Feasibility Study

A concept proposal for the future use of the KFOR camp in Prizren, Kosovo.

Kosovar-German Innovation and Training Park
Feasibility study on the future use of KFOR camp in Prizren

The feasibility study was carried out by GIZ Kosovo, and talks were facilitated by Mr. Reinhold Robbe, former German Parliamentary Commissioner for the Armed Forces.

In close cooperation with the following institutions:

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Ministry of Agriculture, Forestry and Rural Development
Ministry of Education, Science and Technology
Ministry of Innovation and Entrepreneurship
Ministry of Labour and Social Welfare
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German Federal Ministry of Defense/ German KFOR
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Kosovar-German Business Association (KDWV)
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Abbreviations

AHK  Außenhandelskammer/ Chamber of Foreign Trade
AKEREE  Kosovo Association for Renewable Energies and Energy Efficiency
ALG  Association Loyola Gymnasium
BMVg  Bundesministerium der Verteidigung
BMZ  Bundesministerium für wirtschaftliche Zusammenarbeit/ Federal Ministry of Economic Cooperation and Development
BVIZ  Bundesverband deutscher Innovationszentren/ German Association of Innovation, Technology and Business Incubation Centres
CSO  Civil Society Organisation
EARK  Employment Agency of the Republic of Kosovo
Fab Lab  fabrication laboratory
FDI  Foreign Direct Investment
FMCG  Fast-moving consumer goods
forumZFD  Forum Zentraler Friedensdienst/ Civil Peace Service
GIZ  Deutsche Gesellschaft für internationale Zusammenarbeit
GoK  Government of Kosovo
HRM  Human Resource Management
IASP  International Association of Science Parks
ICSI  Inter-ministerial Committee for Strategic Investments
ICT  Information and Communication Technology
ICK  Innovation Centre Kosovo
IPSIA  Instituto Pace Sviluppo Innovazione ACLI
ISCED  International Standard Classification of Education
ITP  Kosovar-German Innovation and Training Park
KAS  Kosovo Agency of Statistics
KCF  Kosovo Curriculum Framework
KDVW  Kosovarisch-Deutsche Wirtschaftsvereinigung/ Kosovar-German Business Association
KFOR  Kosovo Force
Kfw  Kreditanstalt für Wiederaufbau
MAFRD  Ministry of Agriculture, Forestry and Rural Development
MESP  Ministry of Environment and Spatial Planning
MEST  Ministry of Education, Science and Technology
MIE  Ministry of Innovation and Entrepreneurship
MLSW  Ministry of Labour and Social Welfare
MoH  Ministry of Health
MSME  Micro, small and medium enterprises
NGO  Non-governmental organisation
NQA  National Qualifications Authority
PEN  Peer Educators Network
PMO  Prime Minister’s Office
PPP  Public-Private Partnership
R&D  Research and Development
SAA  Stabilisation and Association Agreement (of Kosovo and the EU)
SHZAP  Shoqata e Zejtareve dhe Afaristeve te Kosoves/ Craftsmen and Entrepreneurs Association of Prizren
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME</td>
<td>Small and medium enterprises</td>
</tr>
<tr>
<td>STEM</td>
<td>Science, Technology, Engineering and Math</td>
</tr>
<tr>
<td>STIKK</td>
<td>Shoqata e Teknologjise se Informacionit dhe Komunikimit te Kosoves/Kosovo Association of Information and Communication Technology</td>
</tr>
<tr>
<td>STP</td>
<td>Science and Technology Park</td>
</tr>
<tr>
<td>UNMIK</td>
<td>United Nations Interim Administration Mission in Kosovo</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
<tr>
<td>VTC</td>
<td>Vocational Training Centre</td>
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Executive Summary

**Aim:** Early 2019, the German Armed Forces will leave the Prizren KFOR premises. The camp property would then briefly be handed over to UNMIK, with UNMIK then returning it to Kosovo’s national government which will determine its future use.

The German Armed Forces and the German government are very interested to see the camp area become a civilian hub for future Kosovar-German cooperation. In this way, the camp area would change from military to civilian use, but remains testimony to German engagement for the people of Kosovo in their struggle for independence, while assisting Kosovo on its way to prosperity.

With both governments agreeing in 2016 to explore this possibility, GIZ was asked by the German Ministry for Economic Cooperation and Development to undertake a feasibility study proposing a concept for civilian use of the camp area. After intensive consultations with potential stakeholders both in Kosovo and Germany, for whose valuable input GIZ is very grateful, GIZ hereby submits the requested concept.

**Core idea:** The study proposes to set up a **Kosovar-German Innovation and Training Park (ITP)** in Prizren, which would combine space for companies, vocational training, academic institutions, government institutions and (in the areas of culture and peace-building) non-governmental organisations. The core idea of similar parks in other countries, including Germany, is to have companies and academics closely together in one area, so that companies benefit from the knowledge of academics, and academics focus on research that is relevant for business. Since job applicants in Kosovo often lack practical working skills, the study strongly suggests adding a vocational training component, which is not typical for science and technology parks elsewhere.

**Sector choice:** To ensure that companies, science and training fit together and create synergies, the study proposes to only accept applications from particular fields to receive a space in the park. The study proposes five such fields which are chosen based on their potential to create jobs and economic growth in Kosovo, their fit with priorities of Kosovo’s Government and, ideally, also a match with those areas that Kosovo and Germany have already prioritized in their cooperation. The five fields are: (1) Entrepreneurship, Innovation and ICT, (2) Agriculture, (3) VET and Non-Formal Education, (4) Science and Research, (5) Tourism and Culture.

**Organisational structure:** The study suggests setting up an independent legal entity, in the form of either a limited company or a foundation, to lease and manage the park. The set-up needs to cover participation, management, oversight, liability, tax issues and changes in participation. The study does not cover these aspects in detail, but proposes to have a management team of around 15 persons, led by a park director, as well as a steering committee which would decide on the park’s strategy, budget and criteria for selecting the park users, while the management team would be in charge of daily operations. At the last consultation between the German and the Kosovan side it was proposed by the Government of Kosovo that GIZ
should take up responsibility for the park management in the initial phase, setting up and running the park for the first four years.

**Costs:** Overall, the park must be expected to start with a big yearly deficit, which will then slowly shrink in the future. For this reason, the study proposes that the governments of Kosovo and Germany jointly set up a fund which will cover the running costs for a limited amount of years. For this initial period of four years, a GIZ implementation of the park would need a minimum commission of 4.5 m EUR. This calculation includes the human resources from GIZ, compensation for the expected negative balance in the first three years, before the park can actually realise profit. Total amount for Operational Expenses (OPEX) are around 0.5 million EUR in the first year with an annual increase of less than 5% in the first two years and 1.7% for the consecutive years.

**Timelines:** To prevent the buildings from being damaged by nature and man in early 2019, immediate steps have to be taken right after the presentation of the study. The first steps include:

- The Government of Kosovo (GoK) decides to use premises as a Kosovar - German park for business, innovation, training and science
- GoK ensures that land remains in GoK’s ownership and adopts an ordinance for use of the premises as an innovation and training park
- GoK, German Embassy and BMZ sign a Memorandum of Understanding stating the commitment to further elaborate the idea of GIZ implementation for the first few years
- Immediately after the presentation, Kosovar and German institutions organise a workshop to discuss the next steps in detail

After the workshop, Kosovar and German line ministries will evaluate possibilities of financial contribution and other forms of support to the park. An implementation agreement should be signed by both governments by end of July 2018, in order to initiate the needed procedures for a timely takeover of the camp. This is of utmost importance to ensure that companies can be awarded spaces as soon as possible, as they are the residents paying the highest rent and thus reducing the initial deficit fastest.

**Possible stakeholders:** The study has, during consultations undertaken by its authors, identified a number of potential stakeholders who have shown interest to become park residents. This includes faculties of public and private universities, VET providers, an employment information centre, innovation centres, Kosovar-German companies and civil society organisations. The study’s authors have not made any promises to potential park residents, but consider ideas of potential stakeholders useful for implementation in the park for example faculties of University of Prizren, a VET-school of Loyola-Gymnasium, a Prizren branch of Innovation Centre Kosovo, a Knowledge and Innovation Centre of the Ministry of Agriculture, Forestry and Rural Development, etc. Furthermore, the study suggests including a Makerspace (a space with tools, computers and scientific instruments to enable students to freely experiment) and a fabrication laboratory (small-scale workshop with computer-controlled tools and materials to experiment on manufacturing technologies). Additionally, special efforts in waste management and energy efficiency, as well as the inclusion of people with disabilities,
would be of added value to all stakeholders. These efforts would fit well with the innovation ambition of the park and should therefore be considered as well.

**Involvement of Kosovo Security Forces (KSF):** As the camp area has been used by the German Armed Forces so far, and by the Yugoslav army earlier, future usage by the KSF would in theory be an alternative to the idea of an innovation park. However, in contacts of the German Armed Forces with the KSF, the KSF have welcomed the idea of an innovation park with German participation. Nevertheless, and as a gesture of gratitude to the KSF, the study recommends making some of the potential facilities also available to members of the KSF, as for instance vocational training, canteen or sports facilities.
1. Introduction

Following the international intervention, the post-conflict era of 1999 found Kosovo with NATO-led forces stationed on its territory to ensure peace and a secure environment in Kosovo. Very large contingents of troops under NATO command – one of the biggest military deployments since World War II and the largest deployment in the Balkans – formed the peacekeeping force KFOR (Kosovo Force). The KFOR contingents were originally grouped into five regionally based multinational brigades and were each responsible for a specific area of operations: The UK, the largest force, commanded KFOR headquarters located at Pristina airport. Italy looked after the Peja sector in the West; the United States took responsibility for the Gjilan region, bordering Macedonia, while the German troops operated in the South-West around Prizren, and France took command of the Northern border regions with Serbia. Since then the city of Prizren was connected to, and associated with Germany, a connection which through the years was always a positive and amicable one.

Peace takes time to build and in this regard two decades speak for the great achievements of the German forces in Kosovo and particularly in Prizren. Generally the NATO-nations rate the KFOR-mission in Kosovo a success story. Besides the security-political engagement through the Bundeswehr in Prizren, the troops won the trust of the population and are considered as “friends” not only in Prizren but also across Kosovo. This trusting relationship has provided the basis for successful cooperation in other fields also between the two countries. The Kosovar-German bilateral cooperation could not have been as successful had it not been for such a reliable basis, for which the German forces deserve much credit.

The decision that the Mission in Prizren shall end as of 1st January 2019 underlines the efforts and results achieved in the peace-building and peace-keeping process of twenty years in that region. Although the date will not mark the exit of the Bundeswehr from Kosovo, since a number of servicemen will stay in the headquarters of the KFOR camp in Pristina, it will mark the closure of the camp in Prizren. The camp will be handed back to the United Nations Mission in Kosovo and directly afterwards to its owner, the Republic of Kosovo.

A reasonable use of the camp is in the interest of Kosovars and Germans alike and could be a meaningful part of the ongoing and fruitful German-Kosovar development cooperation, since it offers great opportunities for the city of Prizren (and the region as a whole) as the location of the camp is situated in a favourable vicinity from the city centre, universities and highly urbanized neighbourhoods. Moreover, the communication, transport, and agricultural infrastructure in the Prizren region are among the most developed in Kosovo.

In order to use this potential, the Kosovar Government together with the German Government has decided to conduct a feasibility study for the future use of the camp in Prizren. The Federal Ministry of Economic Cooperation and Development (BMZ, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung), which is responsible for development cooperation, has commissioned GIZ with the study.

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1 KFOR (2017)
In the negotiations on development cooperation between the Government of the Republic of Kosovo and the Government of the Federal Republic of Germany, held in Berlin on 18th October 2016, both sides agreed on focusing on the following three priority areas:

- sustainable economic development;
- democracy, civil society and public administration;
- energy.

All research and talks in regard to the continuous use of the current KFOR camp in Prizren were conducted and held with regard to the above mentioned three areas with the overarching aim of generating as much positive social and economic impact for the Kosovar population as possible.

The aim of the research, the results of which are presented in this paper, was to develop a concept for the future use of the current KFOR camp in Prizren. Such a concept strives to translate the wish of the German Government to continue its engagement in the Prizren region into a practical proposal: How can the former KFOR property, through a joint Kosovar-German effort, contribute to jobs, skills, science and innovation in Kosovo? In the process of developing this concept numerous individuals, institutions and partners were involved. Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH would like to thank the Kosovar Prime Minister's Office (PMO) and its coordinators for this study, as well as all Kosovar and German ministries, institutions and partners for the informative and constructive discussions. Their participation and strong commitments have jointly identified the needs and priorities expressed in this study report.

In the process of preparing the feasibility study, the German side, represented by the German Embassy, Federal Ministry of Defence (Bundesministerium der Verteidigung, BMVg), BMZ, Kreditanstalt für Wiederaufbau (KfW) and GIZ have conducted a thorough analysis regarding the planned remaining infrastructure of the camp, needs and strengths of the Kosovar economy, government and population, specific factors regarding the area and citizens of Prizren as well as support that the German side might be able to offer. The German team conducting the study faced the challenge that the decision process about which infrastructure will definitely remain and which will not, was not concluded during the course of the study. Only after an update on this from KFOR and UNMIK on February 19th, the handover of all buildings, except of two, has been decided\(^2\). The study therefore considered the opportunities of a future use mainly based on the massive constructions, which were known to be handed over since 6th July 2017, and the area which offers opportunities for new constructions.

As a consequence of this analysis, and in close cooperation with German and Kosovar institutions, five fields have been identified that lie within the priority areas of Kosovar-German cooperation and that could make use of the camp. These five fields offer considerable potential for growth, especially in the region of Prizren, and could have the most beneficial impact on Kosovo's troubled labour market. Based on this analysis and the identified fields, GIZ proposes to the Kosovar Government – as the future owner of the land – and to the German Government the establishment of a **Kosovar-German Innovation and Training Park**.

\(^2\) See background information on KFOR camp in annex 2.
The idea for the establishment of such a park stems from the model of so-called Science and Technology Parks (STP), which are developing all over the world and serve as generators of entrepreneurship and development. In particular, the STP Adlershof, which is based in Berlin, Germany, has been identified as a good model. Adlershof served as a stimulus for the development of the idea to establish an Innovation and Training Park on the premises of the KFOR camp in Prizren. However, it must be noted that the park proposed here is an alteration of STPs in general and also of Adlershof, as it is adjusted to the special needs and strength of Kosovo, Prizren, and the KFOR camp.

All relevant background information can be found in the annex: approach and procedural details (annex 1), background on the KFOR camp (annex 2) and background on Kosovo (annex 3). The study begins with an elaboration of the identified promising fields (chapter 2), then presents the concept of Science and Technology Parks (STPs) in general and Adlershof in particular (chapter 3) as a model for the developed idea of the Kosovar-German Innovation and Training Park. The design of the park in Prizren is described in the next chapter (chapter 4), starting with the possible offers and opportunities of the park (chapter 4.1), continuing with the benefits such a park could offer (chapter 4.2), the proposed organisational structure (chapter 4.3), possibilities of financing and costs (chapter 4.4) and an outline of the next steps. The study closes with a conclusion (chapter 5).

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3 Annex 1, 2 and 3 were originally part of the study, but have been removed and placed as parts of the annex, because they depict very detailed background information, which are not required in such depth for further understanding of the concept.
2. Promising fields

Despite market reforms and an improvement in economic stability, Kosovo is faced with an unemployment rate of around 30%. The proportion of those who are registered as long-term unemployed (12 months or more out of work) is almost 70%. With approximately 61%, youth unemployment (15-25 years) has reached a frighteningly high level and could turn the asset of a young population into a liability due to lack of usable job experience, political frustration and susceptibility to extremism.

The German Government, in order to support the strengthening of the macroeconomic development of the country, agreed to focus on employment promotion measures. The following fields below have been identified as the ones that exert the biggest and most sustainable impact on the labour market and as the ones being highly relevant and promising in the area of Prizren. Their inclusion in the study is based on the needs of the Kosovar side as well as on the given framework conditions, meaning the area of the camp and the buildings that shall remain.

- Entrepreneurship Innovation, Information and Communication Technology (ICT).
- Vocational Education and Training (VET) and Non-formal education.
- Science and Research.
- Agriculture.
- Tourism/ Culture.

The above listed sectors lie within the priority areas of the Kosovar German cooperation. In the following sub-chapters a brief insight into each field is given, with special attention to their strengths which could be exploited in the proposed Innovation and Training Park.

2.1 Entrepreneurship, Innovation and ICT

According to a labour force survey conducted by KAS in 2016, the unemployment rate is 27.5%, while the inactivity rate is 61.3%. Regarding the participation in the workforce which was 38.7% in this period, the number of women belonging to the labour force was 18.6% and 58.3% was for men. In addition, this survey indicates that the percentage of people employed part-time in 2016 is 6%. Self-employment, as a percentage of all employees, was 22.1%. The percentage of employees in unstable jobs (persons who are self-employed and have no employees and those who work without pay in a family business) was 22.9%.

KIW conducted a feasibility study on Growth and Employment in Kosovo in 2016, which shows that manufacturing, trade, education and construction employed almost half of the labour force in 2014. The trade sector employed 14.4%, manufacturing 13.8%, education 11.9%, and construction employed 10.9% of all the employed in Kosovo. Manufacturing, trade and construction are the most common employment sectors for men (employing more than 40% of employed men).

MSMEs contribute a significant amount to economic output in Kosovo. At the end of 2013, Kosovo had about 46,000 active and registered enterprises and entrepreneurs, from which

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4 Kosovo Agency of Statistics (2017)
5 See annex 5.
14% were fully or partially owned by women. These 46,000 enterprises employed a total of 190,000 people. In 2010, MSME contributed to about 43% of the share of GDP and in 2011 to about 50%. In the same year MSMEs in Kosovo employed nearly 62% of the workforce. The period from 2010 to 2013 has therefore been perceived as a time in which the increase of private sector development has played an even greater role in Kosovo’s economy. Broken down by the size of enterprises, data reveal that micro enterprises account for 95.4% of all companies (less than 10 employees and less than 2 million euros annual turnover), small enterprises participate with 3.7% and medium with 0.7% of the total number of companies. In terms of the break down per sector, in 2013 MSMEs (aggregated data) in Kosovo were mainly concentrated in: trade, wholesale and retail (42.7%); manufacturing (10.5%); personal services (10.2%); construction (7.1%); accommodation and food services (7.6%); followed by transport and business services with 6% each. The most common sources of funds for MSMEs are personal and family funds, followed by lending from banks.

As outlined in the economic analysis, Kosovo’s economic growth is mainly based on consumption and private sector investments. Kosovo’s GDP is dominated by household consumption, which in 2016 was around 5.2 billion euros. Next, gross capital formation contributed, with around 1.7 billion euros, while net exports marked a negative value of 1.7 billion euros, with around 3 billion euros in imports and 1.3 billion euros in exports. Thus the need for further strengthening of the manufacturing and exporting economy should be a high priority.

The Kosovo SME Promotion Programme report of 2014 does not list agriculture among the top four official sectors, although it employs a large proportion of the workforce (129,920 agricultural holdings). It identified the following sectors as the biggest in Kosovo by the number of enterprises and the number of employed people:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Enterprises</th>
<th>Persons employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4,825</td>
<td>30,810</td>
</tr>
<tr>
<td>Construction</td>
<td>3,289</td>
<td>20,682</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>19,672</td>
<td>61,790</td>
</tr>
<tr>
<td>Transport</td>
<td>2,602</td>
<td>10,513</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>3,499</td>
<td>10,356</td>
</tr>
<tr>
<td>Business services</td>
<td>4,716</td>
<td>25,109</td>
</tr>
<tr>
<td>Personal services</td>
<td>4,376</td>
<td>12,558</td>
</tr>
<tr>
<td>Other sectors</td>
<td>3,053</td>
<td>17,805</td>
</tr>
<tr>
<td>Total</td>
<td>46,032</td>
<td>189,623</td>
</tr>
</tbody>
</table>

Tab. 1: Largest sectors in Kosovo by number of enterprises and persons employed

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6 Government of Kosovo (2011)
7 Central Bank of the Republic of Kosovo (2014)
8 Kosovo SME Promotion Programme (2014)
9 Kosovo SME Promotion Programme (2014)
10 See annex 5.
11 See annex 3.
12 Kosovo SME Promotion Programme (2014)
13 Own table, data according to Kosovo SME Promotion Programme (2014).
Economic growth is clearly an imperative for Kosovo and its national government, along with international development agencies, which are seeking to identify and analyse policy interventions that are needed for a higher and sustained economic growth trajectory. Economic development strategies are particularly focused on job creation and growth, and aim to involve public and private stakeholders in designing and implementing strategies, developing infrastructure, and providing employment schemes and social services.

A further important element of economic development policy in Kosovo is the encouragement of entrepreneurship, a key element of competitiveness. Entrepreneurial activity in Kosovo is mainly concentrated in family businesses in agriculture, crafts and basic services. Yet they represent a source of future entrepreneurial potential. According to the World Bank’s “Doing Business” report, Kosovo is ranked 60th with regard to ‘ease of doing business’ and in the 2017 report Kosovo was ranked 13th in the category of ‘starting a business’ with favourable opportunities, especially for ICT-based companies. The success of entrepreneurs, not only of the ICT-sector, depends on a functioning innovation system. The promotion of Innovation and ICT therefore can be seen as a driving motor for entrepreneurship.

**Innovation**

Innovation is at the heart of creating and sustaining economies’ comparative advantages and of raising productivity and expanding employment opportunities. Simulations and studies indicate that unleashing the Western Balkans innovative potential could generate important economic gains, such as better firm performance and increased productivity and exports.

Based on recent economic performance and interest shown by policymakers to improve the local innovation system, the remaining challenge facing Kosovo is to leverage this interest and enthusiasm and build momentum. Several strategic initiatives have been developed, which touch on aspects of innovation. However, there is no denying the ‘institutional weakness’; the absence of close policy coordination and a lack of robust initiative. Technology transfer activities, such as technology licensing and spin-off companies, are scarce. Moreover, collaborations with the industry tend to be driven by occasional opportunities and short-term objectives rather than by strategic, long-term partnerships.

According to the OECD’s background report on Kosovo’s innovation system, Kosovo’s Research and Development (R&D) budget is one of the lowest in the region. Precisely because of the low R&D budget, Kosovo’s R&D programs should be continuously monitored in order to identify gaps in procedures and to minimize the risks of providing financial resources to non-sustainable projects.

The OECD’s Innovation Strategy of Kosovo states that, “Supporting stronger innovation capabilities is one way of raising private sector competitiveness and lowering dependence on external sources of finance. The development of a focused, coherent, and coordinated innovation strategy will be an important step in moving Kosovo on to a more sustainable
development path. The background report on the Kosovo Innovation System developed by the OECD Investment Compact for South East Europe found that innovation is only starting to be recognised as a priority for policy makers. Government policy on innovation is fragmented among several strategic initiatives, while measuring and evaluating the performance of Kosovo’s innovation system is difficult due to a lack of reliable data. Cooperation between the business and research communities is minimal with very few examples of joint projects. Both groups cite a shortage of financial resources for investment in innovation as barriers to innovation. Closer links with the diaspora are seen by stakeholders as a means for injecting new ideas and technology into the innovation system.”

According to the “Western Balkans Regional R&D Strategy for Innovation”\textsuperscript{20}, for the private sector to enhance its innovation capabilities, assistance is needed on two levels:

1. Linking with education and research institutions to improve innovation competences through technology transfer, technology absorption, and innovation.
2. Incentivising private sector investment in R&D through policy incentives (subsidies and matching grants, tax exemption for technology acquisition) and mechanisms to integrate international production networks.\textsuperscript{21}

Nevertheless, the government of Kosovo is increasingly taking action to support the business climate, and the innovation policy is receiving greater attention. While policymakers are showing an interest in developing responses to improve the local innovation system, the impact of reforms will be weaker unless efforts are made to improve inter-ministerial collaboration and consultation with stakeholders. The newly established Kosovo Ministry of Innovation and Entrepreneurship (MIE) has the mission to stimulate innovative activities in Kosovo, in order to create economic and institutional productivity by reaching the following objectives:

**Objective 1:** Promotion of innovation in accordance to economic sectors in the service of economic growth and development; The MIE aims to meet this objective through various activities that entail the creation of mechanisms and tools that increase and maintain close cooperation between the enterprise community, local sectors, international investors, etc. The MIE intends to maintain a pro-active approach and to develop Public-Private Partnerships (PPP) and establish a Council for Innovation and Entrepreneurship and Regional Innovation Centres and Business Incubators, etc.

**Objective 2:** The establishment of institutional coordination mechanisms between science, the private sector and policy-making; The MIE intends to tackle this objective through a variety of activities which lead to the creation of direct links between businesses and academy; the national program for skills development and extending infrastructure for ICT networks and services for socio-economic development.

**Objective 3:** Development of entrepreneurship through training/ consulting programmes; The third objective will be tackled through avid support of SMEs and export promotion as well as through the institutionalisation of training programs and financial support for interns to meet the demand of the labour market after completing their education.

\textsuperscript{19} OECD (2013)
\textsuperscript{20} World Bank (2013/ b)
\textsuperscript{21} World Bank (2013/ a)
Objective 4: Consolidation of the Innovation and Entrepreneurship Fund and the creation of funds to support the development sectors (focusing on women and young people); The forth objective is intended to be achieved through the creation of new funds, fiscal and non-fiscal incentives and financial models for SMEs and investing in the creation of skills deemed necessary to compete in the private sector.

Objective 5: Support the development of SMEs to deal with competitive pressures in the region, the EU and other markets; The fifth and final objective is intended to be accomplished through a robust list of activities, which lead to sustainable cooperation between Public and Private Institutions of University Education, System Reform, Financing of Entrepreneurship Programs and the like, as well as various investment schemes such as fiscal reform, fiscal incentives for investment promotion and employment in the ICT sector, enforcement of export programs, and instruments to help SMEs integrate into global value chains.

Role of the ICT industry for Innovation in Kosovo

Across the globe, information and communication technology (ICT) is permeating and transforming the global economy, the public sector, and society as a whole. This trend towards digital transformation has put ICT sector promotion as a top priority on the agendas of many governments. In addition to that, with a global market of very high value, the IT industry is not only one of the largest but also one of the most dynamic sectors, making IT a central driver for economic growth and innovation. For example manufacturing, as one of the largest sectors in Kosovo, cannot be imagined without using information technology. The use of information technology by firms adds to their competitive advantage; moreover, not only is the intensity of the IT, but also the quality of the use of IT an important factor for SMEs development in Kosovo. Below are some examples of IT’s beneficial contributions:

Economic growth: Several countries have impressively shown the significant potential of the IT industry as a trigger for economic development, job and income generation. Taking into account the structure and the competitive advantage of Kosovo’s IT industry, the country has the potential to follow the example of these countries by using the IT industry as a catalyst for economic growth. With the support of German cooperation, the development of the National IT Strategy by a joint working group including representatives from all relevant stakeholders (IT companies, associations, ministries, universities and donors) with the vision to pinpoint the importance of the IT industry for economic development and structural transformation towards a knowledge-based economy was supported. The outcome document defines concrete policies, measures and actions that will increase the international competitiveness of the Kosovar IT industry on a systematic and sustainable basis.

Employment creation: The positive effects of the IT industry on job creation are amplified by the fact that IT is a labour-intensive and skill-intensive industry. In the IT industry (particularly in software development), scale is achieved by qualifying and hiring more people. In terms of employment, IT sector development has two positive effects: a quantitative one by increasing the number of jobs, and a qualitative one by generating employment for highly skilled people. Thus, Kosovo’s IT sector could play an important role in reducing unemployment, especially among the youth.
A recent survey of employers by the Kosovo Association of Information and Communication Technology (Shoqata e Teknologjise se Informacionit dhe Komunikimit te Kosoves, STIKK)\textsuperscript{22}, as one of GIZ’s implementation partners in regards to ICT, indicates that ICT companies are not satisfied with the quality of labour force in Kosovo as they lack most critical skills demanded on the market. Therefore, GIZ along with its partners aims at increasing the quality of labour force skills and bridging the gap on market supply through provision of ICT trainings and matching graduates with the potential employers. It is estimated that around 1.900 people worked in the IT sector in Kosovo in 2016 and figures show a constant growth since 2013.

**Export promotion:** Particularly in Northern Europe, severe skill shortages in the IT industry will translate into additional demand for IT outsourcing, largely to areas such as Southeast Europe. Increasing exports is especially important for Kosovo, due to its negative trade balance and comparatively small, underdeveloped domestic market. Growth of IT exports will provide a number of long-term benefits for Kosovo, such as speeding up the transformation to a knowledge-based economy through technology transfer and creating better, higher-paid jobs.

GIZ has supported STIKK in the past few years with several activities, including export promotion measures. Several Business to Business Events were successfully organised and made full use of as networking opportunities. The results were more business contacts and real future business opportunities. Further, STIKK organized the Global Tech Festival KosICT for the fourth time in 2017.

**Competitiveness:** A significant economic benefit of the IT industry is its positive impact on the efficiency and productivity of other industries through spillover effects. Thus, even traditional sectors of Kosovo’s economy such as manufacturing, agriculture or tourism could improve their international competitiveness by using modern software applications and IT services. By adopting the latest technologies and providing modern software applications, Kosovo IT companies are able to support the integration of SMEs into international markets and supply chains. Hence, IT becomes an enabler for other industries. Furthermore, the IT industry can induce growth effects in related industries through multiplier effects and provide opportunities for so-called hybrid business models, combining products with specialized services. Given the ongoing digital transformation of national economies and the emergence of the industry 4.0, IT will have a major impact on the international competitiveness of Kosovo’s economy.

**Innovation and Entrepreneurship:** As a cross-cutting technology, IT is a driver of product and process innovation. Furthermore, IT plays a key role within the knowledge-based economy, where its strategic importance will substantially increase due to mega-trends such as the internet of things (IoT) and the so-called industry 4.0. Accordingly, IT could play a crucial role in increasing the capacity for innovation of Kosovo’s economy. In addition to this, the IT sector could also serve as a catalyst for entrepreneurship and the establishment of a vibrant start-up scene.

GIZ has contributed significantly in the area of entrepreneurship in order to encourage sustainable growth in the ICT sector. Through its implementing partner, the Innovation

\textsuperscript{22} Kosovo Association of Information and Communication Technology (2017)
Centre Kosovo (ICK), GIZ was able to increase ICT entrepreneurship by supporting the start-up ecosystem in Kosovo and providing various businesses and technical support services, ongoing monitoring and coaching support, and grants to the start-ups.

**Branding and Positioning:** Promoting its national IT industry could help Kosovo further improve its international visibility and position itself as a centre of digital excellence, IT entrepreneurship and innovation, following the example of small, yet highly innovative and competitive nations such as Estonia, Lithuania or Singapore. Kosovo would thereby be able to diversify its ‘industrial image’ in terms of technology, capabilities and quality. In addition to that, the Kosovo IT industry would serve as a brand ambassador for the Kosovo economy.

**Investment Promotion:** Emerging countries with strong national IT industries usually do better at attracting FDI. Thus, promoting Kosovo’s IT industry could help boost the country’s appeal to foreign investors and attract more FDI, by improving its image, technical and skill base, and business climate.

**Other strategic benefits:** Improving the international competitiveness of the Kosovo IT industry would also have a positive impact on Kosovo’s economy and society at large in areas such as good governance (e-government, open government and open data), social development (information society), education and science (IT skills development, e-learning, IT R&D), health (e-health), as well as sustainable energy (e-energy).

