005-2011, by sector (000's EUR)

Kodi Code	EXPORT	2005	2006	2007	2008	2009	2010	2011
0	Food and live animals	5 076	8 526	14 215	14 684	14 550	18 710	17 552
1	Beverages and tobacco	2 754	2 785	3 887	5 808	5 088	5 368	8 097
2	Crude materials, inedible, except fuels	26 852	42 904	53 513	45 582	38 341	73 944	81 108
3	Mineral fuels, lubricants and related materials	1 721	8 540	12 576	8 313	7 213	10 845	16 229
4	Animal and vegetable oils, fats and waxes	143	247	:	23	76	100	45
5	Chemicals and related products	1 327	1 386	1 356	2 389	2 421	2 426	4 174
6	Manufactured goods	6 678	31 885	50 689	104 909	84 111	165 993	168 766
7	Machinery and transport equipment	8 829	8 940	22 697	10 727	7 847	9 745	16 162
8	Miscellaneous manufactured articles	2 895	5 561	6 180	6 027	5 680	8 735	6 902
9	Other	8	:	:	:	:	91	131
	TOTAL EXPORT	56 283	110 774	165 112	198 463	165 328	295 957	319 165
	IMPORT							
0	Food and live animals	206 183	228 336	272 443	336 901	323 764	354 396	413 054
1	Beverages and tobacco	65 679	73 439	91 333	110 462	87 284	102 099	114 472
2	Crude materials, inedible, except fuels	23 486	24 528	36 421	40 801	44 298	65 897	86 309
3	Mineral fuels, lubricants and related materials	182 381	217 116	258 356	343 537	282 766	339 225	452 498
4	Animal and vegetable oils, fats and waxes	9 932	13 940	15 524	20 152	15 994	17 346	19 292
5	Chemicals and related products	115 956	138 780	156 484	183 523	193 694	205 055	256 657
6	Manufactured goods	220 165	264 818	307 628	361 977	372 622	421 836	488 804
7	Machinery and transport equipment	234 273	232 228	294 302	362 637	436 205	439 861	422 316
8	Miscellaneous manufactured articles	99 438	112 694	143 656	168 187	178 874	202 580	226 544
9	Other	:	:	40	60	39	9 432	12 401
	TOTAL IMPORT	1 157 492	1 305 879	1 576 186	1 928 236	1 935 541	2 157 725	2 492 348
	BALANCE							
0	Food and live animals	-201 107	-219 810	-258 227	-322 217	-309 214	-335 686	-395 503
1	Beverages and tobacco	-62 925	-70 655	-87 447	-104 654	-82 196	-96 730	-106 375
2	Crude materials, inedible, except fuels	3 366	18 376	17 092	4 782	-5 957	8 048	-5 201
3	Mineral fuels, lubricants and related materials	-180 659	-208 576	-245 780	-335 224	-275 553	-328 380	-436 270
4	Animal and vegetable oils, fats and waxes	-9 789	-13 694	:	-20 129	-15 919	-17 246	-19 247
5	Chemicals and related products	-114 630	-137 394	-155 128	-181 133	-191 274	-202 629	-252 483
6	Manufactured goods	-213 487	-232 932	-256 938	-257 068	-288 511	-255 843	-320 038
7	Machinery and transport equipment	-225 445	-223 287	-271 606	-351 910	-428 358	-430 116	-406 154
8	Miscellaneous manufactured articles	-96 542	-107 133	-137 477	-162 160	-173 194	-193 845	-219 643
9	Other	:	:	:	:	:	-9 341	-12 270
	TOTAL BALANCE	-1 101 209	-1 195 105	-1 411 074	-1 729 774	-1 770 214	-1 861 769	-2 173 184

Source: ASK External Trade

9.3. LOGISTICS AND WAREHOUSING

Kosovo, as well as most of the neighboring countries, lacks modern logistics and warehousing facilities. This is indicated by the fact that none of the internationally- renowned industrial real estate agents such as CBRE, JonesLangLaSalle, Colliers or KingSturge, offer any modern logistics and warehousing space in Kosovo.²⁷

Modern logistics and warehousing space (see Figure 63) can be broadly defined as:

- Recently-built halls
- Single floor, except for offices
- Minimum floor area approximately 3,000 square meters
- Clear height at 10 meters
- Floor loading facility at least 5 tons / square meter
- Docks for truck loading plus drive-in gates
- Sufficient parking for trucks and amenity areas for drivers
- Easy access for trucks

Figure 63: Logistics park with modern logistics/warehousing buildings near Prague



The only facilities meeting the above criteria are several buildings near Pristina. The buildings were built for specific tenants and are currently fully occupied.

The fact that first such buildings have been built in Kosovo recently shows that there will be demand for more such buildings in the future, if the country will attract more foreign and domestic investment and as purchasing power of its citizens will grow.

²⁷ Internet research by CzechINVENT, May 2014

CHAPTER 10

➤ RECOMMENDATIONS

- 1 As demand for economic zones in Kosovo is very likely to exist and intensify in the near future, the Zone construction should be considered.
- 2 Detailed site and financial analysis reveal that Zone construction could be financially viable even without the external grant provided the Zone is fully occupied within 5 years from the initial construction date and the Municipality of Gjakovë rents the business units for 30 – 33€ / m² per year.
- 3 If and when using external grants, there will always be “reasonable combinations” of two key factors (external grant and income from rent) that will guarantee project financial viability while keeping the rent at internationally competitive levels.
- 4 Economic analysis of the project always has positive results in all modelled scenarios, even in a case when small business units will be provided free of charge to potential investors.
- 5 As the initial planning and construction costs are not prohibitively high, the Municipality may be able to attract a private investor who will be willing to financially participate at the Zone construction on a PPP basis. However, given Zone’s high economic benefits, the central government may also be willing to financially support the Zone development.
- 6 Given the relatively small size of the Zone, the site can be revitalized in one phase. As individual business units should be flexibly adjusted to the needs of every future tenant, there is no need to construct inner dividers during the revitalization, but rather to build only the shell hall that will later accommodate various investors.
- 7 Once the final building plan has been prepared and constructions costs have been budgeted, the Municipality should refine the financial analysis calculations to have a better understanding of the project costs and revenues. As the site already contains an industrial hall that can be put into reuse, the proposed building plan is modeled around industrial hall revitalization rather than demolition and site leveling. The concept of “ready to move in” halls is one that is currently much sought by foreign investors and likely to improve Gjakovë (Kosovo) international competitiveness, if implemented.
- 8 The Municipality should create a post of an “economic zone manager” who will be responsible for Zone construction, marketing, investors’ enquiry handling, selection of tenants and contract preparation, facility management etc.
- 9 Given the Zone will be developed on an existing brownfield that was already used for industrial purposes in the past, the project has no negative impact on agricultural land use. The study does not expect any significant negative impact on environment either, provided all new activities undertaken at the Zone will respect the existing Kosovo environmental protection legislation.

CHAPTER 11

➤ ANNEX

11.1. PHOTOS OF THE EXISTING JATEX ZONE AREA