To summarize, these few examples show how much potential really lies in the areas of innovation, ICT and entrepreneurship. When sufficiently supported through diverse investments and given the right framework conditions, innovation, ICT and entrepreneurship can be crucial sources of employment creation and new, long-term perspectives for the whole Kosovar population.

Thus, the region’s historical image must be reassessed in light of the significant advantages it holds as an investment destination. The park should serve as a good example to invest in Kosovo, by gathering successful investors at one ground, building bridges between them and educational offers, thus strengthening capacities, creating jobs and increasing the export of products “Made in Kosovo”. Therefore, more support mechanisms need to be made available, and more specific opportunities need to be created in order for these sectors to thrive.

### 2.2 Agriculture

The agriculture sector, once a significant contributor to Kosovo’s GDP and employment, has experienced a significant economic decline. As such, the entire industry contributes roughly 10.3% to Kosovo’s GDP and formally employs 90,000 individuals. According to the Kosovo Statistical Agency, Kosovo imported goods worth $720 million and exported goods worth $50 million (Ratio: 14:1) in regard to the agriculture sector as of 2016. Although such results are concerning, agriculture still remains an important sector for the younger generation. According to the Kosovar Ministry of Agriculture, Forestry and Rural Development (MAFRD) the number of students enrolled in the faculty for agriculture has tripled since 2012.

It is estimated that 60% of the population live in rural areas where agriculture represents the most dominant economic activity. However, based on sectoral analysis, it is seen that due to the small sizes of farms, non-advanced management system, obsolete devices/machinery
and the lack of availability to invest in production technologies with the farmers’ own resources, only a small number of farms have the potential to be competitive at market prices in the region and beyond. According to the Agriculture Census, there are around 130,000 agricultural households, possessing, on average, 1.6 to 3.2 ha of arable land. Such farm sizes are much smaller than in most EU countries, indeed they are, on average, 8 times smaller than in those countries. Given the small size of farms, there is a need to foster the cooperation between producers by strengthening the role of associations and agricultural cooperatives in order to enable effective access to the market chain through supply contracts.

The resolution of agricultural property claims remains a serious and continuous issue in Kosovo. Causes of multiple ownership claims over a single piece of land or property, with each claimant presenting a variety of ownership documents as proof of ownership, are very common in rural areas due to informality (oral agreements) and due to the lack of inheritance contracts. The Kosovo Property Comparison and Verification Agency (KPCVA) has received 42,749 total claims, the vast majority of which relate to agricultural property. In an attempt to better identify owners of agricultural lands, the government conducted an agricultural census in November 2014. The results show 413,635 hectares of agricultural land in use, of which 405,429 are in use by agricultural households and individual businesses, and the rest by legal persons. In 2017, the World Bank's 'Doing Business' report ranked Kosovo 33 out of 190 economies for ease of registering property. The report noted that Kosovo made transferring agriculture property easier by introducing a new notary system and combining procedures for drafting and legalizing sale and purchase agreements.

In order to tackle innovation and knowledge sharing in agriculture, the MAFRD is currently implementing the Agriculture and Rural Development Plan (ARDP) 2014-2020 in order to improve the competitiveness and efficiency of primary agricultural production, improve processing and marketing of agricultural and forestry products, encourage sustainable rural development, and initiate diversification of products. Moreover, MAFRD drafted the Strategy on Advisory Services for Agriculture and Rural Development 2012-2016 with the aim of increasing competitiveness and innovation in agro-rural sector by improving the agricultural knowledge and management skills of farmers. The aforementioned strategy led to the creation of the law on advisory services for agriculture and rural development.

The agriculture sector is unattractive to investors due to poor product quality, small farm size, limited access to funding, inadequate labour, the perception of political instability, and the inherent disadvantages of a small market. The competitiveness of agricultural products on national as well as international markets is low. Micro, small and medium enterprises (MSME) struggle with making use of the potential of international markets due to the lack of adequate processing units, infrastructure, equipment, and technical expertise.

Due to the limited experiences of enterprises in the agriculture sector, business-related information, which is also relevant for contacts and business relations with the EU market, is barely available to enterprises. The lack of knowledge among Kosovar enterprises regarding the mechanisms, quality standards and needs of European markets remains a crucial obstacle to making full use of existing potentials. Next to missing information, the situation is further impaired by the lack of business services targeting export markets, which have to be offered to enterprises by qualified service providers at crucial points throughout the value chain.
With over 20,000 farmers in the region of Prizren, agriculture plays a significant role for the area. Over two-thirds of the rural population earns their income through agriculture. However, many farmers are engaged in subsistence farming on micro plots and only a small part of their harvests is actually sold. The production season for Kosovar farmers is very short due to a lack of storage facilities and 80% of the agricultural products continue to be imported which equals imports of 300 million euros every year. Hence, there is a great demand across the whole country, and specifically in the region of Prizren, for a regional collection, storage, sorting, and packaging centre for agricultural products (mainly vegetables and fruit). Another potential lies in the expansion of value chains and the promotion and production of local products such as cheese, ajvar, sour cream, peppers, etc. and the subsequent export of these products. The proposed park could provide the needed infrastructure to foster the above mentioned potentials of the food industry.

In the agriculture sector, products and services are often characterized by a relatively low technological level and, associated therewith, a low quality and/or lack of quality certification. In order to improve this situation, product and process innovations are needed in order to increase the competitiveness of the market actors and encourage cooperation and knowledge sharing. One idea, which could help address this issue, has been proposed by MAFRD. Their suggestion to establish an Agriculture Knowledge and Innovation Centre in the park is presented in the later following elaboration of the concept.

2.3 VET and Non-Formal Education

Vocational Education and Training (VET), meaning Vocational Schools and Vocational Training Centres (VTCs), has as its main aim the preparation of the staff for the labour market. The duration of the vocational upper secondary education, as a part of the pre-university education, is leveled. The first two years of the upper secondary level (grades 10+11), offer a basic qualification and enable the employment at the labour market as a semi qualified worker. Grade 12 is a continuation aiming at employment as a qualified worker.

The institutional setup in Kosovo in regard to Vocational Education and Training is mainly divided between Ministry of Education, Science and Technology (MEST) and the Ministry of Labour and Social Welfare (MLSW). While MEST focuses on formal general vocational education (3-year programmes), MLSW – through its Vocational Training Centres (VTCs) - provides non-formal vocational training for jobseekers. The difference is in the approach taken, the length of training/ education, and the purpose served. The former is situated at an upper-secondary level (International Standard Classification of Education, ISCED) with education and training lasting up to 3 years. The latter constitutes job-oriented training (ISCED) lasting no more than 3 months. For instance, MLSW has 7 established vocational training centres catering exclusively to those registered at the Job Centre. MEST, on the other hand, maintains a portfolio of around 65 secondary schools centres on vocational education and training distributed across 26 major cities and categorised by 6 main regions.

In 2014, the Government established the Agency for Vocational Education and Training and for Adult Education' (AVETAE) whose responsibility is to take the administration and leadership of institutions of VET in regard to the financial, human resources, and infrastructure under its regulatory administration.
Levels of education are defined in the Law on Pre-University Education (2011) according to the 1997 classification of ISCED. The classification is based on seven main levels of education, defined according to specifications including the duration of programmes and including subdivisions (A, B, C) relating to the types of programme at each level and the progression possibilities from one level to another:

- Level 0 = pre-primary education;
- Level 1 = primary education or the first stage of basic education
- Level 2 = lower secondary education or the second stage of basic education
- Level 3 = upper secondary education
- Level 4 = post-secondary non-tertiary education
- Level 5 = first stage of tertiary education (not leading directly to an advanced research qualification)
- Level 6 = second stage of tertiary education (leading to an advanced research qualification)

As can be seen in the table below, only a small proportion of the approximately 500,000 pupils and students in public and private education institutions in Kosovo, attained a post-secondary vocational degree in 2011.

<table>
<thead>
<tr>
<th>Population aged 15+ by educational attainment and gender, %, 2011</th>
<th>Total</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not completed education</td>
<td>6.2</td>
<td>3</td>
<td>9.4</td>
</tr>
<tr>
<td>Primary education</td>
<td>10.4</td>
<td>7</td>
<td>13.8</td>
</tr>
<tr>
<td>Lower secondary education</td>
<td>39.8</td>
<td>34.1</td>
<td>45.6</td>
</tr>
</tbody>
</table>

23 National Qualification Authority (2011)
The vast majority of young people in Kosovo are mostly interested in tertiary studies with the aim to enter a career in the public sector. Law and economics are the professions that attract the highest interest from students. In general, enrolment in VET schools is seen as a “second choice” for those who have not managed to enroll in general secondary schools/gymnasiums, and the numbers of students enrolling in vocational schools has dropped in recent years and is now below 50%\textsuperscript{25} of the upper secondary student population. The relation between vocational education and the labour market remains a challenge that requires immediate action because at least 30% of vocational schools specialize in trades (accounting, banking and finance, office administration, legal clerks, etc.) for which there is little demand in the labour market. The small labour market has difficulties to absorb the annual output of about 30,000 young people finishing school or university. As a result, the youth unemployment rate is at 61%.

The classic vocational profiles\textsuperscript{26} being offered in VETs in Kosovo currently do not fully meet the demands of the businesses and at the same time many local businesses and potential investors complain about an inadequate level of qualification of the workforce. This greatly hinders the productivity and growth potential of companies in Kosovo. Networking and cooperation between companies, training centres, and research are still underdeveloped.

According to the MEST, the VET sector in Kosovo faces the following challenges\textsuperscript{27}:

- Current VET does not comply with labour market needs.
- Lack of specific VET Core Curriculum.
- Inclusion of the entire VET system in the Kosovo curriculum framework.
- Limited opportunities for practical training within the school and in enterprises.
- Insufficient budget and inadequate financing formula for VET.
- Very limited offer for level 5 of the Kosovo Curriculum Framework (KCF).
- Ensuring the sustainability of Centres of Competence.
- Lack of an effective and open system for adult education.

Kosovo’s VET system has been subject to a reform process for some time, the purpose of which is to bring qualitative and quantitative improvements to the training provided by vocational schools. In the long run, this should increase the competitiveness of businesses and reduce unemployment, particularly among young people.

VET thus is an outlined strategic objective in the “Kosovo Education Strategic Plan 2017-2021” (KESP). Its objective: Harmonising vocational education and training with labour market requirements in the country and abroad, and creating an open system for adult education.

\textsuperscript{24} Own table, data according to European Training Foundation (2014).
\textsuperscript{25} Ministry of Education, Science and Technology (2016)
\textsuperscript{26} Profile refers to the statement of learning requirements for the occupation or occupational group on which the curriculum is based, and includes the occupational standards for the occupation or occupational group in question.
\textsuperscript{27} Ministry of Education, Science and Technology (2016)
education. MEST, following the recent elections, remains committed to achieve the results of the KESP, respectively in the area of VET, by 2021.

Germany supports MEST in implementing the reforms to the VET system through its GIZ project “Youth, Employment and Skills” aiming to reach the following outputs:

1. Labour market measures adapted to the needs of young people and the needs of employers are being implemented.
2. Labour market measures adapted to the needs of vulnerable groups (esp. minorities, returnees) & employers' needs are implemented & used.
3. The quality of vocational education and training for young people is improved.
4. Capacities for innovation in youth employment promotion are strengthened & knowledge transfer between local & central level is ensured.
5. Selected young people in the project regions have a professional qualification recognised in Germany.

The Government of Kosovo attaches particular importance to developing competence centres in emerging sectors that support employment generation. The Kosovar-German cooperation focuses on the creation of VET-offers tailored to the needs of the labour market. Such offers could be implemented in the proposed park.

The Craftsmen and Entrepreneurs Association of Prizren (SHZAP) submitted ideas to use the KFOR-camp for “a light industrial zone and support centre for internships, vocational training and retraining, start-up businesses and growing businesses”28. It sees special potential and need for new training centres for professional training and retraining as well as the establishment of a Kosovar-German economic and industrial zone for co-investments with potential investors from Kosovo and Germany. The proximity to professional training centres would make the location very attractive for Kosovar-German businesses, because of the direct recruiting options for adequate local staff.

SHZAP has submitted additional information regarding the needs of the vocational schools in Prizren, which include the need for better equipment for practical work, sustainable agreements with private companies, better organised cooperation with private companies, and the state’s lack of funding and lack of professional staff. SHZAP has summarized vocational skills that are in demand, according to businesses, business associations or foreign investors, who have faced difficulties in recruiting employees in the following areas:

1. Tailors
2. Welders
3. Shoemaker (Shoe Sewing, Modelling)
4. Vehicle industry workers
5. Metal product workers
6. Wood product workers
7. Electric equipment installers
8. PVC product workers
9. Food industry workers
10. Handicraft workers (gold and silver, filigree)
11. Laboratory technicians for quality control of construction materials
12. Production line operatives

28 See annex 6.
13. Drivers of heavy machinery in construction
14. Auto electricians
15. Production technology experts
16. Household appliance electricians

The above ideas from SHZAP meet the needs and potentials in Prizren and beyond very well. Similar feedback regarding the lack of practical skills also came from representatives of the KDWV with respect to Kosovo as a whole.

The proposed park provides a suitable environment to support vocational training, to bring vocational schools and businesses closer to each other, and to offer training and retraining, for both new and qualified staff. By doing so, the issue of the currently existing mismatch between skills and jobs can be sustainably addressed and promising economic opportunities will be available for young people locally. As part of the concept to improve the overall quality and relevance of VET offered within the proposed park and its collaborating VET providers, the Kosovo Chamber of Commerce, or, if accredited, KDWV or SHZAP, could provide independent examinations board members in the practical assessments of the students – in line with the German approach. The inclusion of different VET-offers in the park, either by public or private providers, is intended.

**Non-Formal Education**

Providers of non-formal education supplement the offer of education opportunities. As they are more flexible and faster in adapting their offers to the pressing needs of the market, they can make a substantial contribution to the employability of youth.²⁹

![Diagram of skills contributing to employability of youth]

**Fig. 2: Skills contributing to employability of youth**³⁰

Faced with high youth unemployment rates, it is understandable that worries about future employment rest heavily on the minds of Kosovo youth. Thus the study’s authors propose to include non-formal education offers in the park which specifically target the employability of their participants.

²⁹ Peer Educators Network (PEN) and Forum Civil Peace Service (forumZFD, Forum Ziviler Friedensdienst) have conducted a needs assessment from 26th to 28th September 2017, after having discussed with GIZ the general ideas on the future use. The assessment was conducted by Kosovar civil society and was distributed through the CIVIKOS network of NGOs with responses from twelve organisations. See annex 7.

³⁰ Figure taken from annex 7.
PEN and forum ZFD see the need for a self-sustained Youth Education Centre, for non-profit organisations due to the lack of a facility that offers large capacities (for more than 40 participants) and a suitable accommodation space. According to their present assessment the training spaces that are available to civil society organisations (CSO) in Kosovo have quite some limitations, depending on the requirements of the specific training. It is difficult to find a suitable place to conduct non-formal trainings. Also, the longer the training sessions/events are, the fewer options there seem to be. For the vast majority of training sessions/events of these kinds, organisations rent hotel rooms in- and outside of Kosovo. Thus a space dedicated specifically to non-formal education is preferable. 75% of the CSOs asked in the assessment said they would prefer renting a space designed and equipped for non-formal education rather than use hotel spaces (see table below).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of trainings per year</td>
<td>115</td>
</tr>
<tr>
<td>Total number of training days per year</td>
<td>334</td>
</tr>
<tr>
<td>Number of participants per training</td>
<td>20-100</td>
</tr>
<tr>
<td>Total number of participants per year</td>
<td>2236</td>
</tr>
<tr>
<td>Percentage of overnight stays</td>
<td>50%</td>
</tr>
<tr>
<td>Total amount spent on accommodation</td>
<td>110,000.00 euros</td>
</tr>
<tr>
<td>Total amount spent on food and drinks</td>
<td>91,567.28 euros</td>
</tr>
<tr>
<td>Degree of interest in renting a space equipped as we envision it</td>
<td>75%</td>
</tr>
</tbody>
</table>

Tab. 3: Results from the Needs Assessment with response from 12 CSO’s

These findings match the needs that were directly expressed to GIZ or the German Embassy as well as to the Municipality of Prizren from youth organisations, who emphasized that they are in need of spaces for conducting youth offers and trainings. IPSIA for example, which is an Italian NGO operating in Kosovo since 1999 a consortium of local NGO’s, has requested space which would be used by at least 23 NGOs of Prizren. They have established such a youth centre also in Shkodra, Albania, in 2015 and seek to do something similar for Kosovo in Prizren.

Due to their complementary character to educational offers, CSOs should be allocated spaces in the park. Together with VET-offers, non-formal educational offers would create a training hub for youth, facilitating capacity development, improving employability and fostering exchange between educational institutions and the private sector.

2.4 Science and Research

According to MEST, there are 39 accredited and licensed higher education institutions operating in Kosovo, of which 9 are public and 30 private institutions. Thus, Kosovo has 20 higher education institutions per 1 million inhabitants, which greatly exceeds the EU average. The number of students in higher education in Kosovo has increased from about 40,000 in 2004 to 122,000 in 2015. Kosovo has 6,669 students per 100,000 inhabitants, which is nearly double the EU average. Participation of women in higher education has increased, and the female student population now stands at 50.2% of the total.

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31 Own table, data from annex 7.
32 See annex 8.
33 Ministry of Education, Science and Technology (2016)
As presented in the table above, social sciences, business and law are still highly popular while the interest to study engineering, production and construction, natural sciences, math and ICT, agriculture and veterinary is much lower. This is not only due to the career expectations after the studies but also as a result of the attractiveness of the studies. Often the technical equipment of the academic institutions does not match the equipment that graduating students will be faced with in the labour market, for example in the field of communication technology. Thus, students are not attracted to study a particular subject when they know that they will not be taught what they need to know in order to enter the labour market. Staying with the example of communication technology, after finishing their studies, students in Kosovo often need additional training in order to be able to find a job in their chosen field. This is caused also by the very theoretical style of teaching in the Kosovar educational institutions, as well as the (old) age of the technical equipment used.

Research institutions and universities in Kosovo face the challenge of trying to integrate with the European Research Area (ERA) through research collaboration. Even though Kosovo’s government has recently established institutions and launched programs, their successful realisation depends on financial and human resources. According to OECD only 0.1% of the budget in 2011 was allocated to scientific research. The research capacity of universities and institutes in Kosovo is low as evidenced by decreasing numbers of staff dedicated to research, and sparse data on commercialisation of research and patents. The insufficient financial promotion of research and the hereby resulting lack of jobs need to be tackled, not only by MEST, but also by other line ministries, such as MIE or MAFRD for example. Furthermore the private sector can and should play a supporting role in financing research. Creating necessary infrastructure which would connect the scientific community with industry and economy is also mentioned in KESP\textsuperscript{35}, as an objective of the Kosovo Innovation Strategy 2016-2020. Therefore joint research projects of the private sector and the academic sector should actively be promoted in the proposed ITP. Such joint research projects which are financed not only by the state, but also by investments from the private sector, may serve as a benchmark for nationwide research approaches. Not only the intensification of the relationship between science and economy, but also a closer link to the international research community might be beneficial for the research sector, helping Kosovo’s research community in its aim to integrate into ERA.

The proposed park offers an opportunity to establish such a close link between research and economy. By having private companies and faculties of the same fields in close proximity exchange and cooperation can be facilitated directly. The academic institutions would be

\begin{table}[h!]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Field of study & Public (%) & Private (%) & Total (%) \\
\hline
Education & 9.2 & 0.0 & 6.8 \\
Humanities and Arts & 10.8 & 6.4 & 9.7 \\
Social Sciences, Business and Law & 63.7 & 52.1 \\
Natural Sciences, Maths and ICT & 5.5 & 10.2 & 6.7 \\
Engineering, Production and Construction & 14.0 & 12.3 \\
Agriculture and Veterinary & 2.6 & 2.0 \\
Health and Welfare & 6.9 & 7.1 \\
Services & 2.8 & 3.3 \\
\hline
\end{tabular}
\caption{Number of students in higher education according to fields of study in 2016\textsuperscript{34}}
\end{table}

\textsuperscript{34} Own Table, data according to Ministry of Education, Science and Technology (2016)
\textsuperscript{35} Ministry of Education, Science and Technology (2016)
able to improve the quality of their offers as well as the qualification of their graduates, by including more practical modules into the study courses such as obligatory internships or practical semesters and making use of the proximity of nearby companies in related fields. The park creates a very attractive environment for students as they will have access to high-quality theoretical and practical education (tailored to the needs of the labour market), as well as internships and part-time jobs within their fields. This would increase the employability of the graduates.

Employers could scout for eligible future employees, actively engage in the students’ capacity building tailored to the current market demands and eventually employ them on a regular basis. Furthermore possibilities for companies to conduct empirical studies by engaging the nearby universities and their students would be increased. This would help enhance the companies’ R&D activities and their innovation capabilities. Apart from the responsibility of the political dimension in funding research activities, the provision of financial resources by the private sector could be a helpful support mechanism to facilitate more research projects.

Only research institutions and universities/faculties should be included in the park, whose offers match the five fields of potential identified in this study. Hence for example the following study courses could be considered: life sciences, agriculture, food engineering, natural sciences, ICT, engineering, production, construction, possibly also filmmaking.

Studying in Pristina remains the preferred option for most students. However a significant growth of Prizren’s higher education landscape has been registered within the last decade, offering many study opportunities in public and private universities. Considering the above mentioned study courses one good address might be Prizren’s public University “Ukshin Hoti” which offers relevant Bachelor programmes in relevant faculties: i) the Faculty of Life and Environmental Sciences with the fields of study Agribusinesses as well as Forestry and Environmental Sciences and ii) the Faculty of Computer Science offering Information Technologies and Telecommunication as well as Software Design. Furthermore there are also other offers from private educational institutions to be considered, if they match the fields.

2.5 Tourism/ Culture

Tourism is an important sector in the economy of developing countries due to its impact also to other sectors, such as handicrafts, agriculture or transportation. Hence tourism can create job opportunities by employing people directly (hotels, gastronomy, transportation etc.) or indirectly (local products like wine, textiles etc.). In Kosovo the Ministry of Trade and Industry is responsible for the tourism sector, while the Tourism Council of Kosovo is responsible to propose policies and plans for tourism development and promotion, as well as to advise the ministry.

Kosovo welcomes roughly 1.5 million tourists yearly (including diaspora) while according to the Tax Administration of Kosovo the largest number of businesses in the tourism industry are based in the region of Pristina (36.6%), followed by Prizren (17.2%).36 Furthermore the region of Sharr National Park shows a lot of potential for winter and summer tourism. Close

36 Ministry of Trade and Industry (2014)
to Sharr National Park is the wine region Rahovec where several wine producers, who have developed their businesses very well during the past few years, are exporting to the EU, and promoting also wine tourism in Kosovo.

With the completion of the highway to Albania, Kosovo and especially the South of the country around the city of Prizren and the national park have become significantly more attractive for day trippers as well as short-term tourists from Albania. Also the regions of Brezovica and Brod are now more easily accessible and show potential with regard to winter tourism. The region Sharr and the national park are profiting from improved cooperation between the involved stakeholders such as tourism associations, the national park, and the municipalities. In the region of Prizren, and also in the region of Peja, there are several small tour operators who offer small tourism packages. The first information centres for tourists in the region have been opened, but they do not yet have the capacities to offer demand-oriented information. Overall, it will be crucial for the development of tourism in the region and in Kosovo to cooperate with neighbouring countries and to focus not only on the promotion of local products and activities, but also to promote cross-border activities such as the ‘Peaks of the Balkans’ hiking route through Kosovo, Montenegro and Albania, or “Balkan Hiking Adventures, connecting Kosovo, Macedonia and Albania, supported by the German Development Cooperation through GIZ.

Next to such nature tourism, cultural tourism plays a crucial role, especially for Prizren as it is known to be the Cultural City of Kosovo. Not only does it have the best preserved old town from all Kosovar cities, it also has a vibrant festival scene. The most well-known festival is without doubt the DokuFest, which is an International Documentary and Short Film Festival, held every year and attracting visitors from not only the neighbouring countries but from all over the world. A research from 2016 by GAP Institute on “The Economic Impact of DokuFest” shows the continuously increasing number of participants. Compared to 2011 this number increased by 50% already in 2015, counting a total of 15,000 participants in the 2015 edition. This significant number of participants has a great impact also on the local businesses in Prizren like hotels, renters, restaurants, coffee-bars, but also nation-wide businesses like airlines, banks or telecommunication companies. Furthermore the festival creates jobs, new investments and contributes to the increased amount of tax collected. Consequently, the impact of DokuFest on GDP in 2015, with a propensity to import of 48%, amounted to the annual value of 2.4 million euros. If consumption expenses are included, the annual impact is estimated to be over 4.7 million euros. This shows that over the last few years the festival has become the best ambassador for the promotion of tourism to the city of Prizren, and as such to the Republic of Kosovo.

A look into the division of sponsors and partners on the DokuFest website reveals that the great success of DokuFest is only possible with the financial support of many different national and international donors. Germany supports the festival, either through the German Embassy or GIZ. The team behind DokuFest spends a year to ensure financial support for their festival in order for the festival to take place every year. The festival does not only promote the art scene of Prizren but also tourism and the interaction between young people from all over the world, it offers immense potential for the growth of the tourism and culture sector, and contributes greatly to the GDP. DokuFest could therefore be considered as park resident.

37 Gap Institute (2016)
Although the festival is mentioned here just as an example, it helps to present an idea of how parts of the camp could be used for the promotion of culture and tourism. Local actors that are driving motors for different sectors could be sustainably supported and promoted through the park. It is without doubt that the support of such NGOs has become very important. Their inclusion in this project could help them finance their activities. A better infrastructure for arts and cultural events would make Prizren even more attractive, strengthening its economy and consequently increasing employment opportunities, particularly for the youth.

In the following chapter, the concept of Science and Technology Parks (so called STP’s) and one specific example of a STP, namely Adlershof in Berlin, Germany, is presented as a suitable way to combine various fields and therefore served as a model for the later to be presented Kosovar-German Innovation and Training Park in Prizren.
3. Developing a concept proposal based on the STP-Model

The current economic, technological and social transition offers little chance for success for 19th and even late 20th century traditional organisational forms and systems. In this context, a new institutional form has emerged as a very favourable site for regional development, namely, the Science and Technology Park (STP). This successful concept and its beneficial impact all over the world were a reason for the research team to have a closer look at this model. Since STPs are designed to link different fields, the concept becomes even more appealing. The concept of the STP Adlershof Berlin has been identified as a good model that could be implemented in an adjusted form in Prizren.

The objective of this chapter is to provide an overview about the model of STPs and their potential, especially for Kosovo. Thereafter the model of Adlershof Berlin is presented, which served as a stimulus in the process of developing the idea to propose the establishment of a Kosovar-German Innovation and Training Park in Prizren.

3.1 Overview of Science and Technology Park Concepts

STPs consist of a supporting infrastructure for the establishment and development of knowledge-based enterprises based in a location, formally linked and physically close to a centre of technological excellence, a university or research institute. They usually incorporate physical space, business management, various services and a technology link to a centre of technological excellence. As such, STPs provide young, technology-oriented companies with consulting services tailored to their specific needs, while also ensuring they have the optimal infrastructure available, allowing them to establish and maintain connections with science and research institutions. Naturally, the aim of STPs in general is to increase the social and capital assets of its community by stimulating and managing the flow of knowledge and technology among the structures, such as R&D centres, universities, businesses and markets as well as through promoting a culture of innovation, competitiveness and quality assurance of the associated and knowledge-based institutions and companies. To enable the achievement of these goals, according to the International Association of Science Parks Innovation (IASP) “an STP stimulates and manages the flow of knowledge and technology amongst universities, R&D institutions, companies and markets; it facilitates the creation and growth of innovation-based companies through incubation and spin-off processes; and provides other value-added services together with high quality space and facilities.”

Throughout the decades, STPs have proven to be powerful tools for economic development and for the consolidation of the knowledge economy at the regional and city level. The pioneer in the development of science parks was the United States. Originally known as Stanford University Science Park, Silicon Valley dates back to the early 1950s. It was followed by Sophia Antipolis in France in 1960, and Tsukuba Science City in Japan in the early 1970s. This trio represents the oldest and the most well-known science parks in the world.

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38 Jimenez-Moreno et al. (2013)
39 International Association of Science Parks and Areas of Innovation (n.d.)
The success and popularity of STPs has reached such momentum that, according to UNESCO statistics, today, there are over 400 science parks worldwide and their number is still growing.

At the top of the list comes the USA, which is reported to have more than 150 science parks, Japan with 111 science parks, and Europe with a grand total of 232 with 214 being in Western Europe and 18 in Eastern Europe\(^{40}\), including the Science Technology Park Belgrade which is operating since 2016.

In general, it can be condensed that the success of the STPs owes much to two facts:

- responding to new needs of new kinds of companies in new market conditions.
- an extraordinary capacity of evolution and adaptation to ongoing changes.

In a broader context, STPs thrive when the right scheme is put into place with all the necessary stakeholders, namely a cluster of companies, academia and government. Various studies have proven that over the past decades STPs can play a pivotal role in developing countries, as can be ascertained in the cases of Brazil, Greece, Ghana and many of the Arab nations. Furthermore, STPs have also been discussed at a global scale, highlighting their boost potential and value for developing countries. Emerging market economies have been widely deemed as becoming increasingly more important on the international stage, but yet a number of challenges remain. The generic challenges for these countries are: the need to develop the local economy by creating more businesses; making these attractive to overseas investors; providing structure to agriculture, industrial and tertiary industries to boost competition as well as keeping up with the urbanization process. The industrialized countries, since the ‘70s, have been creating programmes to develop science parks in order to make up for their weaknesses in economic development, employment, IT, VETs etc. Henceforth, these science parks have provided the solution for the increasing need or innovation in a competitive environment.\(^{41}\)

Overall STPs have been deemed to have a contagious effect on emerging markets and this trend has been accelerated over the last ten years, as it has brought along increased foreign investment, improved network infrastructures and a development in digital economies.

### 3.2 Presentation of the Adlershof Concept

The Adlershof STP, a city in itself, is Germany’s largest STP and situated in a most successful high technology and media location. With over one thousand companies, ten (non-university) research institutes and the Humboldt University Science Campus, the Adlershof STP is home to innovative businesses, a nature park and a residential area filled with apartments and town houses. It employs 16,778 people and includes a commercial centre with offices, hotels, restaurants and shops.\(^{42}\)

Before being transformed into a leading STP in Germany, and as such in Europe, the site used to be Germany’s first airfield for motor-driven flights. After World War Two, the infrastructure was slowly incorporated into the city, where forty years later it covered 4.2

\(^{40}\) UNESCO (2017)  
\(^{41}\) World News – Climate Change (2013)  
\(^{42}\) Adlershof Online (n.d./ a)
square kilometers of land which today hosts, among the aforementioned entities, two business incubation centres, nearly 17,000 employees, 1041 companies, 6,700 students, and 16 scientific institutions.43

Adlershof STP manages a host of projects in the areas of infrastructure, environment, finance/controlling/trust assets, sales and marketing, real estate etc. Moreover, the non-university research institutes focus on the following subjects:

- Photonics and Optics.
- Renewable Energies and Photovoltaics.
- Microsystems and Materials.
- IT and Media.
- Biotechnology and Environment.

The companies within the Science and Technology Park of Adlershof generate total revenues of 840.7 million euros, the Media City 224.4 million euros and the Commercial businesses and services 691.7 million euros (all revenues excluding subsidies). The development of Adlershof was and still is being co-financed through the European Union through European Regional Development Fund and since 1992 over 225 million euros have been invested.44

The above mentioned areas are further complemented by the University of Humboldt, which hosts six scientific institutes, namely: Chemistry, Geography, Computer Sciences, Mathematics, Physics and Psychology. The Integrative Research Institute for the Sciences IRIS Adlershof successfully connects "Humboldt-Universität" with non-university research institutions and high-tech companies.45

Finally, Adlershof includes a 'Media City', which is home to 147 companies. The media city is close to a landscaped park and a residential area where an additional 360 private houses have been built on an area of 66 hectares. According to the Adlershof STP website, there are additional large available areas which will enable the STP to grow in the future and "the near future years will see the completion of 1,400 housing units ("Living on Campus") for about 2,500 people in the immediate vicinity to the Humboldt-University campus."46

"Adlershof Projekt GmbH", as a subsidiary company, is managed through the WISTA Management GmbH, as a federal state of Berlin holding company, to organise the further development of the Adlershof location. Their range of tasks includes supporting start-ups, networking science, real estate marketing, technology and business, and national and international cooperation. Technology and business incubation centres are fully operated by another WISTA subsidiary, namely the Innovation Centre Berlin Management (Innovations-Zentrum Berlin Management GmbH).47 The WISTA business development relies on a widespread network of contacts to foreign partners, through which it promotes and boosts worldwide exchanges between STPs, clusters and companies. In general, WISTA Management supports companies in securing access to international markets through projects such as the 'Special Projects of the European Union', where it facilitates market

43 Senate Department for Economics, Energy and Public Enterprises (n.d.)
44 Adlershof Online (n.d./b)
45 Adlershof Online (n.d./d)
46 Adlershof Online (n.d./b)
47 Senate Department for Economics, Energy and Public Enterprises (n.d.)
access for SMEs with a general focus on optical technologies, IT and media, and the life sciences.  

At the Adlershof STP, WISTA Management has set up a ‘welcome package’ for international start-ups, through which they provide these start-ups with tailored support during a one to three-month test run. Moreover, the international start-ups are further assisted with general initial support which includes financing and funding opportunities, as well as assistance in: finding an office, an apartment, identifying market possibilities within the technology fields, contact with funding institutions, joint development and validation of financing, analysis and optimisation of funding applications, development of business plans, connecting to potential partners for cooperation etc. The start-ups are also invited to participate in relevant networking events, pitching sessions and to showcase their company.

Among many other opportunities, WISTA Management offers events such as “Impact Day” and “Technology Day” which entail lectures and presentations from the Adlershof Science Park’s key technology fields. This is further complemented by programmes for business coaching and networking accelerators where successful and experienced companies realise pilot projects, access new ideas, products and solutions, and analyse new business ideas with the start-ups. For more experienced and established companies, however, there are some special conditions and offers to be considered. Through Adlershof’s amalgamation with Humboldt University, its support to young entrepreneurs is ready-served to the students of Humboldt, who can count on the venture service’s support, with information, creative office space, training opportunities, alumni work, service packages and practical assistance, whilst on their way to becoming entrepreneurs.

This model of an STP, implemented in Berlin, focuses mostly on science and technology and the linkage between research and technology businesses. The STP model as a general concept is very beneficial if adapted to the specific needs and potentials of a region. In the following chapter a concrete model for Prizren will be presented, considering the mentioned concept of Adlershof as a sample.
4. Concept proposal of an Innovation and Training Park in Prizren

An excellent way to strengthen the identified promising fields and thereby create job and growth perspectives for Prizren and the region, is the establishment of an Innovation and Training Park on the grounds of the KFOR camp in Prizren. Not only the direct proximity of the current camp to Prizren’s city centre, but also the connecting infrastructure to the neighboring countries such as Macedonia and Albania makes Prizren a feasible location for such a park.

As the title of the park already suggests, the main focuses of the STP model that is designed here for Prizren, are Innovation and Training. In contrast to Adlershof Berlin, the park in Prizren would not concentrate that much on research but more on strengthening practical skills. The park would link the fields identified in chapter 2, in order to create additional perspectives for Kosovar population.

As requested by many Kosovar partners, especially the GoK and the Municipality of Prizren, the park could be established as a Kosovar-German project. This implies the inclusion of Kosovar-German stakeholders into the park. The already present German flag in this area would be replaced by a joint project to further strengthen the Kosovar-German friendship.

In the following subchapters’ possible offers of the park (4.1), its benefits (4.2), its proposed organisational structure (4.3), financing possibilities and expected costs (4.4) as well as a depiction of the next steps (4.5) will be presented.

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51 Own figure
4.1 Possible offers and opportunities of the ITP

Possible offers that would fit into the concept of the ITP Prizren are presented below. Nevertheless, the possible offers provided here are only examples. Some organisations have already shown interest and/or potential for the park concept and could be approached in its realisation. However all interested organisations will need to go through a standardised application procedure.

Innovation Centres

Innovation Centres increase the quality of labour force skills and bridge the gap on market supply through provision of trainings, increase ICT entrepreneurship by supporting the start-up ecosystems and provide various business services and grants to start-ups. Therefore the inclusion of innovation centres is crucial for the proposed ITP.

For the promotion of entrepreneurship, innovation and ICT it is recommended that the Innovation Centre Kosovo (ICK) be duplicated at the Kosovar-German Innovation and Training Park. ICK could bring best-practices, network and expertise from Pristina to Prizren. As such, an ICK Prizren could provide business support services such as the following:

- Networking Events
- Business Incubators
- Business Coachings
- Business Location Packages
- Trainings, especially related to ICT

A branch of ICK within the park would be next door to ICT-supported companies, hence creating synergies. Participants of such trainings might be referred for internships or employment to companies searching for staff with the respected qualifications. Moreover, local companies might make use of trainings offered by an ICK Prizren for upgrading the skills of their employees. Moreover, ICK could help companies by commercialising the results of academic research and thereby enhancing corporate R&D activities. Also a close cooperation between an ICK Prizren and the later proposed VET-school of Loyola Gymnasium in Prizren is already intended by both parties. Such cooperations are a good example of the synergies that could be created within the park.

For the promotion of innovation and knowledge in agriculture MAFRD has proposed the establishment of an Agriculture Knowledge and Innovation Centre. This would support the business community in the agriculture sector (primary production and agro processing), government institutions, and other local actors in order to boost the economic development in rural areas. Knowledge and innovation centres in agriculture are crucial to help boost the current economic situation. Such initiatives are established through an interactive process with the stakeholders present in the platform for agricultural research such as: researchers (both basic and applied research), farmers’ organisations (including innovation support centres), government representatives. Such centres incorporate various projects and develop training manuals/programs for the next generation of agricultural innovation scientists.
The Agriculture Knowledge and Innovation Centre would aim at:

1. Highly productive, intensive and market connected agriculture:
   - identify the difficulties faced by all stakeholders in agriculture.
   - improve the business climate and job creation in rural areas.
   - improve business competitive skills needed for companies to improve production and to access local and foreign markets.
   - improve trading activities for Kosovo exporters.

2. Strengthening of small holder farmers:
   - support young farmers in order to guarantee the future of Kosovo’s agricultural sector.
   - invest in innovation and training, aimed at a future-oriented approach to realise business-oriented and societal goals.
   - focus on increasing resilience and sustainability of the agricultural sector in all its facets.
   - strengthen the quality and vitality of rural areas, by addressing the changes these areas are faced with.

3. Initiating cooperation/collaboration between the innovation centre and respective university institutions.

![Schematic picture of the proposed Agriculture Knowledge and Innovation Centre](image.png)

Fig. 4: Schematic picture of the proposed Agriculture Knowledge and Innovation Centre

The target groups of the project are farmers, agro-processors, and other business partners involved in the agriculture sector, sectoral associations, government institutions like MAFRD, Ministry of Economic Development, Ministry of Innovation and Technology, research institutes and universities across Kosovo.

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52 Figure provided by MAFRD.
Similar to the above mentioned synergies in the example of ICK Prizren, also the proposed Agriculture Knowledge and Innovation Centre may facilitate exchange between different stakeholders included in the park, especially with VET-schools and academic institutions.

**VET-offers**

The Innovation and Training Park has the potential to promote the attractiveness of vocational education and training (VET), by improving its quality and by opening up higher value career paths for the youth. It has the potential to close the gap between the current offer of initial vocational education and higher education through the development and promotion of high-level technical vocational qualifications – matching German vocational standards (Gesellenausbildung, Meisterschule, Berufsakademie/ Dualer Bachelor). Possible occupational profiles targeted for benchmarking with German standards could be Industrial Mechatronics, Sanitary, Heating/ Cooling Electrical Technicians (Industriemechatroniker, Anlagenmechaniker SHK) which are in high demand in both the Kosovar and the German labour market, especially with their relevance for growing importance of installations addressing energy efficiency and renewable energy solutions.

As mentioned in the description of the VET sector, the aim of MEST is: Harmonising vocational education and training with labour market requirements in the country and abroad, and creating an open system for adult education. Matching the feedback from representatives of businesses elsewhere and from the KDWV, local businesses complain about the lack of practical knowledge of qualified workforce.

In order to improve this mismatch, VETs should be supported via different offers in the park. An exemplary offer of how dual vocational education can meet the demand of the companies is shown in the idea of the Association Loyola Gymnasium (ALG53). By autumn 2019, ALG intends to open a comprehensive training centre and a higher vocational school, so that, in close cooperation with private sector enterprises, it can provide dual vocational education for the field of mechatronics. The proposed project from ALG aims to build up a dual-system model similar to the German model, which is yet very new for the Kosovar education system. ALG is able to provide a financial plan and contacts to relevant Kosovar-German companies. The endeavor to establish such a school in Kosovo could be easily realised within the proposed park, by making use of the well-equipped machine/ maintenance and learning halls of the camp.

ALG´s project idea foresees synergy effects with the neighbouring University of Prizren, ICK or Makerspaces like ‘Bonevet’ of Gjakova. The ALG project would support Kosovar producing companies and create new, sustainable opportunities in the labour market for young people.

Apart from the establishment of new VET-schools, also already existing VET-schools could be transferred or partially integrated in the park. One of the biggest public VET schools in the region of Prizren, which would fit very well into the ITP would be the Technical School “11 Marsi”, which is based in the city of Prizren. The German KFOR has already had cooperation with “11 Marsi” in Prizren, like exchange activities and handover of IT-

53 See annex 9.
equipment. This cooperation could be sustainably maintained, if the schools activities could be integrated or linked to the park.

Furthermore, VET-schools outside of Prizren might benefit from the park’s establishment. As an example students from the below mentioned agricultural VET-schools all around Kosovo could complete internships within their field at the Agriculture Knowledge and Innovation Centre or relevant companies situated in the park.

<table>
<thead>
<tr>
<th>Name of Education Provider</th>
<th>Type of Education Provider</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Bosko Food Technology Department</td>
<td>Vocational Training Centre</td>
<td>Pristina</td>
</tr>
<tr>
<td>Avdyl Frasheri</td>
<td>Vocational School</td>
<td>Pristina</td>
</tr>
<tr>
<td>Arberia</td>
<td>Vocational School</td>
<td>Gjilan</td>
</tr>
<tr>
<td>Bahri Haxha</td>
<td>Vocational School</td>
<td>Vushtri</td>
</tr>
<tr>
<td>Ministry of Labour</td>
<td>Vocational Training Centre</td>
<td>Peja</td>
</tr>
<tr>
<td>Adem Gllavica</td>
<td>Vocational School</td>
<td>Lipjan</td>
</tr>
<tr>
<td>Zenel Hajdini</td>
<td>Vocational School</td>
<td>Ferizaj</td>
</tr>
<tr>
<td>Ali Hadri</td>
<td>Vocational School</td>
<td>Peja</td>
</tr>
</tbody>
</table>

Tab. 5: VET-Providers for agricultural in Kosovo

The concept of the Innovation and Training Park should be open also for other providers of vocational and educational trainings. The above mentioned suggestions serve as examples on how to integrate various VET-offers by public and private institutions.

Makerspaces for Youth

The Kosovar-German Innovation and Training Park could also include a Makerspace, providing hands-on, creative ways to encourage students to design, experiment, build and invent as they deeply engage in science, engineering and crafts. A Makerspace is not solely a science lab, woodshop, computer lab or art room, but may contain elements found in all of these familiar spaces. Moreover, a Makerspace is a collaborative work space inside a school, library or separate public/private facility for making, learning, exploring and sharing, that uses high tech to no tech tools. These spaces are open to children, adults, and entrepreneurs and have a variety of maker equipment including 3D printers, laser cutters, CNC machines, soldering irons, and even sewing machines.

A Makerspace is more of the maker mindset of creating something out of nothing and exploring the interests of participants. That is at the core of a Makerspace. These spaces are also helping to prepare those who need critical 21st century skills in the fields of science, technology, engineering and math (STEM). They provide hands on learning, help with critical thinking skills and even boost self-confidence. Some of the skills that are learned in a Makerspace pertain to electronics, 3D printing, 3D modeling, coding, robotics and even woodworking. Makerspaces are also fostering entrepreneurship and are being utilised as incubators and accelerators for business start-ups.

54 Own table, data provided by MAFRD.
55 Cooper (2013)
Just like Makerspaces, fabrication laboratories (Fab Labs) are designed to promote entrepreneurial activity, inter-sectoral interaction and partnerships. Fab Labs are small-scale workshops (in German: Werkstätten), with an array of computer-controlled tools that cover several different length scales and various materials, democratising manufacturing technologies, which were previously available only for expensive mass production.

Also inspired by the Fab Lab in Berlin, the Kosovar-German Innovation and Training Park could be home to the first Fab Lab in the region. Possibly deployed into one of the existing buildings of the KFOR camp, it should be furnished with a variety of equipment and computer-controlled tools, along with an assortment of materials, scales, metals etc. with the aim of enabling students and entrepreneurs to produce future prototypes. While fostering the development of innovative ideas, a Fab Lab in Prizren would further allow for the transferal of innovations from one sector to another by providing an open space for exchange. Ultimately, this could create opportunities in different sectors of the Kosovar economy and stimulate the export of goods and services. This would not only enhance the Kosovar-German Innovation and Training Park’s long-term economic strategy, but would also help in cultivating relationships of a much broader context, as students from universities, VETs etc., as well as from all neighbouring countries, are connected there.

GIZ is already supporting ICK to establish cooperation with Fab Lab Berlin in order to build up something similar in Kosovo. Furthermore, there are several providers of makerspaces in Kosovo. One first collaboration between Makerspace “BONEVET”, ICK and the ALG is in planning. This cooperation would fit perfectly into the vision of the park, where Fab Lab and Makerspace could provide workshops, trainings, adequate equipment and expertise for local and international students and aspiring entrepreneurs.

Civil Society Organisations (CSOs) and recreational offers

By including CSOs and businesses in one location, the gap between the non-profit and profit sectors will be narrowed, as both sides realise that their educational requirements intersect: youth empowerment serves youth participation as well as acting proactively in the business sector; creativity serves overcoming prejudices as well as web design and finding business niches; critical thinking serves media literacy as well as developing better business ideas; gender equality serves the advancement of Kosovo society as a whole, as well as introducing new target groups to the ICT sector; communication skills serve the lobbying for the demands of young people as well as for marketing and sales, etc.56

The needs assessment from PEN and forumZFD presented an example of the civil society’s role, which could streamline non-formal education and eventually administrate existing training spaces. Organisations that have the greatest vested interest in the development of youth, serving the public good by offering trainings, or social and cultural activities, should be included in the park as well. As the needs assessment of Pen and forumZFD demonstrated, CSOs are in need of suitable locations for their activities. By establishing a CSO Centre in the park, which could jointly be used by different CSOs, this need would be met. The idea is to have a space where different CSOs can settle or organise events. This could either be

56 See annex 7.
done by allocating one building to this purpose or for example two or three accommodation buildings that could be adjusted to the respective needs. As commented on before DokuFest could be allocated a space in the park. Accommodation buildings could be used for their educational offers, offices or be transformed into hostels, which could be run by the NGO in order to generate revenues.

**Fig. 5: “Alter Schlachthof”-Park in Karlsruhe**

The remaining recreational and accommodation buildings of the KFOR camp should be seen as an added value for the park and its residents. For example, sport facilities, canteen, accommodation buildings, and the church, which are already there, should be maintained to support quality of life in the park area. In addition we propose to widen this spectrum of recreational possibilities by integrating cafés, restaurants, art galleries and small shops (an example of how something like this could look can be drawn from figure 5). The Municipality has shown interest in increasing modern and contemporary art offers in the city by opening a Contemporary Art Gallery in the park. As such, art and culture could be combined to stimulate out-of-the-box thinking and to further process Kosovo’s past and provide a space for exchange and critical thinking not only for tourists but especially for the local population.

These offers would not only be of benefit for residents of the park, but would also attract people beyond the target group such as the citizens of Prizren, employees of neighbouring organisations and companies, as well as tourists.

**Academic offers**

As explained in 4.4 of this study, it is proposed to include academic offers in form of public or private educational providers. Especially offers concentrating on a) Life sciences; Agriculture and Food Engineering, b) Engineering; Production and Construction, and c) Natural Sciences; ICT. Due to its special film-scene-connotation in regard to DokuFest, the park could also include study courses on different art-based disciplines, such as filmmaking.

Similar to the VET-examples, universities could transfer matching faculties to the park, or set up a close collaboration with companies and innovation centres located in the park. As an example for the agricultural sector, universities of that field, that are not located in Prizren or in the park itself could carry out research for the Agriculture Knowledge and Innovation Centre proposed by MAFRD. Some potential providers are listed below:

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It is recommended to offer to the University of Prizren, to transfer their Faculty of Life and Environmental Sciences and the Faculty of Computer Science to the park. These faculties could make use of the maintenance halls for their practical modules and the proximity to the relevant companies, training providers and other offers of the park.

Having in mind the existing hospital-building on the camp, which was designed for hospital services, the later use for the same purposes is recommendable. Although the health sector is not a focus of the proposed park, providers of study programmes in this field could be considered to use the building as a simulation-hospital to complement their academic offers. Private universities have already shown interest in such ideas. As this would contribute to a more practical approach of the studies and to a better qualification of the graduates, this proposal is in line with the park’s aim.

**Start-ups and Businesses**

Primary growth drivers of the world economy are manufacturing and services, with ICT-supported services becoming more and more important. This trend should be adopted in Kosovo as well. The park would offer a supporting environment for start-ups and aspiring entrepreneurs through the services of innovation centres (incubators and counseling), through attractive office spaces for rent (if the accommodation buildings or containers are adjusted) and incentives (e.g. tax mitigations).

KDWV as the representative of Kosovar-German companies in Kosovo has reported great interest of their member companies to enter the park with new branches of their businesses. This would not only create new jobs for the city and the region of Prizren, but also underpin the Kosovar-German philosophy of the park. As some examples, which could match the vision of the present study, there are companies providing solar panels, processing food or metals for the Kosovo and the German consumer market. There is a processing antipasti factory which would be ready to take on most or even all the staff currently working for the German Bundeswehr in the camp. Since there is no need for specific training of extended duration for this kind of work, the staff could be trained on the job and therefore would not be forced to enter in a completely new work relationship.

KDWV has also established good cooperation with German companies that have evinced interest to train Kosovars for the Kosovar and the German labour market. One of the companies who have offered this is WOLF\(^{59}\), a leading company for heating and climate systems or Horn & Co GmbH, active in Steel Services, Mineral Recovery, Products and

\(^{58}\) Own table, data provided by MAFRD.

\(^{59}\) See annex 10.
Analytics. Horn & Co GmbH for example has a close cooperation with the ALG Prizren through various initiatives for vocational trainings in Germany. They have shown great interest to support the ALG in their aim to start a dual vocational education for the field of mechatronics as described earlier in this paper.

Involving German firms in the park would promote regional cooperation through the involvement of major German brands. Additionally the Kosovar diaspora working for bigger German companies or having their own businesses in Germany may be interested to cooperate with the park, by bringing a branch to Prizren or establishing cooperation and staff exchange measures. The KDVV could serve as a contact point to the associations of Kosovar businesses abroad like ‘Union Business – Albanian and German’ in Germany, which has over 250 member companies.

As ICT has been identified as a promising sector in Kosovo, companies using or offering ICT would suit the vision of the park. Therefore a substantial amount of space should be allocated to ICT-supported companies. Thus a synergy-offering environment would be created, attracting yet more companies of this nature.

**One-Stop-Shop: a citizen-centric Information and Service Delivery Model**

Since the park should promote employment, the establishment of an Employment Info Centre by the EARK is strongly recommended. The study therefore proposed to create a One-Stop-Shop which would include the Employment Info Centre but also facilitate a Park Info Point.

Thus under the roof of the **One-Stop-Shop**, the **Park Info Point** would offer information for companies, NGOs, and other interested parties as well as for all visitors regarding the offers, recreational places and events in the park. The **Employment Info Centre** would provide access to a variety of employment-related and interlinked services under one roof. By establishing such a single point of entry to seamlessly integrate the employment, labour market and other (social) services, service delivery would be streamlined along the principles of citizen-centric response, multiple-channel delivery, case management, simplified administration arrangements, and improved coordination between actors and transactions.

The objective of establishing an Employment Info Centre of the EARK in the new Kosovar-German Innovation and Training Park would be to improve the efficiency and effectiveness of service delivery by applying a citizen-centric service delivery model, which would integrate access to all services provided by the EARK and referral to other services under one roof. This information centre would positively contribute to a better management of the transition between education and employment, and in the long-term perspective, could contribute to reduce unemployment and improve the skills of young people. The Employment Info Centre would have a reference character and not be involved in employment decisions of the companies in the park. However, companies and other institutions in the park would be expected to inform the Employment Info Centre when they announce positions/vacancies. At

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60 The Albanian-speaking Kosovar diaspora is often organised in associations called “Albanian”. Although this association is a Kosovar-German association, it calls itself Albanian-German.
the same time, employers in the park would remain independently responsible for the recruitment process of their staff.

The Employment Info Centre would provide information and/or specific offers for services provided by the EARK, the Ministry of Labour and Social Welfare (MLSW) or any related institutions. Each client could be sign-posted to a personal contact person in the centre and, depending on his/her profile, status and needs, would be provided with individual counselling in order to provide them with the most appropriate services. The centre could integrate services from other institutions upon mutual agreements. A contact point of the German Information Centre for Migration, Training and Career (DIMAK) could be included in the Employment Info Centre to raise awareness of the perspectives in the country and thus help prevent migration.

**Additional Opportunities**

Apart from the five fields identified earlier, from the proposed actors and presented offers, other fields, sectors and projects might also be integrated in the park. Through the integration of further fields into the park, namely those which are in line with the key areas of German-Kosovar cooperation such as waste-management and separation, renewable energies and energy efficiency, inclusion of people with disabilities, anti-corruption measures, peace building and gender equality, the park could serve as an excellent benchmark for German-Kosovar cooperation. A short introduction to some additional opportunities is presented below.

**Waste Management:** The amended Waste Law (2012) is the legal base for municipal waste management activities in Kosovo. According to this Law, it is the task of the municipalities to take over the responsibility of waste management. The collection of waste is mainly conducted by regional waste disposal companies (PoE), as is the case in Prizren. In cities, notably in Prizren, the waste collection and disposal management functions properly, whereas country-wide this figure stands only at 52%. The separation of recyclables is performed only at a low volume, by informal collectors. In Prizren, waste separation is comparably advanced, with organic waste and valuable recyclables partly recovered. In Prizren, fee collection rates stand at 70% (2016 data) and there are still over 150 illegal dumps, mostly consisting of construction and demolition waste. Waste collection and disposal are regarded by the population as a visible indicator of how well a municipality is performing.

With KFOR discontinuing waste incineration, future waste management at the park will become a local government task. Prizren’s local government has a functioning waste management unit that has sufficient capacities to install quality waste services. However, few public institutions separate waste. In schools, environmental awareness is done by so called ‘Green Clubs’ supported by a local NGO named Green Art Centre (GAC). Thus, waste will most likely be managed by Prizren’s publicly-owned enterprise (PoE) Ekoregioni and disposed of at the region’s sanitary landfill. Recyclables can be collected by local informal collectors, or by the PoE. Waste tariffs and fee collection will be undertaken by the municipality.
If requested, GIZ’s Sustainable Municipal Service (SMS) Programme offers support for the transition. This could include a solid waste management (SWM) operation plan for the park and Prizren itself, including separate collection of recyclables in all buildings and public institutions of Prizren, as well as awareness creation in all schools in the city. As the GIZ SMS Programme is already supporting separation-at-source in the city centre, and awareness creation, there are no major obstacles in further support. Results will be job creation for existing or returning informal sector workers, mostly from the Roma community. Also, waste volumes will be reduced and recycling stimulated.

**Energy efficiency:** One of Kosovo’s key priorities is to ensure a reliable and affordable energy supply. There is a constantly rising demand for electricity and heat, which poses major challenges to the government due to limited electricity producing capacities. Currently, 95% of the electricity is produced by Kosovo’s aged and air-polluting lignite power plant. Therefore, increasing energy efficiency (EE) and renewable energy (RE) are important goals for Kosovo. As a member of the EU Energy Community, the country is committed to reducing energy consumption in energy-related sectors by 9% by 2018 (based on 2003-2007 average consumption) and increase the RE segment to 25% by 2020. Despite an existing legal framework, few measures to increase EE or RE have so far been implemented. Not only are the capacities of national actors for the efficient planning and implementation insufficient, but local capacities to support and advise on economic and technical instruments for accessing EE or RE financing are inadequate.

On the other hand, investments in these sectors bear great potential for job creation and GDP growth, especially the job-intensive construction branch that will benefit from EE investment. In view of upcoming substantial reforms (i.e. EE fund) and fund availability (i.e. EU, WB, KfW, MCC and EE-credit lines) job creation and business opportunities are likely, and respective capacity building needs are high. Yet, actual funding access is often obstructed by a lack of awareness and capacity gaps at both ends of the supply chain. In Germany, this gap was bridged by giving Local Energy Agencies (LEA) the task of supporting municipal, private sector, and household awareness creation, provision of technical and funding opportunities, and project preparation.

The new Administrative Instruction on Municipal Energy Offices (No. 09/2017) allows for inter-municipal cooperation to increase a municipality’s capacities. Prizren municipal energy office is installed, though still with low capacities; surrounding municipalities are weaker still. In Prizren there exists a strong NGO called the Kosovo Association for Renewable Energies and Energy Efficiency (AKERE) that will assist the municipal office, supported by GIZ. It has recommended that a Prizren-region LEA, supporting Prizren, Gjakova and six surrounding municipalities, the private sector, and households should be installed in the park. The installation and capacity building can be supported by GIZ Kosovo Energy Efficiency Project (KEEP) and AKERE. However, it is crucial that core-funding of this institution is provided by the public sector. Since it is not in competition and rather complementary to the national Kosovo Energy Efficiency Agency (KEEA), there is no doubling of efforts here. The Prizren region LEA could even act as a cross-border institution, offering support to the Kukes region and the northern parts of Albania bordering Kosovo. Finally, LEA could play a role in the exchange of experiences between KEEA and the recently established EE Agency in Tirana, Albania.
Furthermore, it is suggested that within the construction sector a capacity building hub for EE measures is installed at the park itself for the benefit of Kosovo’s construction sector. We recommend training craftsmen on implementing EE and RE measures in combination with a certified low-energy consumption showcase building.

Additionally, it is suggested that the site be supplied using RE, making it a model for other industrial parks in the SEE region. This model could also include advanced energy management (i.e. decentralised and/ or smart grid and IT based monitoring), application of minimum energy performance standards in buildings, and the utilisation of Renewable Electricity Standard (RES). Here solar energy, wind and conceivably biomass heating plants are recommended. This can be organised by establishing an EE and RE information centre, where local companies present high standard EE products and the technologies.

The intended results are job-creation and GDP growth in the construction sector. The environmental image of the Park will increase its attractiveness. It may serve as an innovation and show-case hub and will provide learning opportunities for craftsman, and students of all ages.

**Peacebuilding:** Economic development is surely an important cornerstone of peace building. However, the case of Yugoslavia shows that economic prosperity alone is a very thin protection from social unrest. Once the economy weakened, ethnic tensions emerged. As long as families maintain interethnic resentments in defiance of a state that promotes a national identity of equality, peace is not sustainable. The failure to deal with the past of WWII during Yugoslav times led to the wars of the nineties. A repetition of this historic mistake must be avoided by addressing current interethnic resentments, prejudices and hate speeches – which are prevalent among youth. On a daily basis – i.e. at schools – prejudices against Roma, Ashkali and Egyptians, Serbs and gay people serve as insults to any child. This demonstrates how fragile the current peace between the ethnicities is. KFOR has been mostly successful in its mission to provide peace, but as KFOR continues to withdraw, efforts to stabilise Kosovo from within have to be increased. With the idea of the Kosovar-German Innovation and Training Park and the creation of equal opportunities for all people regardless of ethnicity, age, sexual orientation, or other distinguishing traits, the peacebuilding efforts of German KFOR’s work and its positive reputation can be continued.61

**Labour inclusion of people with disabilities:** The vision of the Kosovar-German Innovation and Training Park should foresee opportunities for inclusion of vulnerable groups, especially for people with disabilities in its labour and vocational offers. For this purpose, an intensive counselling as well as job-search assistance is required, which could be offered by different NGOs active in this field of labour inclusion for people with disabilities. Such NGOs could take care of the combined measures of several instruments.

For example, the employment of this target group could be supported by offers of non-formal educational programmes, internships as well as programmes which partly subsidise employment of people with disabilities in the companies of the Kosovar-German Innovation and Training Park. Other active measures could be supported employment, sheltered employment or incentives from people with disabilities. A current example of such an instrument is the “Café X21” in Pristina or “Bistro Garden 21” in Prizren. Both are

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61 See annex 7.
implemented by the NGO “Down-Syndrome-Kosova” which is supported by Germany with an integrated expert in the field of inclusion of people with disabilities in the labour market.

Such inclusion should be used as an awareness-raising model for the political and legal discourse on labour inclusion and additional laws and regulations in this regard. Inclusive measures for people with disabilities will significantly raise the positive social impact of the Kosovar-German project at hand and create perspectives and opportunities for both disabled people and their families in Kosovo.

4.2 Benefits
The here presented Innovation and Training Park is the most effective measure to achieve the following aims and link the identified fields:

- Offer an attractive business environment for innovative SMEs.
- Attract established technology development companies (national and international, in particular from Germany) and create the conditions for their development by connecting them with science, research and education institutions and non-formal education providers.
- Provide vocational education and training according to labour market demands and offer internships for vocational training.
- Offer space to promote innovation, especially for the above mentioned fields like agriculture, and assist in commercializing innovations created during the process of R&D activities.
- Promote entrepreneurial activity by providing adequate equipment and expertise for students, graduates and aspiring entrepreneurs.
- Encourage job creation, and increase employment opportunities for young people.
- Create conditions for the return of Kosovar experts from abroad and thereby profit from their international know-how.
- Offer space for CSOs, for youth, cultural and other touristic and social activities, for art creation and exhibitions.
- Offer space for offices of ICT-supported companies.
- Offer space for accommodation for tourism and non-formal trainings.
- Strengthen Kosovar-German partnership.

The Kosovar-German Innovation and Training Park could act as a catalyst for change especially in the region of Prizren, providing new opportunities for employment in an area of traditional industry, and could help to change the image of the area by demonstrating that it can create, attract and support high-tech industry. The park would create opportunities for the whole population of Kosovo, but most importantly give perspectives to young people. The implementation and success of such a conversion project would be of interest for Prizren, Kosovo and possibly neighbouring countries.

Having all these various stakeholders, academic and professional, public and private, local, national and international, in such close proximity in the proposed park, constant exchange and a stimulating environment would automatically be fostered. The proposed park follows a synergy-creating interdependent approach, resulting in tremendous spillover effects from one sector to another.
The inclusion of VETs and non-formal education offers in the park should be understood to be one of the most important components of the presented model. Practical skills are in high demand in Kosovo’s labour market and therefore need to be provided to a greater number of people. If more adequately qualified staff were available in the Kosovar labour market, this would increase the competitiveness of the labour market as well as attract local and foreign investors.

Moreover, the proposed park could support the Municipality of Prizren in improving and strengthening its relationships to European and specifically German cities. On the one hand, this will help to further promote tourism in Prizren and Kosovo, on the other hand it will allow and foster a cultural exchange that can help Kosovo further integrate into Europe and proceed on the path to EU membership.

4.3 Organisational structure
In the case of the here presented ITP the interests of various stakeholders need to be coordinated. Therefore the park needs a defined legal form and a clear organisational structure in order to guarantee for this joint venture to be an equal success for all parties involved in the park, as well as an immense benefit for the Kosovars living in the region and Kosovar population as a whole. A feasible model would be the establishment of an operational management and a supervising steering committee.

One legal entity, hereinafter named Park Management is responsible for operational planning, development, administration and daily operation of the Kosovar-German Innovation and Training Park. The organisational structure of the Park Management could be designed as follows:

![Proposed park management structure](image)

Fig. 6: Proposed park management structure

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62 Figure provided by consultancy firm Life Cycle L.L.C.
The proposed structure is based on the need to cover all the necessary functions of a management team of an undertaking of this kind and size and suggests a flexible design based on level of variable components. A fixed structure with higher number of team members could create, at least in the beginning, a non-effective working environment, increase management costs and would require extra efforts in amendments of future needs.

The proposed structure is flexible in the sense that it proposes to hire full-time in house members of the team which are necessary, while other functions could be covered by outsourcing. It is recommended to organise the management team into three main divisions: Marketing, Finance and Administration, and Operations. The divisions should be headed by competent professionals and be assisted with limited number of subordinates. Functions and activities which are best performed by outside companies should be outsourced, such as: legal and contract management, accounting, cleaning and security. As per event management and IT, it is proposed to hire limited number of people (initially one person per each function) with the possibility of hiring outside companies for specific tasks.

The proposed initial structure has in total 15 team members, with legal, accounting, security and cleaning services provided by outsourced companies. Two positions can be supported on ad-hoc basis by external support, via contracted project based companies (example: support to IT in developing the necessary network). The top management positions need to be filled with competent and professional people with specialized background and a set of managerial skills. Core competencies of the team members are presented below:

**Park Director core competences:** Superior education (business or related); at least seven years professional experience preferably in the private business sector. Fluent command of English is a must, German an asset. In general, the Park director should be results-oriented, with decision making skills, far ahead thinker (strategist) with excellent organising skills.

**Administration and Finance Officer core competences:** Superior education (finance, accounting, human resources or related); at least five years of professional experience preferably in the private business sector. Knowledge of English is compulsory and German is considered an asset. In general, the Admin/ Finance officer should be detail-oriented, with excellent planning and organising skills, preferably certified in the field of finance/ accounting.

**Marketing and Sales Officer core competences:** Superior education (sales, marketing, business, or related); at least five years of professional experience preferably in private business sector. Fluent command of English is a must, German an asset. In general, the Marketing and Sales Officer should be a skilled practitioner of marketing and/or sales and possess excellent communication skills, with very good command of social media marketing.
Chief Operating Officer (COO) core competences: Superior education (operations management, business or related); at least five years of professional experience preferably in private sector. Fluent command of English is a must, German an asset. In general, the COO should be a strategist with a focus on accuracy, he/ she should have excellent skills in operations, planning, control, problem-solving and communication.

The Steering Committee would be the body which supervises the park management. They are responsible for choosing a company to manage the park. All resident parties in the park shall elect one or several representatives of their sector to the steering committee. They shall advocate for their sector and ensure that their interests are taken into account in the decision making process for the park. In addition to the representatives of the park’s residents relevant Kosovar governmental institutions and the park director are defined as set members of the steering committee. The possible participation of official German representatives in this steering committee is subject to negotiations and approval of the German Government. The visualisation below portrays the various parties which could be included in the steering committee of the Kosovar-German Innovation and Training Park.

![Steering Committee diagram]

*Fig. 7: Proposed members of steering committee* 63

The committee would be responsible for defining the direction in which the park is aiming, for planning and formulating the park’s vision and policies, undertaking risk analysis, drawing subsequent mitigation plans, devising cost structure and revenue models and approving draft budgets by the park management.

Moreover, the steering committee should be the institution to develop and approve a **catalogue of criteria** which shareholders have to meet if they want to be included in the park. The development of the catalogue could be supported by GIZ experts, and it should pay particular attention to the following topics:

- Contribution to labour force skills, innovation, jobs and science; sustainability, transparency, regional and international appeal, Kosovar-German-Component, non-profit offers, green

63 Own figure.
building\textsuperscript{64}, inclusion of former KFOR local staff, promotion of and inclusion of people with disabilities, principles of equality of treatment, nondiscrimination, proportionality, freedom of competition, value-for-money, affordability, ability to pay rent, protection of the public interest. Companies should offer trainings/ internships and they should be interlinked with VET or science institutions, while VET or science institutions should be interlinked with companies and other non-formal education offers/ civil society, etc.

The picture below portrays how the steering committee would contribute to the park implementation.

![Diagram showing the relationship between steering committee, park management, and park residents](image)

**Fig. 8: Schematic picture of relationship between steering committee, park management and park residents\textsuperscript{65}**

The establishment of a steering committee is very important due to the complex character of the ITP concept. In the following it is explained, why an inclusion of the governmental institutions and representatives of business associations in the steering committee is recommended and which roles they fulfill. In contrast to the park’s residents, which are still to be chosen through a tendering process and can therefore not be described in detail yet, the participation and role of Kosovar governmental institutions and business associations in the committee is tangible at this point already and will therefore be depicted briefly.

**Kosovar governmental institutions**

This study recommends that the project remains attached to the Prime Minister’s Office. This would underline the political importance of the project, enable effective inter-ministerial coordination and help make it a prominent bilateral project between Kosovo and Germany. The GoK is recommended to act as the planning authority and is recommended to uphold its main function as the main support mechanism through public promotion as well as financial

\textsuperscript{64} Low energy and water consumption, waste separation, use of renewable energies, efficient maintenance of the building, use of good/ environmentally sustainable materials etc.

\textsuperscript{65} Own figure.
aid like strategic investments. Furthermore the GoK could help attract companies as tenants by offering incentives, for example in the form of tax concessions.

Line ministries and the Municipality of Prizren are included in the steering committee as well and will play a role for the park due to their responsibilities. For example the Ministry of Education, Science and Technology could further expand their efforts in implementing reforms regarding the VET system. Furthermore, the inclusion of university education offers in the park in subjects like study fields of engineering, agriculture, food safety, ICT etc., as described in this study, would need to be accompanied by MEST as well. Moreover, due to the cross-sectoral nature of the park's offers, the cooperation between different ministries is necessary. A link between MEST and the Ministry of Agriculture, Forestry and Rural Development (MAFRD) for example is desirable, when further analysing the Knowledge Agriculture and Innovation Centre proposed by MAFRD. Apart from MEST also other ministries would have to be involved for the success of some of the park's offers, like the Ministry of Labour and Social Welfare (MLSW), the Ministry of Trade and Industry (MTI), the Ministry of Economic Development (MED), the Ministry of Environment and Spatial Planning (MESP), the Ministry of Health (MoH), etc. The MLSW for example will play a role for the various activities linked to labour, be it VET or the establishment of the Employment Info Centre within the One-Stop-Shop in the Park. Finally the newly created Ministry of Innovation and Entrepreneurship is recommended to help ensure assets such as seed capital, use its planned mechanisms and budget in fostering regional innovation and economic development, which subsequently could generate a significant number of new jobs, R&D opportunities, and entrepreneurship.

This list of governmental inclusion is exemplary and might include also other line ministries like the Ministry of Finance in regards to ideas of a tax-free or tax-reduced zone. This underlines the necessity to have the GoK as the planning and coordinating authority.

On local level the Municipality of Prizren is proposed to support the promotion of the park and to identify parties from the region whose interests and influence are relevant for the park’s success. Furthermore they are directly responsible for connecting the park with the city of Prizren by establishing the necessary infrastructure (i.e. public transport, municipal services like waste management, etc.) and thereby ensuring that the park becomes an integral part of Prizren. Thus their participation in the proposed steering committee presents a benefit for the park and the citizens of Prizren.

Business Associations

As described in this study, especially two business associations play an important role for the park, namely KDWV and SHZAP. While KDWV represents the Kosovar-German business community in Kosovo, SHZAP represents the business community in the region of Prizren. Furthermore, SHZAP also represents two associations of Bosnian and Turkish business associations of Prizren. It is recommended for representatives of KDWV and SHZAP to become part of the steering committee in order to share their member's concerns and visions for the region. Both associations should also work closely with the marketing department of the park, supporting each other in lobbying towards the attraction of local and international companies.
German Representatives

The possible participation of German representatives and their role in this steering committee shall be elaborated upon bilateral agreement. Close to the publication date of this study, the GoK has asked GIZ to set up and manage the park for an initial period of four years. However it has to be evaluated first, if the necessary financial resources can be allocated for an implementation by GIZ. The commission of GIZ with the implementation of the park naturally results in the participation of GIZ representatives in the steering committee. Other possibilities of German governmental involvement can be elaborated when a final decision regarding the initial implementation phase is made.

4.4 Financing and costs

Before having a look into finance and costs, it is important to understand, that STPs depend heavily upon public and private collaboration, commitment and aid on long term. The example of Adlershof shows, that the establishment of such a park requires time and resources. Therefore a strong and long-term political commitment to this project is to be understood of crucial importance.

As presented in the background information on the KFOR camp\textsuperscript{66}, the area already has the physical infrastructure in place. Consequently, the Kosovo case allows for the Kosovan-German Innovation and Training Park to be established with significantly less investments than necessary for the creation of such a park from scratch.

As proposed by the Government of Kosovo, GIZ could possibly implement the initial phase of the conversion from use as a military camp to an ITP use as designed in this study. The financial resources for such an idea need to be further elaborated after the presentation of the study (see next steps described in chapter 4.5).

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\textsuperscript{66} See annex 2.  
\textsuperscript{67} Karnik, M. (2017)
After the initial phase, which could be four years, the park should be able to generate revenues and be self-sustained. One of the basic mechanisms to achieve income is the management of the facilities. Hence, available spaces should be rented out by the park management team. The income generated from the rent would sustain the management of the park and be subsequently re-invested into the park. For example, the generated revenue could help to finance a co-working space\textsuperscript{68}, which again could be rented out. This would increase the attractiveness of the park, whilst complying with the vision and further generating resources available for new investments.

However, the steering committee (especially the Park Management together with the governmental institutions) needs to provide incentives for different stakeholders, like tax-mitigations for companies or other concessions like cost-neutral provision of space to public institutions or organisations that have the greatest interest in the development of youth, serving the public good by offering trainings, or social and cultural activities. As described in chapter 2.5, DokuFest has had an immensely beneficial impact on the area of Prizren. Therefore, it could be supported through such incentives by providing DokuFest’s organisers with accommodation buildings on the camp. Hence for example one accommodation building could be administrated as a hostel by DokuFest themselves to generate enough income for self-sustainment, or be used for offices or training spaces by them. This proposal is to be understood only as an example.

Incomes generated from rents (minus the agreed exceptions like described above) will provide a monthly financial source; nevertheless, other internal mechanisms or direct access to public and private financial sources that support R&D activity or partnership development are of the utmost importance. As such, it is the quality of the management that should be the park’s strongest asset, as it is responsible to help support the access to such mechanisms.

\subsection{4.4.1 Financing possibilities}

The development of business or technology parks can be financed through different legal mechanisms. Most typical forms applicable for the establishment of business parks, where public infrastructure is required, are PPPs and strategic investments.

The PPP Law governs \textit{public-private partnerships} for the provision of public services and public infrastructure in all economic and social sectors, including public transportation. Public services are any service, task or function which a public authority is mandated by law to provide in the general public interest and which is of a non-industrial and non-commercial character. Public infrastructure includes physical assets, structures and systems that directly or indirectly provide public services. Under the PPP Law, a Project needs to be structured in such a manner as to ensure compliance with the principles of equality of treatment, nondiscrimination, transparency, proportionality, cost-effectiveness, and efficiency, freedom of competition, value-for-money, affordability, and protection of the public interest.

\textsuperscript{68} Co-working is a new way of organising work, especially that of freelancers, artists and start-ups. Various individuals or groups realise their projects in a shared open space. While the co-workers pursue their projects individually, the space enhances collaboration and facilitates finding help and new colleagues. Modern co-working spaces offer work stations as well as a common infrastructure, including wi-fi, printers, fax, phones and meeting rooms. They can also be used for workshops (Adlershof Online (n.d./f)).
According to OECD, PPPs can be classified according to the functional objectives and goals of governments, such as support for strategic research and technology development; improving the mechanisms for commercialization and technology diffusion; and generating spin-offs of technology-based firms. In addition, providing access to innovation financing and training, and stimulating networking among innovation actors have become more explicit objectives of partnerships.\textsuperscript{69} The Kosovar-German Innovation and Training Park would fit into this mandate with its various suggested offers.

Another possibility to acquire financing for the park is \textit{strategic investments}. In its efforts to further encourage and promote FDI, with the initiative of the GoK, the Assembly of Kosovo passed the Law on Strategic Investments in the Republic of Kosovo No. 05/ L-079 (“Law on Strategic Investments”). This Law aims to stimulate, attract and create conditions for implementation of strategic investments, as well as to establish administrative procedures and criteria for evaluation, selection, implementation and monitoring of strategic projects, as well as determining the procedures for granting the use of the property of the Republic of Kosovo, for the purpose of implementation of strategic investments projects. The status of strategic investment or of the strategic investment project may be realised according to the criteria and the procedures defined by law, for projects from priority sectors of economic and social development which contribute to economic growth, employment and the implementation of new technologies, the increase of competitive economic capabilities of Kosovo, the increase of exports and the reduction of the trade deficit, besides projects having general impact upon the growth of welfare and living conditions of the citizens.

Investments considered strategic in terms of the Law on Strategic Investments, must fulfill the following criteria:

- Investment entity must submit evidence, proving its financial capability to fulfill the investment.
- Proposed investments must be in compliance with environmental standards defined by legislation of the Republic of Kosovo and the European Union.
- Proposed investments must not be in contradiction to the Constitution and obligations of the Republic of Kosovo defined by international conventions and agreements.
- The Inter-ministerial Committee for Strategic Investments is responsible for evaluating, selecting, implementing, and monitoring strategic investment projects. ICSI is composed of the Minister of Trade and Industry, the Minister of Finance, the Minister of Environment and Spatial Planning, the Minister of Agriculture, Forestry and Rural Development, the Minister of Economic Development, a Minister from a non-majority community in Kosovo, the Mayor of a Municipality in which a strategic investment is implemented, the Minister of the Ministry in which a strategic investment is implemented, and the State Attorney.

With strategic investments in the park, both countries could work towards achieving their aims mainly in the priority sector of sustainable economic development.

\textsuperscript{69} Cervantes (2017)
Establishment of the ITP through GIZ

As previously mentioned, the GoK has approached GIZ to support the conversion phase and the establishment of the park during the first few years. This option doesn’t exclude the necessity for the allocation of the above mentioned financing possibilities, by both, Kosovar and German institutions. If both countries agree and allocate financial resources for the project, GIZ could build up the park and gradually prepare it for a handover to the private sector.

For an initial period of four years, a GIZ implementation of the park would need a minimum commission of 4.5 million euros. This calculation includes the human resources from GIZ, compensation for the expected negative balance in the first three years (see estimated costs in the following sub-chapter), before the park can actually realise profit, as well as for financial agreements (with service providers/ operating company of the park, or another entity yet to be identified for the initiation of PPPs).

At this stage already a number of key tasks can be distinguished which would need to be taken over by GIZ in Kosovo in order to facilitate the successful creation and first years of operation of the park. However after the presentation of the study this list of tasks will be elaborated further between the two governments.

Key tasks to be fulfilled by GIZ in Kosovo:

1. Facilitate the establishment of the steering committee and capacity building in order to ensure coordination between diverse stakeholders in board (incl. facilitation of development of the legal status of the park management)
2. Facilitate the establishment of the core management team and capacity building of its members
3. Develop a plan for the park in order to ensure that the public interest is sufficiently represented in the operation of the park so that in the long run, the park will fulfill one of its aspired key objectives which will be the contribution to the public benefit
4. Facilitate the implementation and running of the park
5. Compensate for the expected negative balance between operating expenses and revenues during the first three years

4.4.2 Estimated costs for operating expenses and revenues for a period of 10 years

In order to give an estimation about the expected running costs of the proposed Park in Prizren, the current operational costs of the camp70 have been recalculated in accordance to the concept of a Kosovar-German Innovation and Training Park.

Assumptions

Consultants from the company Life Cycle L.L.C. have conducted a first financial assessment for the operation of the presented park concept.71 Main assumptions used for calculation of estimated costs and revenues from the ITP are as follows:

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70 See annex 2.
71 See annex 4.
• Start year is estimated to be 2019
• Total buildings available: 57
• Total area of 38 832 m²
• Total percentage not to be charged targeted at 20%
  o 5 out 23 accommodation buildings have not been accounted for in the revenue calculation
  o 1 out of 3 administrative buildings has been reserved for space for non-profit-organisations
  o 1 functional building made available to non-profit-organisations
  o 2 maintenance buildings made available to non-profit-organisations
  o 2 recreation buildings made available to non-profit-organisations
  o 20% of the time available from the sports facility is proposed to be made available for non-profit-organisations
• Space for park management team 500 m²
• Utilisation of total rentable area
  o First year utilisation 40%
  o Second year utilisation 50%
  o Third year utilisation 65%
  o Fourth year utilisation 80%
  o Fifth year utilisation 95%, (to be considered as maximum rate of utilisation)
• Occupancy rate of accommodation buildings:
  o First year: 35%
  o Second year: 40%
  o Third year: 50%
  o Fourth year: 60% (to be considered as maximum rate of utilisation)
• Tariffs, all tariffs in euro excluding VAT
  o Average monthly rent fee for solid-constructions: 2.50 per m² (1.5 EUR rent + 1.0 EUR for common expenses)
  o Average monthly rent fee for maintenance buildings: 2.0 per m² (1.5 EUR rent + 0.5 EUR for common expenses)
  o Average monthly rent fee for accommodation building per room: 50.00
  o Average monthly rent fee for sports facility: 2 000.00
  o Average monthly rent fee for hospital: 8 000.00
• Inflation: 2.0% p.a.

Financial results

Initial capital expenditures are considered to be low, as most of the expenses that could be accounted for Capital Expenditures (CAPEX) are proposed to be acquired as services, therefore accounted as operational expenses. As can be seen in the detailed tables from the consultancy firm, the total amount foreseen as initial CAPEX is around 100,000 €, half of which is a contingency fund (which will serve as initial repair fund as well).

Total amount for Operational Expenses (OPEX) are around 0.5 million euros in the first year with an annual increase of less than 5% in the first two years and 1.7% for the consecutive years. The increase of OPEX budget is mainly linked with projected annual inflation of 2% reflected on escalation of salaries, maintenance, public utilities etc., and 3% of electricity.

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72 See annex 4.
### OPERATIONAL COSTS

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
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<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year no.</td>
<td>1</td>
<td>2</td>
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<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>TOTAL OPEX</td>
<td>517 678</td>
<td>540 712</td>
<td>565 934</td>
<td>575 550</td>
<td>585 367</td>
<td>595 389</td>
<td>605 622</td>
<td>616 069</td>
<td>626 734</td>
<td>637 624</td>
</tr>
<tr>
<td>Salaries</td>
<td>146 400</td>
<td>149 328</td>
<td>152 315</td>
<td>155 361</td>
<td>158 468</td>
<td>161 637</td>
<td>164 870</td>
<td>168 168</td>
<td>171 531</td>
<td>174 962</td>
</tr>
<tr>
<td>Office and other expenses</td>
<td>128 034</td>
<td>130 595</td>
<td>133 207</td>
<td>135 871</td>
<td>138 588</td>
<td>141 360</td>
<td>144 187</td>
<td>147 071</td>
<td>150 012</td>
<td>153 012</td>
</tr>
<tr>
<td>Electricity and heating expenses</td>
<td>46 000</td>
<td>47 200</td>
<td>48 432</td>
<td>49 698</td>
<td>50 998</td>
<td>52 333</td>
<td>53 704</td>
<td>55 113</td>
<td>56 559</td>
<td>58 045</td>
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<tr>
<td>Maintenance and cleaning</td>
<td>60 000</td>
<td>80 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
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<tr>
<td>Public utilities</td>
<td>13 000</td>
<td>13 260</td>
<td>13 525</td>
<td>13 796</td>
<td>14 072</td>
<td>14 353</td>
<td>14 640</td>
<td>14 933</td>
<td>15 232</td>
<td>15 536</td>
</tr>
<tr>
<td>Marketing and publication</td>
<td>20 000</td>
<td>14 000</td>
<td>10 000</td>
<td>10 200</td>
<td>10 404</td>
<td>10 612</td>
<td>10 824</td>
<td>11 041</td>
<td>11 262</td>
<td>11 487</td>
</tr>
<tr>
<td>Security</td>
<td>104 244</td>
<td>106 329</td>
<td>108 455</td>
<td>110 625</td>
<td>112 837</td>
<td>115 094</td>
<td>117 396</td>
<td>119 744</td>
<td>122 138</td>
<td>124 581</td>
</tr>
</tbody>
</table>

| Tab. 7: Estimated Operational Costs by main items for the ITP 2019-2028 |

**Salaries:** As an expense item, salaries account for around 28% of total OPEX (to stabilise at around 27% in later years), and are the largest expense item. As seen from the section on organisational structure, the consultant is recommending an initial team of 15 for the management of the ITP. As this kind of activity is new in Kosovo, it is required to hire a very motivated team and provide them support and external consultancy. The recommended compensation policy should be based on private sector standards in Kosovo and the region, in order to attract best qualified personnel. Focus should be put on the top management team, i.e. Park Director and three other key officers. It is recommended for the initial salary of the director to be in the range of 1800-2200 euros gross, for the other three key positions to be 1000-1400 euros.74

**Office and other expenses:** This expense item includes office supplies, transportation and fuel, legal fees, communication (internet + telephone), accounting expenses, insurance, external audit, property taxes, professional memberships, travel, representation and training expenses and other expenses. It is the second largest item and accounts for around 25% of total expenses. The largest expenses in this group are transportation, insurance and property taxes.

**Electricity and heating expenses:** These expenses are expected to account for 9% of the total expenses and should cover electricity expenses for the administrative space used by the management team, the security team, the Park Info Point as well as common area lighting. The electricity and heating costs of other buildings will be covered by the tenants.

**Maintenance and cleaning:** General maintenance covers costs of regular maintenance of management team administrative building, electricity network, security network, roads, lighting and all other common expenses related to the park, including green and recreational areas. These costs will cover also outsourced cleaning services for the park. It is calculated as a percentage of total value of assets (3% for the first year, 4% for the second and 5% for

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73 Table provided by the consultancy firm Life Cycle L.L.C.
74 See annex 4.
the rest of the period). As percentage of total expenses, maintenance accounts for 12% of total OPEX in the first year, increasing on annual basis to stabilise at around 16%.

**Public utilities:** The cost of public utilities is calculated for the water and sewage and waste collection expenses for the management team administrative building, security premises, roads, and other common area expenses. These costs account for around 2.5% of the total expenses.

**Marketing and publication:** These expenses are based on the formula of 1.5% of the total revenues expected and the need for marketing and publication in the initial years. As the first two years are more intensive in marketing and also due to the need of recruitment publications and expression of interest publication, it is estimated that 20 000 for the first year and 14 000 euros for the second year will be sufficient to cover the expenses. For the rest of the period 10 000 euros are calculated as a basis for marketing expenses. It is worth mentioning that the park has a potential to generate revenues from marketing as well, especially in later years, by providing/renting promotional spaces to outside companies, promotional campaign etc. This opportunity should be explored by the management team.

**Security:** Security costs are the third largest expense item. This is due to the large area needed to be under surveillance. The services should be provided by outsourced specialised companies. This item covers costs for surveillance cameras as well as security personnel.

### REVENUES

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
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<tbody>
<tr>
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<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total REVENUES</strong></td>
<td>282 120</td>
<td>409 406</td>
<td>505 278</td>
<td>590 519</td>
<td>650 935</td>
<td>662 754</td>
<td>674 809</td>
<td>687 105</td>
<td>699 647</td>
<td>712 440</td>
</tr>
<tr>
<td>From administrative buildings</td>
<td>46 800</td>
<td>59 670</td>
<td>97 381</td>
<td>122 251</td>
<td>148 076</td>
<td>154 059</td>
<td>157 140</td>
<td>160 283</td>
<td>163 488</td>
<td></td>
</tr>
<tr>
<td>From accommodation buildings</td>
<td>90 720</td>
<td>105 753</td>
<td>134 835</td>
<td>165 039</td>
<td>168 339</td>
<td>171 706</td>
<td>175 140</td>
<td>178 643</td>
<td>182 216</td>
<td>185 860</td>
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<tr>
<td>From function buildings (excluding canteen)</td>
<td>11 520</td>
<td>14 688</td>
<td>19 476</td>
<td>24 450</td>
<td>29 615</td>
<td>30 207</td>
<td>30 811</td>
<td>31 428</td>
<td>32 056</td>
<td>32 697</td>
</tr>
<tr>
<td>From maintenance buildings</td>
<td>31 680</td>
<td>40 392</td>
<td>53 559</td>
<td>67 238</td>
<td>81 442</td>
<td>83 071</td>
<td>84 732</td>
<td>86 427</td>
<td>88 155</td>
<td>89 918</td>
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<tr>
<td>From Recreation buildings</td>
<td>21 600</td>
<td>27 540</td>
<td>36 518</td>
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<td>56 639</td>
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<td>61 308</td>
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<tr>
<td>From other buildings</td>
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<td>163 506</td>
<td>165 696</td>
<td>167 932</td>
<td>170 090</td>
<td>172 292</td>
<td>174 538</td>
<td>176 829</td>
<td>179 165</td>
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<td>Hospital</td>
<td>30 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
<td>60 000</td>
</tr>
<tr>
<td>Canteen</td>
<td>37 500</td>
<td>76 500</td>
<td>78 030</td>
<td>79 590</td>
<td>81 182</td>
<td>82 806</td>
<td>84 462</td>
<td>86 151</td>
<td>87 874</td>
<td>89 631</td>
</tr>
<tr>
<td>Sports facility</td>
<td>12 000</td>
<td>24 480</td>
<td>24 969</td>
<td>25 469</td>
<td>25 978</td>
<td>26 497</td>
<td>27 027</td>
<td>27 568</td>
<td>28 119</td>
<td>28 682</td>
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<td>Workshop sheds</td>
<td>300</td>
<td>382</td>
<td>50</td>
<td>636</td>
<td>771</td>
<td>786</td>
<td>802</td>
<td>818</td>
<td>834</td>
<td>851</td>
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</table>

Tab. 8: Estimated Revenues of the ITP 2019-2028

Revenue flows at this stage are anticipated only from rental revenues of 57 buildings in total, out of which 11 buildings will be provided free of charge to non-profit-organisations. Sports facility could provide 20% of available time free of charge to non-profit-organisations.

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75 Table provided by the consultancy firm Life Cycle L.L.C.
The rental fees should be considerably lower than the market fees in order to attract potential tenants who fit in the desired park profile. In order not to distort market prices, final rental fees should be subject to conditions to be fulfilled by the tenants. Further elaboration of fee policy should be developed by the management team in order to attract the targeted sector as well as to achieve the park objective of job generation.

The first year revenues are projected to be substantially lower than the expected costs, as the revenue flows are not expected in the first half of first year of operation. As can be seen in the detailed tables, projected revenues of the first year could cover only 54% of the costs, with an increase in the second year to cover 76% of the costs. Only in the fourth year the park may generate revenues sufficient to cover its expenses.

The project team should seek opportunities to approach national and international mechanisms that support R&D activity or partnership developments.

### BALANCE PROFIT/ LOSS

<table>
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<tr>
<th>Calendar year</th>
<th>2019</th>
<th>2020</th>
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<th>2022</th>
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<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
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<tbody>
<tr>
<td>Year no.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>P&amp;L</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Revenues from rent</td>
<td>282 120</td>
<td>409 406</td>
<td>505 278</td>
<td>590 519</td>
<td>650 935</td>
<td>662 754</td>
<td>674 809</td>
<td>687 105</td>
<td>699 647</td>
<td>712 440</td>
</tr>
<tr>
<td>Other revenues</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Total revenues</td>
<td>282 120</td>
<td>409 406</td>
<td>505 278</td>
<td>590 519</td>
<td>650 935</td>
<td>662 754</td>
<td>674 809</td>
<td>687 105</td>
<td>699 647</td>
<td>712 440</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>517 678</td>
<td>540 712</td>
<td>565 934</td>
<td>575 550</td>
<td>585 367</td>
<td>595 389</td>
<td>605 622</td>
<td>616 069</td>
<td>626 734</td>
<td>637 624</td>
</tr>
<tr>
<td>Balance P/L</td>
<td>(235 558)</td>
<td>(131 305)</td>
<td>(60 656)</td>
<td>14 969</td>
<td>65 568</td>
<td>67 364</td>
<td>69 187</td>
<td>71 036</td>
<td>72 913</td>
<td>74 816</td>
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<tr>
<td>Cover ratio</td>
<td>54%</td>
<td>76%</td>
<td>89%</td>
<td>103%</td>
<td>111%</td>
<td>111%</td>
<td>111%</td>
<td>112%</td>
<td>112%</td>
<td>112%</td>
</tr>
</tbody>
</table>

Tab. 9 Estimated Balance of Profit/ Loss of the ITP 2019-2028

### 4.5 Next steps

Given the nature of STPs as complex and unique (depending on the composition) and the not yet fully specified components of the concept, one can only propose directions which shall be further analysed after the recommended workshop between Kosovar and German governmental institutions has taken place. It is recommended to have such a workshop immediately after the presentation of this study.

The steps listed below provide a first orientation regarding imminent tasks and should be further elaborated and finalised in the workshop following the presentation.

---

76 See annex 4.
77 See annex 4.
78 Table provided by the consultancy firm Life Cycle L.L.C.
<table>
<thead>
<tr>
<th>Timeline</th>
<th>Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2018</td>
<td>• Feasibility study is presented to the Government of Kosovo (GoK)</td>
</tr>
<tr>
<td></td>
<td>• GoK decision is taken to use premises as a Kosovar-German park for business, innovation, training and science</td>
</tr>
<tr>
<td></td>
<td>• Remaining of land in GoK’s ownership is ensured and an ordinance for use of the premises as an innovation and training park is adopted</td>
</tr>
<tr>
<td></td>
<td>• MoU between GoK, German Embassy and BMZ is signed, stating the commitment to further elaborate the idea of GIZ implementation for the first few years</td>
</tr>
<tr>
<td></td>
<td>• Workshop with Kosovar and German institutions regarding next steps is held</td>
</tr>
<tr>
<td>March-May 2018</td>
<td>• Preparation of project proposals for Kosovar and German financial support</td>
</tr>
<tr>
<td></td>
<td>• Interim Steering Committee is constituted</td>
</tr>
<tr>
<td></td>
<td>• ToR for the Park Management is developed</td>
</tr>
<tr>
<td></td>
<td>• Committee acts as focal point for German KFOR Contingent, Prizren and interested parties</td>
</tr>
<tr>
<td>June 2018</td>
<td>• Interim Steering Committee formulates vision</td>
</tr>
<tr>
<td></td>
<td>• Governments of Kosovo and Germany have concluded evaluation of possible financial support mechanisms</td>
</tr>
<tr>
<td>July 2018</td>
<td>• Both governments meet to sign implementation agreement</td>
</tr>
<tr>
<td>August-September 2018</td>
<td>• GIZ project team is set up</td>
</tr>
<tr>
<td></td>
<td>• Call for proposals based on agreed criteria is published by GIZ</td>
</tr>
<tr>
<td>September-November 2018</td>
<td>• Financial agreements with service providers/ operating company of the park, or another entity yet to be identified for the initiation of PPPs are signed</td>
</tr>
<tr>
<td></td>
<td>• The Park Management (PPP between GIZ and service providers/ companies) is set</td>
</tr>
<tr>
<td></td>
<td>• Call for applications by interested park users is published by the park management (based on catalogue of criteria)</td>
</tr>
<tr>
<td></td>
<td>• Park Management awards and allocates spaces in the park</td>
</tr>
<tr>
<td>December 2018</td>
<td>• Park operation is being prepared to start as of 1st January 2019</td>
</tr>
<tr>
<td></td>
<td>• (full) Steering Committee is constituted after slots are allocated</td>
</tr>
</tbody>
</table>

Tab. 10: Suggested next steps for the implementation of the ITP

If agreement for a GIZ implementation of the initial phase is reached, GIZ would include the project into its portfolio of German-Kosovar technical cooperation. During the initial phase GIZ would provide a legal assessment for the second phase, which is not intended to be implemented by GIZ anymore.

Depending on the business of the legal entity yet to be created (profit-oriented or not), two salient/ standard options become viable:

a) Limited company (German: GmbH): profit-oriented.

b) Foundation (German: Stiftung): non-profit oriented.

The park concept shows several very distinctive features, which trigger the necessity to carefully evaluate and determine the legal construction to be chosen. For example taxation potentially plays an important role, hence the legal evaluation requires in-depth knowledge of Kosovar tax laws which have to be taken into account when making the decision. Furthermore the legal structure should ensure safeguards against corruption and political interference in the decisions of the steering committee and the park management. GIZ would develop a legal form for the Kosovar-German Innovation and Training Park in Prizren during its implementation of the initial phase. This would guarantee a successful handover to the private sector.

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79 Own table.
5. Conclusion

The objective of this study was to investigate the possibility of and, if feasible, to develop a suitable concept for the future use of the KFOR camp in Prizren, which would contribute to a positive development of the Republic of Kosovo and its citizens while also leaving a longer-lasting German heritage footprint in the former camp area.

As this paper has highlighted, the state of affairs of the labour market is to be considered as highly alarming, nevertheless there are a number of potentials. Five fields have been identified that provide the biggest and most sustainable impact on the labour market. Within its priority areas, the Kosovar-German Cooperation has identified the following sectors which fulfill this criteria and offer potentials for growth:

- Entrepreneurship, Innovation and ICT
- Agriculture
- VET and Non-Formal Education
- Science and Research
- Tourism and Culture

An excellent way to assist in tackling the prevailing problems in Kosovo, strengthen the identified promising sectors, and thereby create job prospects for citizens is the establishment of an Innovation and Training Park. Consequently, this paper proposes to use the location of the German KFOR camp in Prizren for such a park which could serve as an inclusive hub facilitating an exchange between businesses, researchers, educators, civil society and youth to improve their employability, showcase job opportunities and empower them to become business and social entrepreneurs, who will develop creative approaches to advance culture, public life and the economy of Prizren, Kosovo, and the wider region.

If such a park is managed, as proposed, by an independent management team as well as an active and responsible steering committee, this would ensure compliance with the overall vision of the park stimulating collaboration, interaction between different stakeholders, and creating synergies that are beneficial for all involved parties.

The proposed park could also support regional cooperation, for example within the framework of the Berlin process and win companies from other Western Balkan countries in the sectors defined. In order to do so, incentives and appropriate framework conditions, for example a tax-free-zone, would have to be created so that companies have an interest in settling in the camp. A common branding for the park would also increase the attractiveness and added value for companies. Through the park, various economic opportunities, not only for young Kosovars, but also for the whole population and even beyond Kosovo could be created.

Through such a joint project, German-Kosovar cooperation, which has been in existence since 1999, would also be sustainably anchored as it would have an actual geographical common ground. The park could serve as a benchmark and a lighthouse for German-Kosovar cooperation, giving its activities more visibility. The park offers potential for additional key
priorities of bilateral cooperation in areas such as peace-building, legal and administrative reform, energy efficiency and waste management.

For Kosovo as well as for German stakeholders, the most important short and long-term objective remains the creation of opportunities in sustainable sectors. A special focus of the park in Prizren is the component of training. Practical skills, which should be provided by VET and non-formal educational offers, are in high demand in Kosovo’s labour market and therefore need to be provided to a greater number of people.

The sectors, project proposals and involved institutions mentioned in this paper provide a blueprint. They can be adjusted and extended based on additional needs and implementation opportunities in the future. Various stakeholders mentioned herein have expressed sincere interest in more detailed discussions about the establishment of the ITP.

The possibility of GIZ implementing the initial phase of the ITP has to be elaborated in detail bilaterally. A first step in this endeavor is the planned workshop in which the respective line ministries should evaluate potential support mechanisms, especially regarding financing. If the necessary funds are secured, GIZ can be commissioned with the implementation.

While these objectives are certainly ambitious, the Kosovar-German Innovation and Training Park, and the combination of potentially interested stakeholders from the private and public as well as civil sector, both from Kosovo and Germany, could provide the required foundation of expertise, experience and most of all motivation to make this park happen and to sustainably improve the economic situation in Prizren, Kosovo, and the region.
References

Text References (Internet)


Text References (Literature)


References of tables, figures and pictures (Internet)

Annex

1. Approach and procedural details
2. Background information on KFOR camp
3. Background information on Kosovo
4. Estimated costs for ITP Prizren
5. Feasibility Study by KfW and Frankfurt School of Finance & Management 2016: Growth and Employment
6. Project Proposal of the Craftsmen and Entrepreneur Association of Prizren
7. Needs Assessment by PEN and forumZFD: German KFOR camp future use study
8. Letter of IPSIA to German Ambassador Heldt
9. Project Report about Dual Vocational Education for the Profile of Mechatronics by ALG
10. Project Proposal of KDWV
11. Report of the Meeting of Municipality of Prizren with Pressure Groups
Annex 1

Approach and procedural details
Approach and procedural details

This document presents a concept for the development of a Kosovar-German Innovation and Training Park (ITP) in the town of Prizren, once military personnel have vacated the camp. The concept is part of a wider consultation process between Kosovo and Germany in order to ensure that use is made of the potential of the great cooperation the two countries have by building something sustainable that will have a substantial impact on reducing unemployment in the region of Prizren and beyond.

Since the priority areas of Kosovar-German cooperation are very diverse, not all of the key areas are suitable for a conversion of the camp or for the region of Prizren. Hence, the German side, consisting of the German Embassy, BMZ, BMVg (Defence Attaché), KFOR, experts from KfW and GIZ, came together in order to develop a coherent position on the foci of this conversion project.

The German side agreed that a continuous use solely for either military or academic purposes, as originally suggested by the Kosovar side, would not be advisable due to its predicted low positive economic and social impact. It was further agreed that the possible implementation of the findings of this study shall remain the responsibility of the Kosovar Government; nevertheless, the study shall suggest a possible implementation mechanism for the proposed concept.

The study’s authors anticipate that the inclusion of the German side in the implementation phase shall be defined only after the Kosovar Government decides whether it wants to implement or adjust the concept proposed in this paper. However the German side is committed to support Kosovo with such a conversion project which could be a great sign of the cooperation between the governments of Kosovo and Germany, in line with joint key priorities, and achieving real social and economic impact. Thus, the study recommends keeping the implementation of the project on a central level. Due to the inclusion and responsibilities of many different line ministries and the local government, as well as to underline its political and economic importance for the country, it is also recommended to keep the coordination on a high level, such as the Prime Minister’s Office (PMO). Should the Kosovar government be in favour of this concept, the study’s authors have the clear impression that the German side will be ready to initiate further and more specific exchanges with some of the stakeholders consulted in the process of this study and to further explore joint interests in the concept for the Kosovar-German Innovation and Training Park in Prizren with the Kosovo Government.

The Kosovar coordination of this study was the responsibility of the PMO1, respectively the two assigned coordinators Mr. Valentin Toçi, Economic Advisor to the Prime Minister, and Mr. Skender Xhakaliu, as Kosovar Ambassador to the Federal Republic of Germany and later as assigned coordinator for this project. The coordinators of both sides stood in direct and close contact regarding the ongoing research. The good cooperation and frequent consultation with the Kosovar coordinators were of high importance for identifying a coherent position on the future use of the current camp. Thus all ideas were discussed with the Kosovar coordinators.

1 During the mandate of Prime Minister Isa Mustafa and later during the mandate of Prime Minister Ramush Haradinaj
In order to facilitate the talks between the different Kosovar and German stakeholders, GIZ engaged the services of the former German Parliamentary Commissioner for the Armed Forces, Mr. Reinhold Robbe. Being involved in the military engagement of the German Bundeswehr in Kosovo since 1999, and knowing the Kosovar-German political partnership, Mr. Robbe made an important contribution to the proposed sectors and concept. His experience with the withdrawal from German troops in other places, his knowledge in the development of Kosovo as well as the discourse in substance were a benefit to a first estimation of the situation and helpful in finding a direction for the project and ideas for the future use of the current camp.

At the beginning of the research, one of the most important questions was the ownership of the land. Since there were contradictory statements from the Government and the Municipality of Prizren, one of the first steps was the clarification of the land tenure. An extract from the Cadastral Unit P-71813068-05290-0 of the Kosovo Cadastral Agency states the property type as State Property and names the Republic of Kosovo as the rightful owner of a 392,542m² sized area. This clarifying information influenced the subsequent discussion and research.

Numerous meetings with German and Kosovar stakeholders on both central and local levels were conducted to ensure that the objectives of this study are in line with the intergovernmental priorities. In order to find out about the needs of the city of Prizren and its citizens, a close exchange between the Municipality of Prizren and the Craftsmen and Entrepreneurs Association of Prizren (SHZAP, Shoqata e Zejtareve dhe Afaristeve te Prizrenit), the Kosovar-German Business Association (KDWV, Kosovarisch-Deutsche Wirtschaftsvereinigung), as well as Kosovar representatives of the sectors of innovation, technology and youth took place.

The research team had several talks with the Municipality of Prizren between May and September 2017. The Municipality of Prizren met with interest groups of the following sectors:

- chambers of crafts.
- cultural organisations.
- educational institutions.
- health institutions.

The gathered information shows that there is great interest in a subsequent Kosovar-German use of the current camp in Prizren in order to sustainably uphold the ties with Germany even after the withdrawal of the German Bundeswehr from the city of Prizren. The city is interested in strengthening its ties towards European, particularly German cities, not only to establish itself as a valuable partner for Germany and Europe generally, but also to support Kosovo’s further integration into the EU and its efforts in the SAA process.

It informed representatives of the aforementioned sectors regarding the closure of the KFOR camp in Prizren as of 1st January 2019 and collected ideas for the camp’s subsequent use.

2 The talks were facilitated by the Vice-Mayor of the former local government, Mr. Lulzim Kabashi.
The meetings took place in the period between 24th April and 11th May 2017 and were documented by the Municipality of Prizren.3

The vice-mayor forwarded the interest of the Hospital of Prizren to take over the military hospital in the camp to further use it as an Emergency Traumatology Centre for the city and its region. Currently, the General Hospital of Prizren offers its services to 21.9% of the population, or 403,846 citizens of Kosovo. A Traumatology Centre for emergency cases in the area of the current camp in Prizren would make sense due to its location at the direct entrance of the city. Patients could be treated there and transferred to specialist units at the General Hospital of Prizren or the Clinical and University Centre of Kosovo in Pristina for further treatment. Hence, such a centre would decrease the waiting times and increase the quality of medical treatment for each patient. A project proposal for this purpose was submitted by the General Hospital of Prizren to the Government through the Municipality of Prizren. However, according to the Municipality of Prizren, there are no financial resources for the hospital to take over the medical technology due to the cost-intensive service contracts for all the equipment.

Another request for the hospital came from the Kosovo Security Forces (KSF) who asked to take over the inventory for their military hospital in Pristina. These requests were not part of this study since the aim of this project is to focus on the remaining infrastructure within the current camp and not analyzing the future of the mobile inventories. The decision about the future of the hospital is not part of the study, because all communication concerning the inventory of the hospital remains with the German Federal Ministry of Defence (BMVg).

Apart from this exception, the research team of this study was responsible for all communication efforts and arranged the meetings and talks with representatives of different groups. On the one hand, these talks and meetings with numerous representatives of institutions and organisations belonging to the political, economic or educational sectors or to civil society helped collecting the necessary data in order to conduct a careful analysis of Kosovo, Prizren, and the KFOR camp. On the other hand, some of these institutions and organisations made specific offers about how they could be possibly incorporated in the proposed Innovation and Training Park, even though the research team had no mandate to negotiate the merit of particular ideas with them. All of the gathered information as well as the proposed specific offers are nevertheless integrated in the study.

An adequate knowledge of the contextual framework is indispensable in order to make a well-grounded and highly promising concept proposal. Annex 1 and 2 of this study give some basic background information on Kosovo as well as the current KFOR camp in Prizren. Due to its military character the KFOR camp is not open to the public. Therefore the most relevant information concerning the camp is presented in Annex 2. This guarantees a coherent starting point for further discussions.

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3 See annex 11.
Annex 2

Background information on KFOR camp
Background on the KFOR camp in Prizren

The current camp in Prizren, located on the Eastern suburb of Prizren, has been used for military purposes since 1906, with the soldiers of the Ottoman Empire being its first occupants. The German Bundeswehr started to use the camp in 1999. It has a total accommodation capacity of approximately 1600 soldiers. Besides the German troops the camp is also being used by other nations such as Austria, Switzerland, Hungary, USA, Ukraine, Moldavia, Poland and, Turkey.

The size of the camp measures 468,376m². The owner of 392,542m² of the camp is the Republic of Kosovo, while the remaining 75,834m² are leased from private landlords and will be handed back during 2018.

Since 1999 the German Bundeswehr has invested 35.2 million euro in big building measures and an additional 16.2 million euro in small building measures. In 2016 alone a total sum of 367,701.96 euro were invested in renovations. The bigger measures include the reconstruction of the formerly destroyed administrative buildings, which have started in 1999 were repeated again in 2017; the construction of 23 accommodation houses, which are identical in construction, in 2000 and 2001; the construction of the military hospital, from 2005 until 2007; the construction of the sports facilities, maintenance structures, as well as the construction of the canteen in 2010.

During the ongoing researches for this study the question as to whether the medical technology of the hospital shall remain was dropped and disconnected from the further researches in the framework of the study. This is due to the necessity for such technology in
the framework of other missions of the Federal Ministry of Defence in other countries. Since the mentioned German ministry aims to support the Kosovo Security Forces (KSF) in the capacity building of their medical staff, it took over all further communication regarding supporting opportunities in this area, and planning for future use of the hospital equipment is no longer part of this study.

Information regarding the local staff, constructions on the camp as well as brief information about running costs is provided below.

**National staff of the Camp KFOR in Prizren**

The camp currently provides jobs for 245\(^1\) national employees in the support, maintenance and service sector. The average age is 46.6, 170 of the employees are from the city of Prizren whereas the rest comes from the neighbouring towns and villages. The German Bundeswehr is supporting their staff in their search for new jobs, but the take-over of some or all of the remaining staff is something that needs to be considered by the owner of the land.

Over 80 employees possess training qualifications and have worked in their field of work in the camp since 1999 and thus have gained extensive experience that can be considered to be an asset.

**Buildings in the camp**

Currently there are 57 buildings in the camp. The study was conducted with the following information: a small number of buildings will be dismantled, while 39 buildings are safe to operate in and will be handed over in such a condition. These can be used directly after handover without further having to prepare them by repairs or renovations.

Until 19\(^{th}\) of February there was no decision taken regarding the handover of 18 other buildings, which are mainly maintenance buildings needing renovations. GIZ strongly recommended keeping and preserving all 18 buildings, since the buildings offer highly suitable opportunities for the concept proposal at hand. The following list provides the latest update on the status of the buildings (dated 19.02.2018), which shows, that the decision regarding two recreation facilities has not been taken. The rest of the buildings will be handed over from KFOR to UNMIK and later to the Republic of Kosovo.

<table>
<thead>
<tr>
<th>Type of building/ description</th>
<th>Status</th>
<th>Ref. number/ name (DEU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Administrative building</td>
<td>Hand Over</td>
<td>Roter Stab</td>
</tr>
<tr>
<td>2 Administrative building</td>
<td>Hand Over</td>
<td>Grauer Stab</td>
</tr>
<tr>
<td>3 Administrative building</td>
<td>Hand Over</td>
<td>Weißer Stab</td>
</tr>
<tr>
<td>4 Sports facilities (out-door)</td>
<td>Hand Over</td>
<td>Sportplatz mit Kleinsportfeld / 400 m Bahn</td>
</tr>
<tr>
<td>5 Recreation facilities - GYM</td>
<td>Hand Over</td>
<td>Sporthalle</td>
</tr>
<tr>
<td>6 Recreation facilities - Restaurant</td>
<td>Hand Over</td>
<td>Zulauf</td>
</tr>
<tr>
<td>7 Recreation facilities - Restaurant</td>
<td>Dismantled</td>
<td>Mille Bar</td>
</tr>
<tr>
<td>8 Recreation facilities - GYM</td>
<td>Hand Over</td>
<td>(Sport)-Oase</td>
</tr>
<tr>
<td>9 Recreation facilities - Restaurant</td>
<td>Hand Over</td>
<td>Wolfs Revier</td>
</tr>
<tr>
<td>10 Hospital building</td>
<td>Hand Over</td>
<td>ELAZ</td>
</tr>
</tbody>
</table>

\(^1\) This figure is as of 28\(^{th}\) July 2017, the number might have decreased by the time of publication of this study. KFOR can provide the current numbers upon request.
<table>
<thead>
<tr>
<th>No.</th>
<th>Type</th>
<th>Hand Over</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Hospital building</td>
<td>Hand Over</td>
<td>Bettenhaus</td>
</tr>
<tr>
<td>12</td>
<td>Accommodation buildings</td>
<td>Hand Over</td>
<td>1.-23.</td>
</tr>
<tr>
<td>13</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Wirtschaftsgebäude (Küche)</td>
</tr>
<tr>
<td>14</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Wachgebäude</td>
</tr>
<tr>
<td>15</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Wache 2</td>
</tr>
<tr>
<td>16</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Lager (Apotheke)</td>
</tr>
<tr>
<td>17</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Kommandantur</td>
</tr>
<tr>
<td>18</td>
<td>Function building</td>
<td>Hand Over</td>
<td>Betreuungsgebäude (alte Küche)</td>
</tr>
<tr>
<td>19</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Inst Halle 1</td>
</tr>
<tr>
<td>20</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Inst Halle 2</td>
</tr>
<tr>
<td>21</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Halle ABC</td>
</tr>
<tr>
<td>22</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Nachschub Halle 1</td>
</tr>
<tr>
<td>23</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Nachschub Halle 2</td>
</tr>
<tr>
<td>24</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Nachschub Halle 3</td>
</tr>
<tr>
<td>25</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Nachschub Halle Matsch</td>
</tr>
<tr>
<td>26</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Fahrzeug Halle 5</td>
</tr>
<tr>
<td>27</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Fahrzeug Halle 6</td>
</tr>
<tr>
<td>28</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Fahrzeug Halle 7</td>
</tr>
<tr>
<td>29</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Halle TGM</td>
</tr>
<tr>
<td>30</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Inst Halle F 10</td>
</tr>
<tr>
<td>31</td>
<td>Maintenance building</td>
<td>Hand Over</td>
<td>Gebäude FMZ</td>
</tr>
<tr>
<td>32</td>
<td>Workshop sheds</td>
<td>Hand Over</td>
<td>Lokal Dorf</td>
</tr>
<tr>
<td>33</td>
<td>Recreation facilities - Bar</td>
<td>Hand Over</td>
<td>La Baita Bar</td>
</tr>
<tr>
<td>34</td>
<td>Recreation facilities - Church</td>
<td>Hand Over</td>
<td>Kirche</td>
</tr>
<tr>
<td>35</td>
<td>Recreation facilities – Restaurant Antalya</td>
<td>Hand Over - foreseen</td>
<td>Restaurant Antalya (NEW – under consideration!)</td>
</tr>
</tbody>
</table>

List of buildings as provided by KFOR with the status regarding hand over

A final decision will be reached before 15.04.2018 by German Bundeswehr and UNMIK.

As listed above various types of buildings will be handed over. There are three administrative buildings on the camp. There are 23 accommodation buildings on the camp. Each building has three floors, offering 24 rooms, 3 bathrooms and 3 toilets with an infrastructure including water, waste-water and electricity, air conditioning and heating systems. On each floor there are smoke detectors and each room is equipped with 3 beds, 3 chairs, 1 table, 3 closets and 1 bookshelf. All 23 accommodation buildings will be handed over in a clean and safe to operate in condition. Furthermore, Camp Prizren has many function buildings, for example two gate houses, a big canteen etc. Most of the maintenance halls and workshop sheds on the camp are light-weight construction, therefore it is important that they do not stand empty and are continuously used and heated. In case the halls are not maintained during the winter time, the weight of any fallen snow might be of danger to the stability of the halls’ roofs. This is to be considered for all light-weight constructions.

The camp offers three sports facilities: One sports hall with surroundings and two fitness centres. The sports hall is a light-weight construction with a linoleum floor, basketball facilities, volleyball and badminton nets as well as handball goals. Additionally there are more than ten recreational facilities which are used for a variety of functions including bars, markets, cafés, electro/ video, a chapel, etc.

The massive construction of the military hospital was built in 2007. It offers all necessary infrastructure systems like water, electricity, IT, landline, sanitary facilities, areas for medical
and dental treatments, and laboratories. The patients were accommodated in an attached building consisting of containers.

The buildings are safe to operate in and will be handed over in such a condition. Most of the buildings offer an infrastructure with air-conditioning, water, electricity, landline and IT-connections. The buildings are solid constructions, light-weight constructions or a combination.

![Pictures of the buildings on the camp (provided by KFOR): First row from left to right: accommodation buildings, function buildings, sports facilities. Second row from left to right: hospital, maintenance halls, chapel.](image)

![Picture showing the arrangement of the main buildings in the camp (provided by KFOR)](image)

**Operating costs of the camp**

Since the camp was operating as a whole, most of the costs cannot yet be broken down and divided for each single facility. The table below provides an overview of the annual running costs for the camp with all the buildings currently existing, and including current staffing cost.

With some investment in the modernisation of the infrastructure facilities, nearly all of the above mentioned expenditures can be made to be more cost-efficient. As an example the flat roofs of the facilities in the Kosovar city with the most sunshine hours would be very advantageous for installing solar panels on which could help reduce the costs for energy. In
addition, other expenses like the costs for the maintenance of the buildings will automatically be lower if the camp is administrated by national structures, due to the different standards required by KFOR bases and national administrators, respectively.

<table>
<thead>
<tr>
<th>Type</th>
<th>euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance of the buildings</td>
<td>2,191,000 €</td>
</tr>
<tr>
<td>Waste disposal</td>
<td>139,000 €</td>
</tr>
<tr>
<td>Expendable materials</td>
<td>250,000 €</td>
</tr>
<tr>
<td>Camp care</td>
<td>70,000 €</td>
</tr>
<tr>
<td>Energy costs</td>
<td>280,000 €</td>
</tr>
<tr>
<td>Water and waste water</td>
<td>77,000 €</td>
</tr>
<tr>
<td>Diesel/ heating fuel</td>
<td>110,000 €</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Approximately 3,100,000 €</strong></td>
</tr>
</tbody>
</table>

Estimation of annual running costs of the field camp as provided by KFOR
Annex 3

Background information on Kosovo
Background on Kosovo

Background on population

Kosovo has a resident population of roughly 1.8 million while ethnic Albanians comprise the majority of the population with 92.9%, Bosniaks make up around 1.6% of the population, Serbs 1.5%, Turkish 1.1%, Ashkali 0.9%, Egyptian 0.7%, Gorani 0.6%, Romani 0.5%, and unspecified others 0.2% comprise the remainder. Approximately 38.3% of the total population lives in urban areas. The number of households is 319,009 with the average size of a household being 5.68 persons according to the latest census. Estimations from the Kosovo Agency of Statistics (KAS) show that Kosovo’s population is very young with the median age being 28.7 years. 28% of the population is below the age of 14, while two-thirds of the population (65%) belongs to the age group 15 to 64, which is known as the economically active, or working-age, population. People 65 years of age and older represent only 7% of the total population. This age structure is an important indicator for future consumption patterns, since the spending power will increase significantly once the younger population reaches working age.

According to data from the United Nations Department of Economic and Social Affairs (UN DESA), Population Division, during 2017 Kosovo’s population is projected to have a positive natural increase where the number of births will exceed the number of deaths by 4,337, meaning that it will increase by 3 persons each day. If migration abroad remains at the previous years’ levels, the population will decline by 3,253 people due to migration movements.

While the Kosovo population density is about 166 people per square kilometer as of June 2017, the East region and especially the capital city of Pristina mark densities above this average. Apart from Pristina, almost half of the population lives in seven other large municipalities. The largest population centre after Pristina is Prizren, as the pie chart below shows.

A study from the Kosovo Agency of Statistics shows that 30% of the whole population, counting 517,992 people, has migrated at least once. The number of internal migrations reaches 389,184 people. The main reasons for these internal migrations of Kosovars were employment (5.8%), education and training (2.8%), personal/family reasons (73.4%), war (4.5%) as well as other reasons (13.5%). Until 2014 around 7,000 people migrated from Prizren to other cities of Kosovo, while in comparison 15,600 people left Pristina during the same period of time. On the other side 15,675 people migrated from other municipalities of Kosovo to Prizren. Thus Prizren has a positive internal migration balance of 4.8%.2

Economic Background

Kosovo’s economy is small and highly open. By regional standards Kosovo is relatively poor with a per capita GDP of around 3,300 euro per annum. Imports account for around 50% of

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1 Kosovo Agency of Statistics (2016)
2 Kosovo Agency of Statistics (2014)
GDP and are financed to a large extent by inflows of remittances from the diaspora, foreign direct investment (FDI), and donor assistance. Economic growth, which has been hovering at above 3% over the last five years, is mostly driven by private consumption and investment growth. Kosovo’s use of the euro as its official currency has helped keeping inflation low.

In economic terms, Kosovo has maintained stability, recording growth rates of above 3% annually. However, one has to keep in mind the low basis from which Kosovo starts, which (contrary to economic growth figures) puts Kosovo at the bottom of the ladder of GDP in the region. Further, this growth can be mostly attributed to large public investments in reconstruction and infrastructure as well as to donor assistance. The economy continues to be plagued by a large trade balance deficit affecting the current account deficit, which was 11.5% of GDP in 2016 according to World Bank data. This deficit is primarily financed through remittances. These remittances come mainly from the diaspora in Switzerland and Germany and are expected to remain stable over the coming years. In 2015, FDI recorded an annual increase of over 100% compared to the previous year, due to which it reached a value of 308.8 million euro, while this value was 215.9 million euro in 2016 respectively.

High unemployment, estimated to be about 30% of the labour force, still remains a big challenge. Out of the currently employed workforce, the public sector remains one of the largest employers. However, this balance is shifting and new jobs are being created by the private sector.

**Macroeconomic Overview of Kosovo**

Kosovo shifted from a centralist and controlled economy to a period of no industry and economic stagnation during the nineties, and after the war at the end of the twentieth century to a free-market economy. It is a continuously developing economy with ever increasing competition, and slowly away shifting dependency from imports. Regarding the income sources of Kosovo’s population, the main source consists of wages from regular employment while the rest of the income consists of revenues from agriculture, businesses, and temporary work. The average income for a 12-month period was around 3,000-4,000 euro.

The country is still highly dependent on remittances from the diaspora. However, the income from remittances has decreased over the years, while by the positive changes in the economy of Kosovo continued. 2016 remittances reached 691.0 million euros, representing an annual increase of 3.8%. Since the majority of Kosovo’s diaspora, as previously mentioned, is located in Germany (almost 40%) and Switzerland (over 20%), remittances to Kosovo mainly come from these two countries.

Apart from remittances, foreign direct investments contribute significantly to Kosovo’s economy. Central Bank reports show that FDI in Kosovo in 2016 reached 215.9 million euro. More than 85% of these investments reach Kosovo in the form of capital and investment.

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3 World Bank (2017/ c)
4 Central Bank of the Republic of Kosovo (2017/ a)
5 Kosovo Agency of Statistics (2015/ a)
6 Central Bank of the Republic of Kosovo (2017/ a)
funding, while the remaining investments are used as debt instruments. The main foreign investors by country are Turkey, Germany, Switzerland, Slovenia, Austria, and Albania\textsuperscript{7}.

Due to its geographical position and natural resources Kosovo has a lot of potential for investment in various sectors. There are about 4,000 foreign and mixed ownership companies that have already invested over one billion euro in Kosovo. Taking into consideration the favourable business climate, stable macroeconomic environment and the excellent opportunities across different business sectors, Kosovo, even though at a very slow pace, is increasingly becoming an attractive place for doing business. As a result, the interest of foreign investors has been increasingly steady during the past years and with it the inflow of FDI. This demonstrates the opportunities and benefits that the country offers, and also represents a base of quality products and a first provision of services by public and private institutions.

**General Information on Prizren**

Prizren Municipality is the largest municipality in Kosovo. It covers approximately 5.94% of the total territory of Kosovo. Agricultural areas and forests cover 90.05% of the municipality with a total area of 57,434.1 ha. The forests in Prizren cover approximately 8,500 ha including high and low intensity forest areas which are only 13% of the municipality\textsuperscript{8}. According to the 2015 census, the municipality of Prizren is home to 184,586 inhabitants\textsuperscript{9}. Its geographical position is very attractive as, by road, it is not only close to Kosovo’s capital Pristina, but also to two other capital cities, namely Skopje and Tirana. As such, Prizren has long since been a hub for traders, tourists and travelers of all sorts.

Besides the panoramic view, this area is the richest part of Kosovo in terms of water resources, with the rivers Drini, Lumbardhi and Lepence crossing the mountain relief or flowing into Albania. Also, several lakes, such as Livadhi, Strbacko, Jazhnica, and the Brod canyons are resources with great potential for sustainable development of winter sports, fishing and tourism. Moreover, the Prizren area is also rich in mineral and metallic resources, such as chromium, iron, copper and pyrite. Nonmetallic minerals including sand, gravel, clay etc. are mainly located in the hills. Prizren is also known for its dynamic ‘light’ industries such as, dairy, meat-processing, canning of fruit and vegetables, breweries, and alcohol production such as wines. Prizren appears to be teeming with economic prosperity, especially in the sectors of tourism, agriculture, and trade. Yet, securing capital investment and creating an environment for sound economic growth remains a general problem.

\textsuperscript{7} Central Bank of the Republic of Kosovo (2017/a)  
\textsuperscript{8} UN Habitat (2012)  
\textsuperscript{9} Kosovo Agency of Statistics (2015/b)
Annex 4

Estimated costs for ITP Prizren
<table>
<thead>
<tr>
<th>CAPEX</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and board meeting office</td>
<td>5 000</td>
</tr>
<tr>
<td>IT and other equipment</td>
<td>15 000</td>
</tr>
<tr>
<td>Property management software</td>
<td>15 000</td>
</tr>
<tr>
<td>Info point cabin + ancillary equipment</td>
<td>10 000</td>
</tr>
<tr>
<td>Bus stop</td>
<td>5 000</td>
</tr>
<tr>
<td>Contingency fund + initial repair</td>
<td>50 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initial CAPEX</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100 000</td>
</tr>
</tbody>
</table>

Table 1. Capital expenditures
## Operational Costs

### Year: 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries (gross)</th>
<th>Office and other expenses</th>
<th>Total Expenses (gross)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>517,676</td>
<td>400,000</td>
<td>917,676</td>
</tr>
<tr>
<td>2020</td>
<td>540,712</td>
<td>356,400</td>
<td>897,112</td>
</tr>
<tr>
<td>2021</td>
<td>585,397</td>
<td>395,555</td>
<td>980,952</td>
</tr>
<tr>
<td>2022</td>
<td>585,397</td>
<td>386,857</td>
<td>972,254</td>
</tr>
<tr>
<td>2023</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
<tr>
<td>2024</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
<tr>
<td>2025</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
<tr>
<td>2026</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
<tr>
<td>2027</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
<tr>
<td>2028</td>
<td>585,397</td>
<td>356,400</td>
<td>941,797</td>
</tr>
</tbody>
</table>

#### Salaries (gross)

- **2019**: 517,676
- **2020**: 540,712
- **2021**: 585,397
- **2022**: 585,397
- **2023**: 585,397
- **2024**: 585,397
- **2025**: 585,397
- **2026**: 585,397
- **2027**: 585,397
- **2028**: 585,397

#### Office and other expenses

- **2019**: 400,000
- **2020**: 356,400
- **2021**: 395,555
- **2022**: 386,857
- **2023**: 356,400
- **2024**: 356,400
- **2025**: 356,400
- **2026**: 356,400
- **2027**: 356,400
- **2028**: 356,400

### Total Expenses (gross)

- **2019**: 917,676
- **2020**: 897,112
- **2021**: 980,952
- **2022**: 941,797
- **2023**: 941,797
- **2024**: 941,797
- **2025**: 941,797
- **2026**: 941,797
- **2027**: 941,797
- **2028**: 941,797

---

### Tables

#### Table 2. OPEX, part 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual difference</th>
<th>Total Salaries</th>
<th>% of total</th>
<th>Office supplies</th>
<th>Transportation + fuel</th>
<th>Legal fees</th>
<th>Communication (Internet + telephone)</th>
<th>Accounting expenses</th>
<th>Insurance</th>
<th>External Audit</th>
<th>Property taxes</th>
<th>Professional Memberships</th>
<th>Travel, representation and training expenses</th>
<th>Other indexed expenses (@8%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2020</td>
<td></td>
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<tr>
<td>2021</td>
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<td>2022</td>
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<td>2023</td>
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<tr>
<td>2024</td>
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<td>2025</td>
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<tr>
<td>2026</td>
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<tr>
<td>2027</td>
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<tr>
<td>2028</td>
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</tr>
</tbody>
</table>

---

**Note:**
- **Annual difference** calculated as follows:
  - Year 2019 vs Year 2020: 104,141 = 2.0% of 2019's Total Salaries
  - Year 2020 vs Year 2021: 104,737 = 2.0% of 2020's Total Salaries
  - Year 2021 vs Year 2022: 104,737 = 2.0% of 2021's Total Salaries
  - Year 2022 vs Year 2023: 104,737 = 2.0% of 2022's Total Salaries
  - Year 2023 vs Year 2024: 104,737 = 2.0% of 2023's Total Salaries
  - Year 2024 vs Year 2025: 104,737 = 2.0% of 2024's Total Salaries
  - Year 2025 vs Year 2026: 104,737 = 2.0% of 2025's Total Salaries
  - Year 2026 vs Year 2027: 104,737 = 2.0% of 2026's Total Salaries
  - Year 2027 vs Year 2028: 104,737 = 2.0% of 2027's Total Salaries

---

**Interim report: ITP Prizren**

Project: Feasibility Study on the Continuous Use of KFOR Camp in Prizren; Project no: 08.3501.7-020.00
## Table 3. OPEX, part 2

<table>
<thead>
<tr>
<th>Year no.</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL OPEX</td>
<td>517,616</td>
<td>540,712</td>
<td>565,934</td>
<td>575,550</td>
<td>585,397</td>
<td>595,389</td>
<td>605,622</td>
<td>616,069</td>
<td>626,754</td>
<td>637,624</td>
</tr>
<tr>
<td><strong>Annual difference</strong></td>
<td>104,4%</td>
<td>104,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
<td>101,7%</td>
</tr>
<tr>
<td>Maintenance and cleaning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset value</td>
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<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Maintenance as % asset value</td>
<td>0,3%</td>
<td>0,4%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
<td>0,5%</td>
</tr>
<tr>
<td>Escalation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Public utilities</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and sewage</td>
<td>8,000</td>
<td>8,160</td>
<td>8,323</td>
<td>8,490</td>
<td>8,659</td>
<td>8,833</td>
<td>9,009</td>
<td>9,189</td>
<td>9,373</td>
<td>9,561</td>
</tr>
<tr>
<td>Waste</td>
<td>5,000</td>
<td>5,100</td>
<td>5,202</td>
<td>5,306</td>
<td>5,412</td>
<td>5,520</td>
<td>5,631</td>
<td>5,743</td>
<td>5,865</td>
<td>5,975</td>
</tr>
<tr>
<td><strong>Total Public utilities</strong></td>
<td>13,000</td>
<td>13,260</td>
<td>13,525</td>
<td>13,796</td>
<td>14,072</td>
<td>14,353</td>
<td>14,640</td>
<td>14,933</td>
<td>15,232</td>
<td>15,536</td>
</tr>
<tr>
<td><strong>Marketing and publication</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20,000</td>
<td>14,000</td>
<td>10,000</td>
<td>10,200</td>
<td>10,404</td>
<td>10,612</td>
<td>10,824</td>
<td>11,041</td>
<td>11,262</td>
<td>11,487</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>1,7<em>24</em>7</td>
<td>104,244</td>
<td>108,329</td>
<td>108,455</td>
<td>110,625</td>
<td>112,837</td>
<td>115,094</td>
<td>117,396</td>
<td>119,744</td>
<td>122,138</td>
</tr>
<tr>
<td><strong>TOTAL OPEX</strong></td>
<td>517,616</td>
<td>540,712</td>
<td>565,934</td>
<td>575,550</td>
<td>585,397</td>
<td>595,389</td>
<td>605,622</td>
<td>616,069</td>
<td>626,754</td>
<td>637,624</td>
</tr>
</tbody>
</table>

*Note: *20% of total
## ITP Prizren

### Revenues

#### Calendar year

<table>
<thead>
<tr>
<th>Year no.</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual difference</td>
<td>146.1%</td>
<td>123.4%</td>
<td>116.9%</td>
<td>110.2%</td>
<td>101.3%</td>
<td>101.8%</td>
<td>101.8%</td>
<td>101.8%</td>
<td>101.8%</td>
<td>101.8%</td>
</tr>
<tr>
<td><strong>Volume</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total space in sqm</strong></td>
<td>38,632.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserved for non-profit organizations</strong></td>
<td>3,728.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Remaining rentable area</strong></td>
<td>35,112.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Rent revenue - from administrative buildings

<table>
<thead>
<tr>
<th>Utilization rate</th>
<th>40%</th>
<th>50%</th>
<th>65%</th>
<th>80%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sqm available</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
</tr>
<tr>
<td>Space made available to the not for profit org (1 building)</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
</tr>
<tr>
<td>Total available space for rent sqm</td>
<td>3,900</td>
<td>3,900</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
<td>4,800</td>
</tr>
<tr>
<td>Average monthly rent per room</td>
<td>2.5</td>
<td>2.6</td>
<td>2.6</td>
<td>2.7</td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total rent revenue - from administrative buildings</strong></td>
<td>46,800.0</td>
<td>59,670.0</td>
<td>97,381.4</td>
<td>122,251.2</td>
<td>148,076.7</td>
<td>151,038.3</td>
<td>154,059.0</td>
<td>157,140.2</td>
<td>160,283.0</td>
<td>163,486.7</td>
</tr>
</tbody>
</table>

#### Rent revenue - from accommodation buildings

<table>
<thead>
<tr>
<th>Utilization rate</th>
<th>35%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>60%</th>
<th>60%</th>
<th>60%</th>
<th>60%</th>
<th>60%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rooms available: 23 buildings with three floors, and 8 rooms each floor</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
<td>552</td>
</tr>
<tr>
<td>Rooms made available to the not for profit org (5 buildings)</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Total available space for rent sqm</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
<td>432</td>
</tr>
<tr>
<td><strong>Total rent revenue - from accommodation buildings</strong></td>
<td>90,720.0</td>
<td>105,753.6</td>
<td>134,835.6</td>
<td>165,039.1</td>
<td>168,339.8</td>
<td>171,706.5</td>
<td>175,140.8</td>
<td>178,643.8</td>
<td>182,216.5</td>
<td>185,860.8</td>
</tr>
</tbody>
</table>

#### Rent revenue - from function buildings (excluding canteen)

<table>
<thead>
<tr>
<th>Utilization rate</th>
<th>40%</th>
<th>50%</th>
<th>65%</th>
<th>80%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sqm available</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Total rent revenue - from function buildings (excluding canteen)</strong></td>
<td>11,520.0</td>
<td>14,668.0</td>
<td>19,476.3</td>
<td>24,490.2</td>
<td>29,615.3</td>
<td>30,207.7</td>
<td>30,811.8</td>
<td>31,428.0</td>
<td>32,056.6</td>
<td>32,697.7</td>
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#### Rent revenue - from maintenance buildings

<table>
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<tr>
<th>Utilization rate</th>
<th>40%</th>
<th>50%</th>
<th>65%</th>
<th>80%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sqm available</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
</tr>
<tr>
<td>Space made available to the not for profit org (2 buildings)</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td><strong>Total rent revenue - from maintenance buildings</strong></td>
<td>31,680.0</td>
<td>40,392.0</td>
<td>53,595.6</td>
<td>67,236.1</td>
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<td>86,427.1</td>
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<td>89,918.8</td>
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</table>

#### Rent revenue - from Recreation buildings

<table>
<thead>
<tr>
<th>Utilization rate</th>
<th>40%</th>
<th>50%</th>
<th>65%</th>
<th>80%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
<th>95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sqm available</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
</tr>
<tr>
<td>Space made available to the not for profit org (2 buildings)</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
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</tr>
<tr>
<td><strong>Total rent revenue - from Recreation buildings</strong></td>
<td>21,600.0</td>
<td>27,540.0</td>
<td>36,518.0</td>
<td>45,844.2</td>
<td>55,528.6</td>
<td>56,639.3</td>
<td>57,772.1</td>
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Table 4. Revenues, part 1
### ITP Prizren

#### Table 5. Revenues, part 2

**REVENUES**

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<th>2023</th>
<th>2024</th>
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<th>2026</th>
<th>2027</th>
<th>2028</th>
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<tr>
<td>Year no.</td>
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<td>6</td>
<td>7</td>
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<td>9</td>
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<td><strong>OVERALL REVENUES</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Annual difference</td>
<td>146,1%</td>
<td>123,4%</td>
<td>116,9%</td>
<td>110,2%</td>
<td>101,8%</td>
<td>101,8%</td>
<td>101,8%</td>
<td>101,8%</td>
<td>101,8%</td>
<td>101,8%</td>
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**RENT REVENUE - from other buildings**

<table>
<thead>
<tr>
<th></th>
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<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td><strong>Hospital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total available space for rent sqm</td>
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<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
<td>3,200</td>
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<tr>
<td>Rented sqm</td>
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<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
</tr>
<tr>
<td>Monthly rent (lump sum 5,000)</td>
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<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
<td>5,000,0</td>
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<tr>
<td>Total Hospital</td>
<td>30,000,0</td>
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<td>60,000,0</td>
<td>60,000,0</td>
<td>60,000,0</td>
<td>60,000,0</td>
<td>60,000,0</td>
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</table>

<table>
<thead>
<tr>
<th></th>
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<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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<tr>
<td><strong>Canteen</strong></td>
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</tr>
<tr>
<td>Rented sqm</td>
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<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Monthly rent per sqm</td>
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<td>2,6</td>
<td>2,7</td>
<td>2,7</td>
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<td>2,8</td>
<td>2,9</td>
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<td>Total Canteen</td>
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<td>82,866,1</td>
<td>84,462,2</td>
<td>86,151,4</td>
<td>87,874,5</td>
<td>89,631,9</td>
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<table>
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<th>2026</th>
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</thead>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total available space for rent sqm</td>
<td>12,000</td>
<td>76,500</td>
<td>78,030</td>
<td>79,591</td>
<td>81,182</td>
<td>82,806</td>
<td>84,462</td>
<td>86,151</td>
<td>87,874</td>
<td>89,632</td>
</tr>
<tr>
<td>Rented sqm</td>
<td>12,000</td>
<td>76,500</td>
<td>78,030</td>
<td>79,591</td>
<td>81,182</td>
<td>82,806</td>
<td>84,462</td>
<td>86,151</td>
<td>87,874</td>
<td>89,632</td>
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<td>25,469,0</td>
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<td>26,497,9</td>
<td>27,037,9</td>
<td>27,598,0</td>
<td>28,119,8</td>
<td>28,682,2</td>
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<table>
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<th></th>
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<th>2022</th>
<th>2023</th>
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<tr>
<td><strong>Workshop sheds</strong></td>
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</tr>
<tr>
<td>Rented sqm</td>
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<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Monthly rent per sqm</td>
<td>2,6</td>
<td>2,6</td>
<td>2,6</td>
<td>2,7</td>
<td>2,7</td>
<td>2,8</td>
<td>2,8</td>
<td>2,9</td>
<td>2,9</td>
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<td>382,5</td>
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<td>686,7</td>
<td>777,2</td>
<td>789,1</td>
<td>802,4</td>
<td>818,4</td>
<td>834,8</td>
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</table>

**Total rent revenue - from other buildings**

79,800,0 | 161,362,5 | 163,556,8 | 165,696,3 | 167,932,0 | 170,900,7 | 172,292,5 | 174,938,3 | 176,929,1 | 179,165,7
## ITP Prizren

### P&L

<table>
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<tr>
<th></th>
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<th>2020</th>
<th>2021</th>
<th>2022</th>
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<th>2027</th>
<th>2028</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues from rent</strong></td>
<td>282 120</td>
<td>409 406</td>
<td>505 278</td>
<td>590 519</td>
<td>650 935</td>
<td>662 754</td>
<td>674 809</td>
<td>687 105</td>
<td>699 647</td>
<td>712 440</td>
</tr>
<tr>
<td><strong>Other revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>282 120</td>
<td>409 406</td>
<td>505 278</td>
<td>590 519</td>
<td>650 935</td>
<td>662 754</td>
<td>674 809</td>
<td>687 105</td>
<td>699 647</td>
<td>712 440</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>517 678</td>
<td>540 712</td>
<td>565 934</td>
<td>575 550</td>
<td>585 367</td>
<td>595 389</td>
<td>605 622</td>
<td>616 069</td>
<td>626 734</td>
<td>637 624</td>
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<tr>
<td><strong>Balance P/L</strong></td>
<td>(235 558)</td>
<td>(131 305)</td>
<td>(60 656)</td>
<td>14 969</td>
<td>65 568</td>
<td>67 364</td>
<td>69 187</td>
<td>71 036</td>
<td>72 913</td>
<td>74 816</td>
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</tbody>
</table>

### Cover ratio

|          | 54%   | 76%   | 89%   | 103%  | 111%  | 111%  | 111%  | 112%  | 112%  | 112%  |

**Table 6. P&L**
Annex 5

Feasibility Study by KfW and Frankfurt School of Finance & Management 2016: Growth and Employment
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### Abbreviations

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<tr>
<th>Acronym</th>
<th>Description</th>
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</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kosovo</td>
</tr>
<tr>
<td>CBS</td>
<td>Core Banking System</td>
</tr>
<tr>
<td>CGF</td>
<td>Credit Guarantee Facility</td>
</tr>
<tr>
<td>CSO</td>
<td>Customer Supervisor Officer</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>ENIF</td>
<td>Enterprise Innovation Fund</td>
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<td>Focus Group Discussions</td>
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<td>Foreign Direct Investments</td>
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<td>KCGF</td>
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<td>MD</td>
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<tr>
<td>Mio</td>
<td>Million</td>
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<td>Ministry of Agriculture, Forestry, and Rural Development</td>
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<td>Management Information System</td>
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</table>
Executive Summary

KfW has commissioned Frankfurt School of Finance & Management to conduct a study in Kosovo with the purpose of identifying potential sectors and segments “to develop new project approaches which will support MSMEs through the financial sector. New project should particularly focus on practical ideas to support MSMEs in contributing to growth and employment in Kosovo and should aim at eliminating their barriers to growth”. Special emphasis shall be given to the agricultural sector in Kosovo.

Basis for the study were: a) a desk review of several relevant documents regarding the economy, sectors and ongoing initiatives from other donors and b) primary information obtained during on-site meetings with different stakeholders held in Kosovo from 26th Oct. until 5th of Nov. 2015.

The economy of Kosovo was characterized by a slowdown in the economic activity in 2014. The GDP in Kosovo has shown a positive growth in the last 6 years, however, the economy is still highly dependent on the international community and the diaspora for financial and technical assistance. The estimation for 2015 foresees a growth of the GDP in 3.5%, which will be primarily generated by the domestic demand, from which the highest percentage is consumption (84,3%). The highest participation in GDP comes from the wholesale & retail sector, followed by the industry and agriculture (21% in 2014, 23% IQ 2015).

Foreign Direct Investments (FDI) have decreased considerably in the last 5 years and the trade deficit is one of the main problems of the economy. Kosovo imports are by far higher as the exports (EUR 2.535 million vs. EUR 324). A weak manufacturing sector and the difficult environment to enhance competitiveness are some reasons for it.

Kosovo faces a very high unemployment rate, among the highest in the region. The unemployment rate in 2014 stood at 35,3%. In absolute terms Kosovo’s working age population is 1,2 million whereas the labour force consist of approx. 500.000 individuals out of whom 176.743 are unemployed. A much higher rate of unemployment is recorded in the young population and within this the female group with more than 70%.

Four main sectors concentrate the employment: trade 14,4%, manufacturing 13,8%, education 11,9% and construction 10,9% are the distribution figures of all the employed in Kosovo according to sectors. Agriculture employs formally barely 2,6% of the registered work force, though the majority of the population, especially in the rural areas works and depends on agriculture. According to the Agricultural survey 2014, there are 129.920 agricultural holdings operating in Kosovo.

Other sectors analysed in the study as potential for growth and employment were the tourism sector that is expected to grow in the area of Brezovica; the ICT sector which is being supported by several donors; mining mainly in the area of Trepça and the recycling industry that is starting to develop in the country. It was seen that these sectors can realise their employment potential only over medium to long run. In the meantime, the legal and regulatory framework as well as ownership status needs to be clarified.

It is important to mention that in Kosovo remittances from the Kosovar diaspora also influence the macroeconomic indicators, since a high ratio of consumption is being finance with money coming from remittances and many families and young people receive support from their parents or relatives working in other countries.

The Government recognizes the deep structural problems that lead to unemployment. In 2009 the Employment Strategy 2010-2012 was developed, based in three main pillars: a) improvement of business climate, b) promotion of vocational training and professional education, and c) better functioning of labour market. This strategy has been replaced by the SME Development Strategy
2012-2016 and the Private Sector Development Strategy 2013-2017. Under this framework the Government has established the Kosovo Investment and Enterprise Support Agency (KIESA), which besides of promoting foreign investments is responsible for supporting policies and programmes for micro, small and medium enterprises, aimed at increasing employment.

**MSMEs** constitute significant amount of economic output in Kosovo. At the end of 2013, Kosovo had about 46,000 active and registered enterprises and entrepreneurs, employing a total of 190,000 people. In 2010, MSME contributed to about 43% of the share of GDP and in 2011 to about 50%. In the same year MSMEs in Kosovo employed nearly 62% of the workforce. The period from 2010 to 2013 has therefore been perceived as a time in which increase of private sector development has played an even greater role in Kosovo’s economy.

Micro enterprises account for 95.4% of all companies (less than 10 employees and less than EUR 2 million annual turnover), small enterprises participate with 3.7% and medium with 0.7% of the total number of companies. In 2013, MSMEs were mainly concentrated in: trade, wholesale and retail, followed by manufacturing; personal services, construction, accommodation and food services, transport and business services.

The most common sources of funding for MSMEs are personal and family funds, followed by lending from banks. This category is still showing low levels, which could be a result of the high collateral requirements, higher even when compared with regional standards. As a consequence of this hard requirement, access to finance is restricted and is considered to be a major constrains for growth (44%).

Besides the problem of access to finance due to principally to guarantee requirements, a survey on the market in 2013 showed that other main constraints for MSME are the lack of infrastructure to have better access to markets (especially transport in the rural areas) as well as the lack of qualified working force (mainly in the urban areas).

**The agricultural sector.** As mentioned before, the sector is an important contributor to the GDP of Kosovo and comprehends around 129,920 holdings, employing a large part of the population but one of the major impediments for its development is the small size of agricultural land owned by farmers. Almost 96% of the total number of holdings is smaller than 5 ha, while only 3.28% is between 5 and 10 ha and solely 1% is larger than 10 ha. This limits the possibility of extensive farming and therefore better practices and investments for small plots need to be introduced.

Crop production contributes the main part of the total agricultural output, followed by animal output and with a small share by agricultural services, showing the still low professionalization of the sector. Within the crop production, the most important products are vegetables and horticulture, followed by cereals, forage and fruits. In the case of livestock, cattle are the most important contributor to the animal output, followed by sheep and goats. Demand for agricultural products is large and therefore imports are very high.

The potential of the sector can be seen in the substitution of imports with locally produced food crops and animal breeding. For example the total area used for the cultivation of **vegetables** increased by 12% since 2012, which is a positive indicator, since vegetables can also be produced in small plots. Under this sub-sector the production of peppers is the most important followed by potatoes, aubergines, pumpkins and cucumbers. The production volume of those vegetables increased even more as the area used. Interestingly the area cultivated with potatoes has continuously decreased since 2007 but potatoes are probably the only agricultural product achieving a self-sufficiency rate. Also peppers and tomatoes achieved a self-sufficiency ratio.

10% of the cultivated area in the country belongs to **fruit production**, which mainly concentrates in apples, plums and vine and table grapes. In terms of volume, these three fruits are the most important for the production in Kosovo. Plum exports showed an increase of 700% in 2013 in comparison to 2012.
Interesting is the development of the berries (strawberry, blackberry, raspberry) and the nut sub-sector (walnut and hazelnut). These crops show a considerable increase in terms of planted area and production volume. The production of blackberry just took off to become commercial also for the export and will attract other farmers and investors. It should be beard in mind that this activity will need investments and especially that this generates employment as the harvest is labour intensive. The sector also is promising related to organic farming, since the collection of certified and controlled wild fruits and medicinal plants increased as well as the produced value increased since 2009.

**Livestock** subsector is very important in terms of ensuring the population’s food security due to its high nutritional value; though it appears somehow consolidated, the negative trade balance and low self-sufficiency ratios characterize it (i.e. Self-sufficiency ratio of beef was at around 70% and for milk & milk products was at 84% in 2013). The problem could even deteriorate more as the number of animal heads is continuously decreasing. Therefore, investment to increase the number of animals and the yields could be a solution to substitute imports and generate income and employment. Dairy remains the main important animal product; in 2013 out of the 321.384 heads of cattle, 55.6% were milk cows. However, the low amount of milk production leads to suboptimal utilization of the milk processing capacities. Sheep and goats are mainly raised in remote areas with pasture available. Only a very small number of commercial pork farms exist in Kosovo due to religious conceptions. Poultry is mainly oriented to egg and broiler production.

**Cooperatives** for agricultural production can contribute to farmers’ development mainly through the provision of services such as: collective inputs purchasing, harvesting, commercialization, storage, grading, marketing, advisory services, etc. However, farmers in Kosovo are not interested in cooperative structures mainly due to their bad former reputation and to certain extent the lack of solidarity between them. They also fear to be controlled by the state and to be paid according to the goodwill of the government and not according to market prices. However, there also other concerns such as the small quantity produced and the high diversification that impedes to create economies of scale. Cooperatives are only helpful, if they are strong, well organized and able to provide full services to the benefit the value chain actors. There is an interesting example of vertical integration in the potato production between farmers and the Pestova industry.

**The financial sector** in Kosovo is mostly dominated from banks. In terms of assets banks do own almost 70% of the market share, followed by the pension funds. During 2014, the growth of financial system assets was mainly attributed to the growth of pension fund and commercial banks assets. However, most of the assets of the pension funds, for risk management purposes, are invested abroad and not in Kosovo.

In the banking sector the four major banks concentrate 80% of the total assets and of the loan portfolio. The loan portfolio of banks as per July 2015 reflects the structure of the economy, showing that the more important sector is the trade sector (53%), followed by the manufacturing sector, while agriculture participate only with 4% of the portfolio. One reason why banks do not allocate a much larger amount of loans is the hard collateral requirements.

All the banks are addressing the MSME segment but only partially. The agriculture sector, with exception of Raiffeisen Bank, ProCredit Bank and the MFI KEP is not a focus priority of the banks and they do not have an appropriate technology to serve the sector. Small farmers are rather being serviced by microfinance institutions with high interest rates.

In general, banks are present in the agriculture sector; the utilisation of the potential remains however far from optimal and what the needs of the sector require. While banks claim that they have liquidity and they do not need funding, their loan to deposit ratio is high and their liquidity only of shorter duration; hence the funding needs might change rapidly in particular if the lending terms are appealing enough to divert banks from lending to trade sector into the agriculture sector.
During the study was also identified that the donor community has identified the problems for access to finance and have put efforts together to build a Credit Guarantee Fund, which is in the process of being setting up.

**Project ideas**

In order to create growth and employment, the study has showed that the sector with the largest potential for both purposes is the agricultural sector. However, the sectors’ financial needs are not being served by the financial system, not only because the financial institutions see a great risk in the sector but also because they do not possess an appropriate lending technology to properly analyse the demand of the agricultural sector and price the risks accordingly.

Therefore, the following ideas were proposed:

- Initially the consultants’ team has identified the necessity of attending the agricultural sector demand by supporting banks to create specialized agricultural teams/units that can be supported by specially designed agricultural credit risk analysis tools. This way, the impediments that exist on the financial sector side could be addressed and removed. Agriculture finance is complex and requires external support (in building capacities in particular), otherwise the banks will not provide the necessary attention to this sector.

KfW found the idea interesting, yet not very innovative and asked the consultants to “think out of the box”, in this sense:

- The second idea, build on the first one, but extended the scope into a more integral approach for the development of the agricultural sector looking for the integration of farmers into the financial system in a more solid situation. Under this idea and considering the potential of the agricultural sector, three pillars for interventions were proposed: a) investments in facilities for farming support in cooperation with the Ministry of Agriculture, b) practical training to the farmers and c) technical assistance to the banks to attend potential farmers.

After sharing the draft report, KfW asked the team to concentrate in pure financial instruments and not so much in technical assistance. Under this new situation, the team has developed a new idea.

- The new idea concentrates in a First Risk Loss Cover (FRLC) scheme that will support farmers and MSMEs to overcome one of the major obstacles for access to finance, which is the requested collateral from side of the financial institutions. Furthermore, it will incentivise banks to serve farmers and MSMEs considering that they will reduce risks through the risk sharing mechanism.
1 Introduction and approach to the study

This study is based on a desk review and the information obtained during on-site meetings held in Kosovo from 26th October until 5th of November 2015.

As main source for this analysis serve the data published by the Kosovo Agency of Statistics as well as few publications by other development organisations and Ministries in Kosovo. The desk review focuses mainly on employment data for identifying the key employment providers and the characteristics of the labour force (i.e. like education, sectors with the largest employment numbers etc.), as well as on sectors that can be reached by financial sector support. In line with the Terms of Reference, agriculture was reconfirmed to be one of the sectors with the largest potential for employment creation over the short-term; other areas like tourism, apparel or even mining deserve further attention too, though the potential financial sector support remains limited here.

The desk review allowed the team to have a first picture of the economic situation and existing potential in the country for the objective of the study and the coming project ideas. This first stage was then complemented by on-site visits in Kosovo with the purpose of interviewing some important actors and gets more clear information regarding potential sectors for growth and employment in the country. Purpose of the on-site visits was to gather first-hand information from the local KfW office, the industry representatives, farmers and agribusiness, the chambers of commerce and the financial sector. These interviews helped also to identify bottlenecks for MSMEs and farmers in accessing finance.

Furthermore, in order to answer questions of whether structural reforms in the agriculture sector in Kosovo could have any employment effect (farm size and cooperative structure), Focus Group Discussions (FDG) were organized with farmers and processors from three selected sectors: a) livestock; b) fruit and vegetable, and c) diary sector.

The information gained in the Focus Groups was complemented with interviews to representatives of relevant stakeholders such as Ministries, industry, financial sector and donor organisations active in the sector. A full list of the conducted meetings is presented in Annex 1.

On the basis of all information collected, the agricultural sector and the agroindustry was identified as the potential sector for growth and employment in Kosovo and the first ideas for a suitable program that could be implemented and financed by KfW are drafted. Three ideas came up:

- The first one was to support banks to develop an agricultural lending technology and team as well as to use appropriate tools to evaluate the clients, the activity and the risks. This idea could also match with the existing credit line of KfW that is not being used. However, this idea was too narrow for KfW expectations and the institution asked the consultant to “think out of the box”.

- As requested by KfW the second idea focussed more in a holistic approach for the development of the agricultural sector and the integration of farmers into the financial system in a more solid basis. Under this idea and considering the potential of the agricultural sector, three pillars were developed: a) investments in needed facilities for farming support in cooperation with the Ministry of Agriculture, b) practical training to the farmers and the introduction of best practices in farming, and c) technical assistance to the banks to attend potential from those farmers and the agroindustry.

- The third idea concentrates in a proposal for a First Risk Loss Cover (FRLC) scheme that will support MSMEs to overcome one of the major obstacles for access to finance, which is the requested collateral from side of the financial institutions. On the other side, it will incentive banks to serve MSMEs considering that they will reduce risks through the risk sharing mechanism.
2 Short general macroeconomic overview and economic growth

The economy of Kosovo was characterized by a slowdown in the economic activity in 2014. The GDP in Kosovo has shown a positive growth in the last 6 years, however, the economy is still highly dependent on the international community and the diaspora for financial and technical assistance. The estimated growth of GDP published by the Kosovo Agency of Statistics (KAS) for 2014 was much lower than in the previous years. This is a consequence of a high trade deficit and almost no increase in consumption in comparison with the year before.

Chart 1: Real GDP growth rates

![Chart 1: Real GDP growth rates](image)

*Source: CBK – Macroeconomic Dev. Report, Aug.2015*

The estimation for 2015 foresees a growth of the GDP in 3.5%, which will be primarily generated by the domestic demand, from which the highest percentage is consumption (84.3%). The highest participation in GDP comes from the wholesale & retail sector, followed by the industry and agriculture.

Chart 2: GDP by economic activities 2014 and I Q 2015

![Chart 2: GDP by economic activities 2014 and I Q 2015](image)


With per capita GDP estimates of close to EUR 3.000, Kosovo is one of the poorest countries in Europe. Average per capita income is about one-tenth that of EU levels, and the incidence of poverty remains high.

Interesting is to see the development of inflation measured through the Consumer Price Index (CPI), which since the middle of 2012 showed a decreasing trend, going even to deflation in 2015, as can be observed in the following figure. According the CBK one strong reason for this was the decrease of oil derivative that lead to a price decrease in transport services and thus in other items like electricity, gas and fuels as well as a light decrease in food and non-alcoholic beverages. The low inflation has had a positive impact on the lending interest rates too.
Foreign direct Investments (FDI) are far below of the levels from 2010 and 2011 with the lowest level reached in 2014. The political and economic stagnation during 2014 created uncertainties among many investors and the decrease in FDI was strong as it can be seen in the following chart.

The trade deficit is one of the main problems of the economy. Kosovo imports are by far higher as the exports (EUR 2.535 million vs. EUR 324). A weak manufacturing sector and the difficult environment to enhance competitiveness are some reasons for it.

Manufactured good represented the main share of imports (20%) in 2014, followed by mineral Fuel & lubricants and machinery & equipment (16%) and chemicals (11%). But Kosovo is also importing a large part of the agricultural products consumed in the country (18% food and live animals and 5% beverages & tobacco from total imports). An important factor for this misbalance is the high level of remittances received in the country (EUR 693.7 million in 2014) that increase the demand for goods.

On the side of exports that reach only 12% of the value of imports, base metals and minerals was the most important category and contribute with 75% of total exports (47% manufactured good, 24% minerals and machinery & equipment 4%, respectively); the remaining 35% is almost equally distributed among agricultural products, plastic & rubber production, mechanic & electric equipment and textiles.
Imports come primarily from Serbia, followed by Germany, Italy, China, Turkey, Albania, Greece and Macedonia. Main trading partners for Kosovo exports were mainly the EU countries (mainly Italy but also in part Germany), the neighbouring countries Albania, Serbia and Macedonia but also Turkey, China and India.

### 3 Sectorial distribution of employment

#### 3.1 Basic employment data

Data on unemployment in Kosovo are mostly provided by Kosovo Agency of Statistics which conducts regular surveys on the work force (at least yearly) and the Employment Service of Kosovo.\(^1\) The data reported by KAS have its limitations, as sampling is limited and the surveys are conducted towards the end of the year, hence they ignore the effects of summer seasonality on employment. Furthermore, a large number of individuals who are reported as inactive do work as unregistered employers, often without a formal working contract.

The information provided by KAS shows that Kosovo faces a very high unemployment rate, among the highest in the region. The unemployment rate in 2014 stood at 35.3\%, recording a further increase compared to the 30\% and 30.9\% figures of 2013 and 2012, respectively. In absolute terms Kosovo’s working age population is 1.2 million whereas the labour force consist of approx. 500,000 individuals out of whom 176,743 are unemployed. Despite several initiatives from the government and the donor community to decrease unemployment, it continues increasing. Of greater concern is the unemployment among the young population (15-24 years of age) which

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\(^1\) Under the responsibility of the Ministry of Labour and Social Welfare
climbed from 55% in 2013 to 61% in 2014. A significant discrepancy exists among male and female as far as the youth unemployment is concerned. While the youth unemployment for male stands at 5.6%, the same figure for the female counterparts stand at 7.7%. Such discrepancy results most likely also from social and cultural norms that cannot be further scrutinized here; however, it shows clearly that young female face real constrains in entering the labour market.

This percentage could also be an indicator that the labour market is somehow not capable to absorb the new entrants. Reasons for that can be multiple: on the one hand the economic growth is slow, hence companies cannot absorb the new potential employees; the population growth surpasses the absorption capacities of the economy and, on the other hand, the education system is most likely not producing the qualified workforce needed in the labour market.

Last but not least, it is important to mention that in Kosovo remittances from the Kosovar diaspora also influence in this indicator, since many young people receive support from its parents or relatives working in other countries.

Chart 6: Key labour market indicators

In addition, data published by the Kosovo Agency of Statistics, reveal that there is a direct correlation between education and unemployment. Unemployment rate decreases with an increasing level of education. The level of unemployment among those with tertiary education stands at 11% compared to 39% for those with secondary vocational education. Nonetheless, an anomaly appears to exist here as well. The level of unemployment among those with basic education (1-IX classes) stands lower (27%) than the level of unemployment of those with secondary vocational education (39.8%). Most likely this can be interpreted as a sign that the economy is not producing jobs for skilled staff and the salary expectations differ. In its recent country report, the International Monetary Fund, considers the wages levels in Kosovo, adjusted by productivity, to be the highest in the region.4

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2 Unemployment among females is a reason of concern too
3 Therefore, an initiative of the Denmark aid together with GIZ is trying to support programs to include women in the IT branch, especially in rural areas.
4 IMF Country Report Kosovo, p.12, 2015
3.2 Sectorial employment providers

Manufacturing, trade, education and construction employed almost half of labour force in 2014. The trade sector employed 14.4%, manufacturing 13.8%, education 11.9% and construction employed 10.9% of all the employed in Kosovo. Education and healthcare were the two largest employers of women (employing almost 40% of employed women). It is worth mentioning that in education and health, the public sector is the largest employer. Manufacturing, trade and construction are the most common employment sectors for men (employing more than 40% of employed men). Agriculture employs formally barely 2.6% of the registered workforce, though subsistence farming is supposed to employ a far larger number of people in the rural areas.

On a regional comparison, Kosovo stands out for the low level of labour force participation with only 41.6%, followed by Montenegro with 42.6% and Bosnia & Herzegovina with 43.7%. This translates also into the highest unemployment rate in the region.
MSMEs constitute significant amount of economic output in Kosovo. At the end of 2013, Kosovo had about 46,000 active and registered enterprises and entrepreneurs, from which 14% were fully or partially owned by women. These 46,000 enterprises employed a total of 190,000 people. In 2010, MSME contributed to about 43% of the share of GDP (SMEs Development Strategy 2012-2016) and in 2011 to about 50% (Central Bank of Kosovo (Financial Stability Report 2014). In the same year MSMEs in Kosovo employed nearly 62% of the workforce (KOSME 2014)\(^5\). The period from 2010 to 2013 has therefore been perceived as a time in which increase of private sector development has played an even greater role in Kosovo’s economy.

Broken by the size of enterprises, data reveals that micro enterprises account for 95.4% of all companies (less than 10 employees and less than EUR 2 million annual turnover), small enterprises participate with 3.7% and medium with 0.7% of the total number of companies.

In terms of the decomposition per sectors, in 2013 MSMEs (aggregated data) in Kosovo were mainly concentrated in: trade, wholesale and retail (42.7%); manufacturing (10.5%); personal services (10.2%), construction (7.1%), accommodation and food services (7.6%) followed by transport and business services with 6% each (KOSME 2014).

The most common sources of funds for MSMEs are personal and family funds, followed by lending from banks. This category is still showing low levels, which could be a result of the high collateral requirements, higher even when compared with regional standards. As a consequence of this hard requirement, access to finance is restricted and is considered to be a major constrains for growth (44%).\(^6\)

\(^5\) Kosovo SME Promotion Programme, Report on SMEs in Kosovo, 2014
\(^6\) Enterprise Survey, World Bank, 2013
Related to the rural-urban distribution, small enterprises in rural areas experience difficulties to utilize business opportunities mainly due to their limited mobility. Although Kosovo has developed an inter-city transportation network, traveling from remote areas to the bigger markets continues to be a challenge. According to the Enterprise Survey of 2013, 23% of the companies identify transportation as a major constrain to their business growth; therefore, rural enterprises have less opportunities to benefit from networking, educational and business development services. These are mostly organized in larger cities, with Pristina being a focal point.

In general, most of MSME find the lack of the adequate workforce as an important constrain to do business. According to the same survey, the percent of firms stating such opinion stays at 25,9%; the figure is much higher compared to Eastern Europe and Central Asia, mostly post-communist countries, with 13,7%. According to the most recent survey of the largest association of business active in Information and Communication Technology (ICT), the companies consider the lack of skilled labour force as a constrain to their growth. The association can train up to 90 people yearly whereas the absorption capacity of association members is at least 500 staff per year.

4.2 Analysis of subsector that offer employment potential

The recent study conducted by Kosovo SME Promotion Programme (KOSME) in 2014 provides insights into the current structure of employment within the private sector. Data used in the study stems from the Kosovo Tax Authority as well as from a direct survey with 743 MSMEs from different sectors: retail & whole sale, manufacturing, construction, transport, hotels & restaurants, personal services and business services.

Table 1: Enterprises and employment

<table>
<thead>
<tr>
<th>Description</th>
<th>Enterprises</th>
<th>Staff employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
</tr>
<tr>
<td>1 person employed</td>
<td>25,938</td>
<td>56,3%</td>
</tr>
<tr>
<td>2-249 persons employed</td>
<td>20,047</td>
<td>43,6%</td>
</tr>
<tr>
<td>&gt;250 persons employed</td>
<td>47</td>
<td>0,1%</td>
</tr>
<tr>
<td>Total</td>
<td>46,032</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Kosovo SME Promotion Programme, Report on SMEs in Kosovo, 2014

According to the survey, approx. 25,938 enterprises or 56.3% of total enterprises in Kosovo are sole entrepreneurships (self-employment), making 13,7% of the working force. Most of these businesses have emerged as a necessity to ensure family income. Interesting is the situation with the SME and the large corporates. The latter though low in number (only 47) employ about 19,3% of the workforce active in the private sector. SMEs on the other hand offer approx. 67% of the employment opportunities of the private sector.

- Sectoral distribution – Main sectors

In terms of the sectoral distribution, the trade sector is the most important in both, in terms of number of enterprises as well as in the number of employed people, with 42,7% and 32,6%, respectively. The second most important sector is the manufacturing sector with 10,5% of the enterprises and 16,2% of employment, followed by the business services with 10,2% and 13,2%, respectively. In the following table it can be observed this sectoral distribution.
Table 2: Enterprises and employment

<table>
<thead>
<tr>
<th>Sector</th>
<th>Enterprises</th>
<th>Person employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.825</td>
<td>10,5%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.289</td>
<td>7,1%</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
<td>19.672</td>
<td>42,7%</td>
</tr>
<tr>
<td>Transporting and storage</td>
<td>2.602</td>
<td>5,7%</td>
</tr>
<tr>
<td>Accommodation &amp; food service</td>
<td>3.499</td>
<td>7,6%</td>
</tr>
<tr>
<td>Business services</td>
<td>4.716</td>
<td>10,2%</td>
</tr>
<tr>
<td>Personal services</td>
<td>4.376</td>
<td>9,5%</td>
</tr>
<tr>
<td>Other sectors</td>
<td>3.053</td>
<td>6,6%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>46.032</strong></td>
<td><strong>100,0%</strong></td>
</tr>
</tbody>
</table>

Source: Kosovo SME Promotion Programme, Report on SMEs in Kosovo, 2014

Agriculture is not listed among the top four official sectors, although this sector employs a large part of the workforce especially in the rural areas, thus contributing considerably to the employment (according the Agricultural survey 2014, there are 129,920 agricultural holdings). The mismatch between statistics and the real situation stems from the fact that most farmers are not registered as enterprises, though they produce agriculture output beyond their own needs, bringing it mainly into the domestic market. For the purpose of this study this sector will be analysed in a separate chapter (see chapter 5).

The main question to be asked next is whether the largest sectors listed here (including the sub-sectors), will continue to be the job-promoters in Kosovo in the next five years and whether they need support?

A good proxy to start is the gap between the rate of enterprise creation (start-ups) and the rate of business exits (closure/exits/bankruptcy). The net rate of enterprise creation can then serve as a basis for calculation the possible number of new jobs that can be created by the private sector. We give a look at the four largest sectors:

Table 3: Potential employment creation

<table>
<thead>
<tr>
<th>Sector</th>
<th># of enterprises</th>
<th># of staff</th>
<th>ø staff per enterprise</th>
<th>Enterprise creation</th>
<th>enterprise closure</th>
<th>net creation</th>
<th>potential new employ.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale trade</td>
<td>19.672</td>
<td>61.790</td>
<td>3</td>
<td>2.057</td>
<td>1.277</td>
<td>780</td>
<td>2.450</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.825</td>
<td>30.810</td>
<td>6</td>
<td>620</td>
<td>276</td>
<td>344</td>
<td>2.197</td>
</tr>
<tr>
<td>Business services</td>
<td>4.716</td>
<td>25.109</td>
<td>5</td>
<td>946</td>
<td>247</td>
<td>699</td>
<td>3.722</td>
</tr>
<tr>
<td>Construction</td>
<td>3.289</td>
<td>20.682</td>
<td>6</td>
<td>589</td>
<td>175</td>
<td>414</td>
<td>2.603</td>
</tr>
</tbody>
</table>

Source: Kosovo SME Promotion Programme, Report on SMEs in Kosovo, 2014, own calculations

On an absolute basis, wholesale and trade continue to offer the largest enterprise creation rates. However, both on relative basis and in terms of average staff, these enterprises do not offer the largest employment potential. Construction and business services (which include ICT) do offer the largest net enterprise creation rate (13% and 12.6% respectively); with larger average staff figures per enterprise, these sectors do offer the largest employment growth potential.
- **Other sectors identified**

During the on-site mission, and after the exchange with different stakeholders, three other sectors were mentioned as areas that do offer additional potential for employment growth.

  a) **Tourism**

Tourism is considered by some of the economic actors as one of the areas that can offer employment potential. This appreciation is based on the labour intensive character of this industry. However, while Kosovo has beautiful natural resources, it is still not a spot for international travellers and the strong competition from neighbouring Albania and Montenegro that offer several attractions makes the tourism case for Kosovo even more difficult.

A lot of hope is placed on the reactivation of the Brezovica site, which is well known for skiing and winter sports. Lately the government provided the site under concessional terms for 99 years to a French-Kosovar consortium that is expected to invest up to EUR 410 million in revitalising the site. Once operational it is expected to employ at least 3,000 persons. However, the implementation of the project remains sensitive due to the questionable ownership rights on the site. Moreover, the financing of the project is not secured. Currently, the Government of Kosovo continues the negotiation with the consortium regarding the start of the project, since this project is not only of economic importance for growth and employment but it has also political strength as it will put the country into the map of international touristic spots to attract tourists from the region.

Small scale tourism does offer growth and investment potential in the Rugova valley and the Dragash, but in a family-based scale as second or vacation homes (diaspora).

  b) **ICT**

Since few years this industry has organised itself and is represented by the association (STIKK), which is working towards establishing an ecosystem for ICT enterprise development. These include education opportunities, incubators (or technology parks) and accelerator financing. Progress has been made on education and incubators; however the main challenge is the availability of well-educated staff and the ICT awareness in curricula of secondary and tertiary education is very limited. The sector is gaining more and more the attention of the donor community and government. A new project “Women in ICT” supported by the Danish cooperation, the World Bank and GIZ is starting especially to train and support women to find a job. A second project from the NGO KS-Kosova “Girls in ICT” is looking to integrate young girls in rural areas in the ICT branch. The Government is considering in providing the association with vacant buildings that can be transformed into a technology park or incubator. Funds for investment remain challenging for the sector. Attempts have been made to attract large international IT companies (like Microsoft or HP) to step-in the role of accelerator. The association estimates that an acceleration fund in the range of EUR 2 to 5 million, could give many companies the needed financial support.

According to the association, at least 500 new staff can be employed by the industry each year. However, the challenge is that companies do not find qualified staff. Several initiatives and projects are assisting the industry. The STIKK can train a maximum of 90 staff per year.

  c) **Mining**

The Government of Kosovo intends to revitalise the mining sector and create employment. In 2012 it has prepared a sector strategy that serves as guideline to the relevant institutions, which manage existing mineral assets and are responsible for identifying new mineral resources.7

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7 Mining Strategy of the Republic of Kosovo 2012-2015, Ministry of Economic Development
The sector strategy builds on four pillars:

1. Provision of favourable conditions for the economic valorisation of mining resources, attraction of investments.
2. Enhancement of human and institutional capacities in the mining sector
3. Social considerations and community benefits
4. Environmental care

The strategy recognizes that the predominantly obsolete technology, the lack of resources to invest in the new development, adverse environmental effects and lately the drop of commodity prices do pose great hurdles for the industry to take off and return to the levels of the ’80s. Furthermore, the privatisation process completed so far has evidenced some failures as new owners failed to invest and revitalise existing mining sites.  

The main mining sites in Kosovo include Trepa (administrated by the Kosovo Privatisation Agency); coal mines of Mirash and and Bardh (administered by Kosovo Energy Corporation); ferronickel mines (administered by the NewCo ferronickel); magnesium mines of Golesh (privatised in 2007), and bauxite mines (undergoing the privatisation process). Most of the mining resources are in Trepa. In its prosperous time, the Trepa mining complex included the colliery and smelters and used to be a technological and industrial mining complex, projected and designed to fulfil capacities of the former of Yugoslavia and export abroad. Currently, most of what has remained from its technology is defective and outdated, thus is inoperative. In addition its technology for the processing industry in the active mining sites is highly amortised, which negatively affects the productivity of employees resulting in suboptimal utilisation with no economic benefit. The revitalisation of the sector cannot happen without resolving the political and legal disputes around the Trepa mines. Research conducted by various parties recognizes that the revitalisation of mining sites and smelters requires investments that start from EUR 200 million upwards.

d) Recycling industry

The recycling industry in Kosovo is small and fragmentary. The companies can be grouped in two groups: a) waste management and recycling and b) recycling only (scrap metal). The current legislation does offer flexibility to companies that do waste management. However, the implementation on the ground does not offer an economic opportunity to them. During the meetings with the industry association, they reported that the major challenges are on the integrated waste management. Unless municipalities do offer the necessary incentives to the companies (land and waste) the possibilities of these companies to grow remain limited.

The recycling companies on the other hand do face difficulties in exporting their product into the EU countries due to Basel Convention. Furthermore, the recent drops in commodities prices make the case for recycling even more difficult due to the reduced revenues, which make its development difficult.

Summarising the point of the potential for growth and employment of these last sectors, one can say that tourism sector, mining and recycling industry can realise their employment potential over medium to long run. In the meantime, the legal and regulatory framework as well as ownership status needs to be clarified in order to create a conducive environment for investments and ultimately employment creation.

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8 Mining Strategy of the Republic of Kosovo 2012-2015, p.111, Ministry of Economic Development
9 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, under the responsibility of United Nations Environmental Programme
4.3 Government and donor initiatives to support the MSME sector and employment growth

The Government of Kosovo recognizes the deep structural problems that lead to unemployment. In 2009 the Employment Strategy 2010-2012 was developed, based in three main pillars:

a) improvement of business climate and reducing the cost for doing business,

b) promotion of vocational training and professional education in general, and

c) better functioning of labour market through strengthening of institutional and policy framework.

On the short-term the government recognizes the public infrastructure as the main job-creation alternative, whereas over the medium-term it acknowledges that, the development of the mining and energy sectors, through privatisation and reforms and attraction of Foreign Direct Investments, will promote employment.

This strategy has been replaced by the SME Development Strategy 2012-2016 and the Private Sector Development Strategy 2013-2017. To support the implementation of such strategies the government has also established a dedicated institution, the Kosovo Investment and Enterprise Support Agency (KIESA) operating under the Ministry of Trade and Industry (MTI), which besides of promoting foreign investments is responsible for supporting policies and programmes for micro, small and medium enterprises, aimed at increasing employment.

The instruments applied by KIESA include:

a) **MSME Grant Scheme**. The scheme is supported by the EU Delegation in Kosovo and provides grants to export-oriented MSMEs. Grants for micro enterprises can reach up to EUR 35,000 whereas for SMEs they can reach up to EUR 200,000. A total amount of EUR 3 million in grants has been disbursed so far to 36 micro enterprises and 15 SME from the production area. The limited availability of funds does not cater for a systemic impact on the sector. At the open tender procedure KIESA collected 900 applications worth EUR 80 million.

b) **MSME Competitiveness Programme**. The programme is aimed at supporting export-oriented SMEs to meet EU standards required for entrance in the EU market.

c) **Support to Young Entrepreneurs**. Main objective of the Programme is to provide limited grants to promising start-ups based on the outcome of a competitive process. Furthermore the programme supports internships and workshops.

d) **Support to Women Entrepreneurs**. Focuses mostly on establishing networks and cooperation among women entrepreneurs.

KIESA considers the MSME to form the backbone of Kosovar economy and a sector that requires continuous support and attention. The Agency intends to push the MSME grant scheme towards a more commercial oriented scheme, implying equity investments, rather grants. This way it can replenish funds that can be further utilised to support new MSMEs.
5 Status of the agriculture sector (producing and processing)

5.1 Short subsector analysis and employment generation

The agricultural sector contributed to the GDP with an average of 12.8% from 2006 to 2012. Adding to this percentage the participation of the food industry, the contribution reaches up to 20% in that period. Despite a nominal increasing agricultural GDP, the contribution of agriculture to the total GDP decreased from 14.1% in 2011 to 11.9% in 2014. Together with the food industry the contribution of agriculture for 2014 was 21%.

The existing 129,220 agricultural holdings in Kosovo accounted in the last Agricultural Census are more or less evenly distributed amongst the country: 14,000 to 15,600 holdings in Gjakove, Gjilan, Mitrovice, Peje and Ferizaj. A larger number of holdings can be found in Prizren and a more considerable number in the Prishtina region as it can be seen in the following chart. 10

Chart 10: Agricultural Holdings according to regions


One of the major impediments for the development of the agricultural sector in Kosovo is the small size of agricultural land owned by farmers, which due to cultural reasons is normally a further divided in even smaller plots between the family members. Almost 96% of the total number of holdings is smaller than 5 ha; more than 71% are less than 1.5 ha, while only 3.28% is between 5 and 10 ha and solely 1% is larger than 10 ha. This makes of course the possibility of extensive farming very limited and therefore better practices for small plots need to be introduced.

Table 4: Farm sizes in Kosovo in ha 2013

<table>
<thead>
<tr>
<th></th>
<th>Small Farms</th>
<th>Large and Specialized Farms*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>0.01-1.5 ha</td>
<td>136,197</td>
<td>71.75</td>
</tr>
<tr>
<td>1.51-5 ha</td>
<td>45,483</td>
<td>23.96</td>
</tr>
<tr>
<td>5.01-10 ha</td>
<td>6,223</td>
<td>3.28</td>
</tr>
<tr>
<td>over 10 ha</td>
<td>1,917</td>
<td>1.01</td>
</tr>
<tr>
<td>TOTAL</td>
<td>189,820</td>
<td>100.00</td>
</tr>
</tbody>
</table>


The Agricultural Household Survey 2013 identifies only 359 large and specialized farms in opposition to 189,820 small farms. According to the Green Report 2014, the number of farms has been relatively stable since 2007. This can be confirmed as soon as the final data of the agricultural census from 2014 will be published. According to the preliminary data a considerable decrease of the number of holdings has been experienced recently. The Ministry of Agriculture’s Green Report 2014 shows that the size of cultivated agricultural land by the large and specialized firms increased by 118,5% in comparison to 2007, from 3,434ha to 7,502 ha. So, one can assume that a certain degree of professionalization and consolidation of the sector has been achieved.

Chart 11: Agricultural output according to activity (in mil. EUR) and contribution to sub-sectors (in %) 2013


As illustrated in the graphic, crop production contributes the main part of the total agricultural output with EUR 435,6 million in 2013 (57%) followed by animal output of EUR 302,2 million (40%). Agricultural services only contribute a minor share of 3%, thus showing the still low professionalization of the sector.

Within the crop production, the most important sub-sector is the production of vegetables and horticulture products contributing 35,7% to the total crop output, followed by cereals and forage. Fruits are also important in this output. In the case of livestock, cattle are the most important contributor to the animal output with 58%, followed by sheep and goats.

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11 The survey defines large and specialized farms according to a set of criteria: Potatoes ≥ 10ha; Cereals ≥ 50ha; Industrial crops = all farms; orchards ≥ 1,5ha; vineyards ≥ 4ha; horticulture open ≥ 3ha; horticulture covered ≥ 0,3ha; cattle ≥ 35; sheep ≥ 200; goat ≥ 40; pigs ≥ 35; poultry ≥ 4000.
Table 5: Harvested area (ha) and production

<table>
<thead>
<tr>
<th>Crop</th>
<th>Area (ha)</th>
<th>%</th>
<th>Production (t)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>101.846</td>
<td>71.8</td>
<td>391.727</td>
</tr>
<tr>
<td>Maize (incl. Mixed crop)</td>
<td>36.122</td>
<td>25.5</td>
<td>136.633</td>
</tr>
<tr>
<td>Vegetables</td>
<td>16.358</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pepper</td>
<td>3.686</td>
<td>22.5</td>
<td>72.928</td>
</tr>
<tr>
<td>Beans (incl. Mixed crop)</td>
<td>4.334</td>
<td>26.5</td>
<td>4.804</td>
</tr>
<tr>
<td>Potatoes</td>
<td>2.777</td>
<td>17.0</td>
<td>50.847</td>
</tr>
<tr>
<td>Onions</td>
<td>1.060</td>
<td>6.5</td>
<td>15.308</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>950</td>
<td>5.8</td>
<td>17.291</td>
</tr>
<tr>
<td>Fruits</td>
<td>6.829</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apple</td>
<td>2.024</td>
<td>29.6</td>
<td>22.040</td>
</tr>
<tr>
<td>Plum</td>
<td>1.843</td>
<td>27.0</td>
<td>29.067</td>
</tr>
<tr>
<td>Vine and Table grapes</td>
<td>1.647</td>
<td>24.1</td>
<td>18.748</td>
</tr>
<tr>
<td>Pears</td>
<td>561</td>
<td>8.2</td>
<td>4.259</td>
</tr>
<tr>
<td>Strawberry and Raspberry</td>
<td>171</td>
<td>2.5</td>
<td>570</td>
</tr>
</tbody>
</table>

*incl. scattered fruit trees


Crop Production

According to the Agricultural Household Survey 2013, by far the largest share of the harvested area belongs to cereal production. Out of the 165.098 ha of arable area, 86% is dedicated to the production of wheat and maize and only 10% to vegetables and 4% to fruits. Although, wheat is the dominant annual crop and production slightly increased recently, the domestic demand is still not met. Maize is mainly used as a rotation crop for animal feed, however feed processing plants closed in the last years resulting in a lack of markets for maize producers.

In 2013 the total area for vegetables included mainly: pepper, beans, potatoes, onions and tomatoes. The area increased by 12% since 2012, which is a positive indicator for this production that can also be developed in small plots. In terms of volume, the production of peppers is the most important followed by potatoes. Several vegetables showed a considerable increase in terms of area and volume, i.e. between 2012 and 2013, the area planted with aubergines increased by 300%, pumpkins by 235%, cucumbers by 33% and peppers by 17%. The production volume of those vegetables increased even more: 900%, 475%, 71% and 44%, respectively. However, it is worth to mention that 2012 was characterized by a bad yield for several vegetables, so the changes have to be looked at over a longer period, for example the production of tomatoes increased by 26% between 2012 and 2013 but dropped by 62% compared to 2010 to 2012. The potato production increased by 52%, but previously decreased by 27% in the mentioned periods. Interestingly the area cultivated with potatoes is continuously decreasing; in 2013 was only 44% of the area in 2007 but potatoes are probably the only agricultural product achieving a self-sufficiency rate of more than 100%. Also other vegetables such as peppers achieved a self-sufficiency ratio of more than 90% and tomato almost 56%. Stella blue squash, watermelon, spinach, sugar beet and radish experienced a decline in terms of cultivated area.12

10% of the cultivated area belongs to fruit production, out of which almost 30% is covered with apple orchards, 27% with plums and 24% with vine and table grapes. In terms of volume,

these three fruits are the most important for the production in Kosovo. Plum exports showed an increase of 700% in 2013 in comparison to 2012.¹³

Interesting is the development of the berry and nut sub-sector: e.g. strawberry, blackberry, raspberry, walnut and hazelnut. These crops show a considerable increase in terms of planted area and production volume. The production of blackberry just took off to become commercial. All of them showed promising prospects in 2013 (see Chart 12). These products should be beared in mind with regards to employment generation as the harvest is labour intensive and some well-equipped processors and collection centres can be found in the country. The sector also is promising related to organic farming. According to the MoA, the collection of certified and controlled wild fruits and medicinal plants increased from 550 t in 2009 to 1,000 t in 2012 and the value increased from EUR 0.8 Mio. to EUR 4 Mio in the same period. Almost the entire production is sold to the EU, mainly Germany, Austria and Switzerland.¹⁴

Chart 12: Cultivated area (ha) and production volume (t) of selected nuts and berries 2007-2013

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¹³ idem
Livestock production

The dairy sector is one of the most consolidated sub sectors in the country but facing problems and challenges. The sector has an important role to fulfil in terms of ensuring the population’s food security due to its high nutritional value. Improving the negative trade balance and low self-sufficiency ratios is therefore widely acknowledged as one of the most urgent topics. Self-sufficiency ratio of beef was at around 70% in 2013, approx. 5% lower than in 2011 and 2012. For milk and milk products the self-sufficiency ratio was at 84% in 2013, remaining almost unchanged since 2007. The problem could even deteriorate more as the number of animal heads is continuously decreasing (2% in 2013). Therefore, investment to increase the number of animals and the yields could be a solution to substitute imports and generate income and employment.

According to the preliminary results of the agricultural census 2014, there was a total of 253,234 heads of cattle, 169,927 heads of sheep, 29,085 heads of goats and 2,695,344 poultry. Most important regions for the different animals are Prishtina for cattle and poultry and Prizren for sheep and goats. As these numbers are not further broken down, for a deeper look into the sector we need to draw on data from the agricultural household survey 2013 as shown in the following table.

**Table 6: Animal head in Kosovo and production value of animal products 2013**

<table>
<thead>
<tr>
<th>Livestock</th>
<th>Total Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>321,384</td>
</tr>
<tr>
<td>Milk Cows</td>
<td>178,557</td>
</tr>
<tr>
<td>Pigs</td>
<td>49,198</td>
</tr>
<tr>
<td>Sheep</td>
<td>143,728</td>
</tr>
<tr>
<td>Goats</td>
<td>16,684</td>
</tr>
<tr>
<td>Poultry</td>
<td>2,244,142</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Livestock Product</th>
<th>Value (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>5,248,761</td>
</tr>
<tr>
<td>Milk</td>
<td>34,311,450</td>
</tr>
<tr>
<td>Cheese</td>
<td>6,380,756</td>
</tr>
<tr>
<td>Fat (grease)</td>
<td>582,192</td>
</tr>
<tr>
<td>Other dairy products</td>
<td>1,245,882</td>
</tr>
<tr>
<td>Eggs</td>
<td>2,313,224</td>
</tr>
<tr>
<td>Other products*</td>
<td>4,448,262</td>
</tr>
<tr>
<td>TOTAL</td>
<td>54,530,528</td>
</tr>
</tbody>
</table>

*incl. honey


Dairy remains the main important animal product. Kosovo has more than 2,000 dairy farms, producing a total of 377,983 tons of cow, sheep and goat milk in 2012. In 2013, out of the 321,384 heads of cattle, 55.6% were milk cows (2.6% less than in 2012). While most of the milk with up to 50% is used on farms for feeding calves, 40% is sold on green markets, only 10% is processed. The low amount of milk production (average of 4,000kg/year) leads to suboptimal utilization of the milk processing capacities such as Bylmeti, Devolli or Eurolona.

Sheep and goats are mainly raised in remote areas with pasture available. Also for these animals, the numbers decreased in 2013 by 13% resulting in a negative trade balance of EUR 0,2 mil. and a self-sufficiency ratio of 98%. Only a very small number of commercial pork farms are existent in Kosovo due to religious conceptions of the Serbian minority.

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18 Agricultural Finance in Kosovo, Study Report (BFC), p.14
Poultry is mainly oriented to egg and broiler production. In 2013, the egg production could meet 70% of the local demand.

Having a glance at the production value of the different animal products, one can easily notice that milk is by far generating the highest value while meat has only a very small share.

**Export potential**

As has seen before at the macro level, also the export potential of agricultural products in Kosovo is very low, only 12% of total exports. In 2013 the agricultural exports amounted around EUR 35 Million, slightly more than in 2012. Vegetables, fruits and nuts are the most important export products, while the share of animal products is marginal (see Chart 13).

**Chart 13: Export value of agricultural product 2010-2014**

The negative trade balance of agricultural products (around EUR -549 Mio. in 2013) remains a major challenge, but also present opportunities for investments in order to bring the country into a different situation, being able to substitute imports of agricultural products with own local production and thus generating in this way more income and employment for a large part of the population.

As shown below, the country is importing a lot of basic products that could be locally produced. The most important imports are meat, cereals and dairy products.

5.2 Direct Payments to farmers

The MoA started in 2008 a programme for direct payments to farmers. Initially it started with a symbolic amount of EUR 300,000, having reached its peak in 2015 with EUR 53 million available.

Direct payments are an important part of the farmers’ income in Kosovo and often acknowledged as important for dealing with agricultural risks and losses due to volatile prices or climate events. Direct payments are available for milking cows, sheep and goats, poultry (heads), planted areas for wheat, maize, wheat seeds, sunflower (ha), and number of seedlings as well as beehives. In 2015 direct payments were also granted per litre milk according to their quality (share of fat and microbial exposure).

As can be seen in the chart below, wheat production has benefited the most in terms of the share of the budget and the number of beneficiaries, while dairy producers are ranked second. Subsidies on seedling production just started in 2013 and are considered an important step related to the problems of farmers. As will be shown in the next chapter, lack of high quality seeds is one of the major challenges for agricultural producers, thus, subsidies in this sector to purchase better quality are considered highly important.

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Some participants of the focus groups raised the problem of subsidies, since some of the subsidies are oriented to sectors of food security (wheat and maize) but with limited impact in employment. Furthermore, concerns were raised about the practical distribution of subsidies.

5.3 How can an agriculture reform help stabilize employment?

Table 7: Full Time employees in the agricultural sector per regions 2013 (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>N° of employees</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pristina</td>
<td>53.989</td>
<td>24,20</td>
</tr>
<tr>
<td>Mitrovica</td>
<td>35.992</td>
<td>16,14</td>
</tr>
<tr>
<td>Peja</td>
<td>47.649</td>
<td>21,36</td>
</tr>
<tr>
<td>Gjakova</td>
<td>26.353</td>
<td>11,81</td>
</tr>
<tr>
<td>Prizreni</td>
<td>23.232</td>
<td>10,42</td>
</tr>
<tr>
<td>Ferizaji</td>
<td>14.119</td>
<td>6,33</td>
</tr>
<tr>
<td>Gjilani</td>
<td>21.722</td>
<td>9,74</td>
</tr>
<tr>
<td>TOTAL</td>
<td>223.056</td>
<td>100,00</td>
</tr>
</tbody>
</table>

According to the Labour Force Survey 2014, a total of 8,600 people were employed in agriculture in 2014. This is equivalent to only 2.6% of all employed persons and by far a small number in particular compared to manufacturing, trade, education and construction. However, including subsistence farming, one can estimate that up to 35% is bound in agriculture, as the previous table with data of KAS shows. In total 223,056 persons are working in agriculture full time.

Based on a theoretical estimation, a study conducted for the Enhancing Youth Employment Project led by the Swiss Helvetas Intercooperation, most people are working in the fruit and vegetable sub-sector (44.3%), followed by cereal production (23%) and the dairy sector (17.7%), wine production (5.3%) and non-wood forest products (4.8%). Meat provides income to 3.5% of the labour force. Aquaculture and egg production as well as beekeeping accounts for only approx. 0.4% people each. The study furthermore estimates an employment generation potential of 76,500 additional full-time jobs within the next 5 years, out of which 65% of the new jobs created in the fruit and vegetable sub-sector, 13% in the dairy sector, 7% in non-wood forest products and cereals each, wine 4%, meat for 3% and aquaculture, eggs and beekeeping for 1% each.

The trend is clear, subsectors considered as most promising for employment generation and growth are fruit and vegetables (incl. soft fruits and non-wood forest products: wild berries, aromatic and medical plants) and meat and dairy. Cereal production is mainly linked to the fodder production and normally does not require a big number of regular workers but rather seasonal workers during harvest time. Therefore employment generation is considered more difficult and has to be rather linked to livestock than to the cereals. For the wine sector, no competitive advantage is seen in comparison to neighbouring countries such as Macedonia or Montenegro, so for Kosovo it is recommended to concentrate on the previously mentioned sub-sectors.

Chart 16: Employment generation estimation according to agricultural sub-sector

Source: Enhancing Youth Employment (2014): Study Report for the main Agribusiness Sub-Sectors in Kosovo

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1. **Fruit and vegetables**: The employment potential in the horticulture and fruit subsector is considered as high due to import substitution potential and the possibility to increase yields. Furthermore, the sector provides export potential not only but in particular for niche products such as non-wood forest products, wild berries and medical plants. Greenhouses could result in extended seasons, allowing farmers to produce out of season for better prices. Furthermore, greenhouses require more stable labour force than open fields. During the on-site visit farmers reported that they would need at least 1 regular worker per cultivated hectare; the number increase to 1-2 additional regular workers for 0,1 ha greenhouse. This size of greenhouse requires an investment of EUR 20.000. Additionally, greenhouses can be used to produce own seedlings, as it is already been done by farmers in Shala Produkt, Hitflores and Pestova, thus generating new employment opportunities. As shown in the previous chapter, the share of direct payment to seedling producers is still limited. In 2013, subsidies were granted only to 18 farmers. The low number might also be due to the strict criteria: at least 0,5 ha of agricultural land or lease contract of at least 2 years to produce between 5.000 and 100.000 seedlings. The environment for fruit and vegetables is more favourable than for livestock and it is easier to tap into new markets. This is in particular true for the non-wood forest products including products such as wild berries, tea, mushrooms, medical and aromatic plants. In this context also organic agriculture might be a business opportunity. Non-Wood Forest Products from Kosovo have a good international reputation and, therefore, an excellent export opportunity.

2. **Meat**: Livestock is normally produced for dairy products while meat is only considered a by-product. As slaughterhouses import live animals to utilize their capacities, high growth potential is expected if dairy and meat production are efficiently coordinated or farmers become specialized in intensive fattening activities. For raising 100 calves, approximately 10 regular workers are needed at the current local conditions. It is worth to mention, that for most of the work related to fattening cattle and raising calves, no specific skills are needed in opposite to the sensitive work at milk and poultry production. On the other hand, employment generation potential is considered limited; farmers reported that if they had more financing available, they would rather invest in new machinery and reduce employees. So, the most convenient way to increase the number of workers in the meat production would be the establishment of new barns or at downstream processing stages such as professional slaughtering and meat processing. One of the major meat processors reported that the main reasons for importing meat for processing is the bad sorting and grading of locally produced meat. So, despite the fact that locally produced raw meat was cheaper than imports, costs were higher due to additional work related to professional cutting. According to the processor not enough trained slaughters were on the market.

3. **Dairy sector**: Kosovo has more than 2.000 dairy farms, producing a total of 377.983 tons of cow, sheep and goat milk in 2012\(^23\). While most of the milk with up to 50% is used on farms for feeding calves, 40% are sold on green markets; only 10% of milk is processed.\(^24\) Although new collection centres have been recently installed, farmers have been equipped with milk cooling systems and several donors concentrated on increasing processing capacities, these are not fully utilized.\(^25\) The interviews showed that one processor built up capacities for 20.000 lt./day but is processing only 1.000 lt. Milk production and processing needs skilled workers that are difficult to find in the country. Farmers mentioned that at the current local conditions 1 regular worker is needed for 5 milkers. According to the Enhancing Youth Employment Study, dairy farms are only profitable with more than 20 cows, so most farmers would need to increase the number of their cattle and so the number of workers. On the other side, processors do not have enough milk supply and do not have access to the European Union due the low

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\(^{24}\) Agricultural Finance in Kosovo, Study Report (BFC), p.14

quality and food safety. That is why processors are not willing to invest in new processing capacities or in utilizing fully the existent ones. So, one have to be careful in increasing the supply side to generate employment without having the willingness of the processor.

In general, most of the sub-sectors encounter difficulties in accessing markets: a domestic market are flooded by imports and for export markets is missing the appropriate certification and high competitiveness. As a consequence this is hampering investments and growth.

As Kosovo is a young country, it had the opportunity to create laws integrating international best practices. But modern laws in place do not have results if they lack of proper implementation (e.g. Law on livestock, on agricultural inspection, flour fortification, agriculture and rural development, protection of plant varieties etc.). Related to this, farmers and processors complained about bad quality controls at the country’s borders. Many of them suspect, that products from neighbouring countries are added with additives enabling the competitors to produce for cheaper prices. For example, it was suspected that vegetable oil was added to the milk and meat was burden with hormones and drugs for faster fattening. Most farmers complained about the quality of seedlings, fertilizers, concentrated animal feed and other inputs even stating that they hesitate to invest as the impact of using such products can’t be calculated. Quality control and certification of inputs seems to be an urgent topic for agricultural producers.

The need for vocational training and education is obvious. In general, the utilization of machinery and new technology and best agricultural practices was one of the main topics mentioned. For the livestock production, the need for selecting good breeds in order to prevent farmers from investing in less profitable animals was considered as highly important. Raising bad breeds or using not specialized breeds lead to low weight per unit or low milk yield per cow. Insemination practices are a further training need. Finally, the meat sector needs trained and skilled slaughterers to meet the processors need.

Similarly, the need for high quality and well adapted seeds is most important for fruits and vegetables. As this is not available, some farmers started to invest in producing their own seedlings in greenhouses. Larger farmers with a considerable success in the last years frequently mentioned the need for business skills and farm management training. Related to Food Safety issues and standards, farmers do not only need financing, but also need advisory services on which requirements and rules they have to comply with and which steps they have to follow. So, they need support and continuous support to acquire knowledge on how to establish standards.

In general, the establishment of model farms and demonstration plots was welcomed by farmers and processors. Farmers are often risk averse and stick to traditional and established practices. Showing results and impacts are highly important to overcome this pattern. Processors such as Pestova and Dinamica LLC are successfully working with a Lead Farmer model.

Financing is perceived as a problem but to different extent. High interest rates (7% and 14%) and lack of collateral (up to 300% of the loan amount) are a major concern. Larger farmers and processors with a considerable size of own land reported that they were approached by the banks offering them new loans. In general, interest rates have decreased in 2015 but the banks’ marketing strategy is not in compliance with it, since they attract with lower interest rates (e.g. through a guarantee scheme) but finally burden it with additional requirements and fees. The MoA

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Example for establishing a lead farming model: Dinamica LLC, one of the leading meat processors provided a 7 day training to 30 farmers on raising practices and fattening. Out of the participants, the best farmers were selected and certified. The processor thereafter guaranteed purchase of the livestock and provided a grant of EUR 3000 for new calves and feed. This way, the company achieved to ensure the source of high quality raw material and established a benchmark for other farmers in the region in terms of good agricultural practice.

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confirmed this view partially as effective interest rates remained still on a level of 22-25%. Furthermore, long term loans for investment are not available and therefore investments (including land purchase) are done by savings and equity.

Larger farmers and processors have received grants, but they perceived them as ambivalent. While several success stories of large grants are easy to find (Hitflores, Pestova), complaints about the distortion of the markets have been frequently raised. In particular, the dairy market was characterized by new processing companies popping up in order to receive funds and heating up competition. For an interviewed processor grants shall be redirected to infrastructure projects (wastewater treatment plants) out of which no direct profit can be generated.

5.4 Does a Cooperative structure help to increase employment?

The overall horizontal and vertical cooperation amongst farmers and between farmers and other value chain actors in Kosovo is low. Even where associations and cooperatives exist, they represent only a small number of farmers. A better prospect has the vertical integration of value chain actors such as input suppliers, farmers, processors or retailers.

In terms of horizontal cooperation a special Law on Farmer’s Cooperatives came into force in 2003. Today 83 cooperatives are registered according to the Agency for Registration of Businesses (currently not all of them are operating). Those Cooperatives are distributed amongst the municipalities as follows:

Table 8: Registered agricultural cooperatives according to municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decan</td>
<td>1</td>
</tr>
<tr>
<td>Gjakova</td>
<td>6</td>
</tr>
<tr>
<td>Glogoc</td>
<td>5</td>
</tr>
<tr>
<td>Gjan</td>
<td>4</td>
</tr>
<tr>
<td>Draqash</td>
<td>6</td>
</tr>
<tr>
<td>Istog</td>
<td>5</td>
</tr>
<tr>
<td>Kacanik</td>
<td>0</td>
</tr>
<tr>
<td>Klin</td>
<td>4</td>
</tr>
<tr>
<td>Fushe Kosova</td>
<td>0</td>
</tr>
<tr>
<td>Kamenica</td>
<td>1</td>
</tr>
<tr>
<td>Mitrovica</td>
<td>1</td>
</tr>
<tr>
<td>Leposaviq</td>
<td>2</td>
</tr>
<tr>
<td>Lipjan</td>
<td>2</td>
</tr>
<tr>
<td>Novo Brdo</td>
<td>0</td>
</tr>
<tr>
<td>Obiliq</td>
<td>1</td>
</tr>
<tr>
<td>Rahovec</td>
<td>5</td>
</tr>
<tr>
<td>Peja</td>
<td>2</td>
</tr>
<tr>
<td>Pudojeva</td>
<td>2</td>
</tr>
<tr>
<td>Pristine</td>
<td>7</td>
</tr>
<tr>
<td>Prizren</td>
<td>7</td>
</tr>
<tr>
<td>Skenderaj</td>
<td>5</td>
</tr>
<tr>
<td>Shtime</td>
<td>5</td>
</tr>
<tr>
<td>Shtermpece</td>
<td>1</td>
</tr>
<tr>
<td>Suhareka</td>
<td>1</td>
</tr>
<tr>
<td>Ferizaj</td>
<td>2</td>
</tr>
<tr>
<td>Viti</td>
<td>2</td>
</tr>
<tr>
<td>Vushtri</td>
<td>2</td>
</tr>
<tr>
<td>Zubin Potok</td>
<td>0</td>
</tr>
<tr>
<td>Zvegan</td>
<td>0</td>
</tr>
<tr>
<td>Malisheva</td>
<td>3</td>
</tr>
<tr>
<td>Gracanica</td>
<td>1</td>
</tr>
<tr>
<td>North Mitrovica</td>
<td>0</td>
</tr>
<tr>
<td>Hani I Elezit</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: The Role of Development of Farmers’ Cooperatives. European Journal of Social Sciences, Education and Research, Vol. 4, Nr. 1

Cooperatives can contribute to farmers’ development mainly through the provision of services such as: collective inputs purchasing, harvesting, commercialization, storage, grading, marketing, advisory services, etc.

In general, farmers in Kosovo are not interested in cooperative structures due to their bad former reputation and to certain extent the lack of solidarity between them. They fear to be controlled by the state and to be paid according goodwill of the government and not to market prices. But there
also other concerns such as the small quantity produced and the high diversification that impedes to create economies of scale. Pestova, the potato processor, brought up the concern, that weak cooperatives could increase his effort to control quality of the raw material. So, cooperatives are only helpful, if they are strong, well organized and able to provide full services to the benefit the value chain actors (e.g. grading, sorting, ensure quality control and standards).

The Law on Cooperatives does not provide enough incentives to establish a functioning cooperative system due to several reasons but mainly to the following two:

1. **Legal construction:** The law does not express or limits the control of government, on the contrary, it assigns an auditor for each cooperative: “The Ministry of Economy and Finance shall authorize qualified individuals to act as external auditors and shall designate an External Auditor to perform an annual audit for each cooperative” (Article 11-1). Furthermore, the director of the cooperative shall not be a member of the cooperative (Article 14-2 a). These are two examples, contradicting the cooperative idea as especially in small cooperatives the contribution of the members themselves is considered important and the independency from state control has to be ensured.

2. **No incentives:** According to farmers, the law does not provide any monetary incentives for establishing a cooperative, comparing to other legal forms. For example, Associations are exempt from VAT, but can provide the same services.

Several donor driven cooperatives were created, but most of them closed after a few months, for example the Cooperative Xerxe 2000 supported by GIZ in 2004, which invested a large amount in machinery but was not able to operate longer than 6 months.

Also with regard to horizontal cooperation of producers is the dairy sector the most consolidated. The milk producers association has, according to its own statement, a total of 1,200 members and provides the service of collecting and testing milk samples from its members in order to apply for the subsidies, thus providing a promising infrastructure for further development of member oriented services.

**Examples of identified cooperative structures:**

- One farmer reported that he successfully worked with the vegetable cooperative “Agroqushk” in Peja which was founded 12 years ago and in certain moment exported 400 tons of potato a year. The cooperative is still registered but not operating as the farmers had to give up their business.

- A dairy association was recently established in Prizren to act as a collection centre, facilitate packaging of fresh pasteurized milk and enable sales. The association most recently applied for a grant at the MoA but was not able to match the grant through own financing.

- One farmer told about an unregistered “machinery ring” he set up with his neighbours in Rufc. Each farmer had another machine which he made available to the others. Maintenance was jointly financed

To foster a cooperative structure, one must have a very careful look on horizontal activities initiated by the farmers themselves including non-formal activities.

Due to this experience, it might be more promising to foster forms of vertical integration between farmers and collectors, processors and retail chains. This includes collection of production, providing inputs, advisory services and marketing. They even facilitate financing from banks, meaning they recommend collaborating farmers to banks or they provide advance payments and emergency loans. Several examples for contract farming with different schemes of fixed and variable prices for the purchase of raw material and payment schedules have been found in the meat, milk and horticulture sub-sector in Kosovo.
Example for vertical integration of farmers from Pestova:

The company VIPA is processing potato chips, flips and potato mash powder. The company cultivates itself a total of 500ha of land. Apart from 150 regular employees and 50 part time workers at the processing plant, Pestova works with around 60 farmers on a contract basis. Farmers are regularly invited to apply for collaboration with the company. In case they fulfil certain requirements, they sign a contract with a fixed price of currently 15 Cent/kg (market price 10-12 Cent/kg). Pestova provides training and advisory services free of charge as well as inputs and machinery which have to be paid in kind with raw materials. In exchange, the farmer is obliged to use the provided inputs such as seeds and fertilizers. Samples are taken to ensure that farmers follow the rules. While Pestova ensures the purchase with high class raw material meeting their needs, the farmer has a relatively safe income above market average and can concentrate on the production side.

Example for vertical integration of farmers from Bylmeti:

Bylmeti processes 1000l milk per day in yoghurt and pepper cream cheese. The company has 55 regular employees and 100 seasonal workers for the pepper production. Milk is collected from 350 farmers, out of which 80% have a contract for one year with fixed prices, 20% can’t be given a contract as the selling of the milk can’t be guaranteed due to a lack of markets. The company was willing to extend the duration of these contracts to up to 3 years in order to allow farmers to apply for loans thanks to improved credibility. Bylmeti also provided 50 cooling systems to their farmers. The systems remained the company’s property but could be used free of charge. As many farmers had to give up their business, the machinery got lost. With a better business environment such schemes could be reactivated.
6. **Access to finance for the agriculture and the MSME sector**

The financial sector in Kosovo is mostly dominated from banks. In terms of assets banks do own almost 70% of the market share, followed by the pension funds with 24%. In 2014, the value of total assets of the Kosovo financial system amounted to 4.5 billion EUR, marking an annual increase of 7.4 percent (10.5 percent in 2013). During 2014, the growth of financial system assets was mainly attributed to the growth of pension fund and commercial banks assets. The other sectors did have almost a stagnating period. Most of the assets of the pension funds, for risk management purposes, are invested abroad and not in Kosovo.

Table 9: **Financial institutions**

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>9</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>13</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Pension funds</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Financial auxiliaries</td>
<td>38</td>
<td>39</td>
<td>42</td>
</tr>
<tr>
<td>Microfinance institutions</td>
<td>17</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

*Source: CBK, Annual Report 2014*

6.1 **Current sources of financing and costs**

Currently the banking system of Kosovo is composed by 10 banks, from which three of the four major banks are owned by foreign investors. As can be seen in the table below, the four major banks concentrate 78.6% of the total assets and 80% of the loan portfolio of the banking system. Banks do mostly finance themselves from deposits (79.6%) and own equity (10.1%). In terms of assets distribution, loans consists 59.1% of the banking assets in 2014. In 2011 the same ratio stood at 64.1%, hence though lending has been growing, its growth rates are lower than the growth rates of the banking sector in general and deposits in particular.

Table 10: **Bank sector data (June 2015)**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Assets (mill EUR)</th>
<th>Loans (mill EUR)</th>
<th>Deposits (mill EUR)</th>
<th>Loans/Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raiffeisen</td>
<td>827,1</td>
<td>474,9</td>
<td>630,6</td>
<td>75,31%</td>
</tr>
<tr>
<td>ProCredit</td>
<td>804,8</td>
<td>457,9</td>
<td>662,5</td>
<td>69,12%</td>
</tr>
<tr>
<td>NLB</td>
<td>487,1</td>
<td>311,1</td>
<td>389,6</td>
<td>79,85%</td>
</tr>
<tr>
<td>TEB</td>
<td>431,4</td>
<td>342,5</td>
<td>320,6</td>
<td>106,83%</td>
</tr>
<tr>
<td>BKT</td>
<td>269,5</td>
<td>143,7</td>
<td>224,2</td>
<td>64,09%</td>
</tr>
<tr>
<td>Banka Ekonomike</td>
<td>190,5</td>
<td>128,6</td>
<td>159,8</td>
<td>80,48%</td>
</tr>
<tr>
<td>Banka per Biznes</td>
<td>122,4</td>
<td>87,5</td>
<td>103,3</td>
<td>84,70%</td>
</tr>
<tr>
<td>Komercijalna Banka</td>
<td>59,3</td>
<td>3,7</td>
<td>49,7</td>
<td>7,44%</td>
</tr>
<tr>
<td>IS Bank</td>
<td>51,1</td>
<td>34,1</td>
<td>20,1</td>
<td>169,65%</td>
</tr>
<tr>
<td><strong>TOTAL BANKS</strong></td>
<td><strong>3,243,2</strong></td>
<td><strong>1,984,0</strong></td>
<td><strong>2,560,4</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: CBK, Annual Report 2014, Monthly Bulletin CBA (Data for 2015 as of September 2015)*

On the other side, part of the system are also Microfinance Institutions (MFIs) that, although with a small volume of funds, play an important role in financing the very small enterprises in both the urban and the rural areas. From the 17 MFIs registered by the CBK, 10 are associated to the Association of Microfinance Institutions of Kosovo (AMIK). By the end of 2015 this group of institution reports a total loan portfolio of EUR 72.3 million distributed in 29.040 loans with an
average of EUR 1.301. AFK, FINCA, KEP and KRK concentrate 86% of the loan portfolio of the 10
MFIs and 83 of the total number of loans.

The loan portfolio of banks as per July 2015 reflects the structure of the economy, showing that
the more important sector is the trade sector, to which 53% of the loans are directed. The
manufacturing sector follows with 13% of the loan portfolio of banks, while agriculture and
tourism (hotels & restaurants) participate each only with 4% of the portfolio. One reason why
banks do not allocate a much larger amount of loans is the hard collateral requirements.

Furthermore, the banks do show little initiative in introducing innovative financial products that
address the needs of entrepreneurs at a larger extent. To be more concrete, apart of TEB bank,
none of the financial institutions finances start-ups. Without wanting to distract from the risks
associated with financing of start-up enterprises, the banks are actually leaving untapped a market
opportunity that could contribute both to the growth of their portfolio and to the increase of
economic activity in the country; in particular the ICT sector is considered to offer growth potential;
this has been confirmed from various stakeholders and the association of ICT enterprises (STIKK).
The enterprise creation and growth rates, are however suffering among other things, from access to
finance (i.e. working capital mostly and performance guarantees).

Table 11: Loan Portfolio of the Banking sector (July 2015)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sub Total</th>
<th>Mining</th>
<th>Manufacturing</th>
<th>Electricity, gas &amp; water</th>
<th>Construction</th>
<th>Sub total</th>
<th>Wholesale &amp; retail trade</th>
<th>Hotel and restaurant</th>
<th>Other service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>16,4</td>
<td>97,7</td>
<td>0,5</td>
<td>61,2</td>
<td>0,7</td>
<td>35,3</td>
<td>376,4</td>
<td>259,5</td>
<td>29,5</td>
<td>87,4</td>
</tr>
<tr>
<td>2007</td>
<td>29</td>
<td>144,6</td>
<td>5,6</td>
<td>88,3</td>
<td>1,2</td>
<td>49,5</td>
<td>518</td>
<td>344,6</td>
<td>44,9</td>
<td>128,5</td>
</tr>
<tr>
<td>2008</td>
<td>37,4</td>
<td>160,3</td>
<td>0,8</td>
<td>92,3</td>
<td>1,6</td>
<td>65,6</td>
<td>704,8</td>
<td>437,5</td>
<td>45,1</td>
<td>222,2</td>
</tr>
<tr>
<td>2009</td>
<td>38,2</td>
<td>236,8</td>
<td>14,1</td>
<td>119,9</td>
<td>13,7</td>
<td>89,1</td>
<td>670,6</td>
<td>458,9</td>
<td>50,8</td>
<td>160,9</td>
</tr>
<tr>
<td>2010</td>
<td>38,2</td>
<td>269,3</td>
<td>14,6</td>
<td>127,6</td>
<td>18</td>
<td>109,1</td>
<td>715,2</td>
<td>521,2</td>
<td>39,5</td>
<td>154,5</td>
</tr>
<tr>
<td>2011</td>
<td>40,5</td>
<td>284,7</td>
<td>17,2</td>
<td>136,7</td>
<td>14,5</td>
<td>116,3</td>
<td>824,4</td>
<td>606,2</td>
<td>39,9</td>
<td>178,3</td>
</tr>
<tr>
<td>2012</td>
<td>43,6</td>
<td>290,4</td>
<td>16,2</td>
<td>133,1</td>
<td>15,9</td>
<td>125,2</td>
<td>860,1</td>
<td>635,3</td>
<td>38,8</td>
<td>186</td>
</tr>
<tr>
<td>2013</td>
<td>45,8</td>
<td>291,3</td>
<td>20,1</td>
<td>131,7</td>
<td>20,8</td>
<td>118,7</td>
<td>880,3</td>
<td>640,6</td>
<td>49,2</td>
<td>190,5</td>
</tr>
<tr>
<td>2014</td>
<td>49,4</td>
<td>289,9</td>
<td>19,7</td>
<td>148,9</td>
<td>17,1</td>
<td>104,2</td>
<td>903,4</td>
<td>664</td>
<td>49,7</td>
<td>189,7</td>
</tr>
<tr>
<td>2015*</td>
<td>51,9</td>
<td>307,2</td>
<td>17,5</td>
<td>169,4</td>
<td>19,2</td>
<td>101,1</td>
<td>970,2</td>
<td>706,2</td>
<td>52,5</td>
<td>211,5</td>
</tr>
</tbody>
</table>

*As of July 2015

Source: CBK, Monthly Bulletin

The interest rates in Kosovo have been dropping during the last three years. The drop in the
lending rates has been mostly a consequence of the drop of the deposits rates. The spread
requested by banks (interest rates on loans minus interest rate on deposits, currently at 7%) has
dropped as well, particularly in 2015, indicating that the banks are gaining confidence in managing
their lending portfolios and require smaller spreads to cover their credit risk losses.

Chart 17: Interest rates

The average interest rate on loans decreased to 7.9 percent as of September 2015, compared to 9.2% in 2014 and 11.1% in 2013. Regarding deposits, the average interest rate has decreased to 0.9% as of September 2015 compared to 1.1% in 2014, and 2.4% in 2013. Consequently, the interest rate spread decreased to 7%. The significant decrease in the interest rate on loans primarily reflects the decrease in the cost of funding for banks as a result of the decrease in interest rate on deposits. In 2015 the downward trend of interest rates on loans is expressed to both loans to enterprises and loans to households.

The current sources of finance for MSMEs are their own resources and the banking sector. Other alternatives from the private sector or leasing sector are irrelevant. The loan portfolio is mainly oriented to the trade sector, but also the manufacturing sector is interesting for the banks. The interest rates have been declining over the years, partially thanks also to the Quantitative Easing policies of ECB which indirectly are influencing Kosovo which has adopted EUR as its currency.

6.2 Approach of the banking sector to MSMEs and agriculture

All the banks are addressing the MSME segment but only partially. The agriculture sector, with exception of Raiffeisen Bank and the MFI KEP is not a focus of the banks and this is showed in the small percentage of their portfolio oriented to this sector (see table 10).

In terms of sectorial distribution of lending, trade continues to dominate the banking sector portfolio, with a share of 53.4%. This is followed by loans to the manufacture sector, with 12.0% and construction, with 8.4%. As mentioned before the agricultural sector continues to have the lowest level of the bank financing, with a share of 4% only. On the positive side however, it can be reported, that independent of the low starting base, the agriculture sector has demonstrated a robust growth in 2014 with 7.9% compared to 4.2% for the total banking sector.

A summary with details of all the meetings held with representatives of several financial institutions in Kosovo during the on-site visit is included in Annex 4, while the table below shows the participation of the agriculture sector in the portfolio of the banks and the level of orientation towards the sector according the interviews.

Table 12: Lending to agriculture

<table>
<thead>
<tr>
<th>Bank</th>
<th>% of agriculture portfolio</th>
<th>Agriculture products</th>
<th>Specialized staff in the branches</th>
<th>Growth expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>NLB</td>
<td>1%</td>
<td>Yes</td>
<td>No</td>
<td>Positive</td>
</tr>
<tr>
<td>Raiffeisen</td>
<td>20% micro; 6% SME portfolio</td>
<td>Yes</td>
<td>Yes</td>
<td>Positive</td>
</tr>
<tr>
<td>BKT</td>
<td>2.6%</td>
<td>Yes</td>
<td>No</td>
<td>Positive</td>
</tr>
<tr>
<td>BPB</td>
<td>1.2%</td>
<td>Yes</td>
<td>No</td>
<td>Positive</td>
</tr>
<tr>
<td>Banka Ekonomike</td>
<td>3%</td>
<td>Yes</td>
<td>No</td>
<td>Positive</td>
</tr>
<tr>
<td>KEP</td>
<td>17.2%</td>
<td>Yes</td>
<td>Yes</td>
<td>Positive</td>
</tr>
<tr>
<td>TEB</td>
<td>n.a.</td>
<td>Yes</td>
<td>No</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Own development on basis of the interviews

In general, banks are present in the agriculture sector; the utilisation of the potential remains however far from optimal and what the needs of the sector require. While banks claim at the moment that they have ample liquidity and they do not need funding, their loan to deposit ratio is high and their liquidity only of shorter duration; hence the funding needs might change rapidly in particular if the lending terms are appealing enough to divert banks from lending to trade sector into the agriculture sector. From the meetings it could also be observed that banks like Raiffeisen do have a lending methodology for the agricultural sector that takes into consideration the seasonality of the business while other banks will need to adjust their lending technology to
introduce appropriate evaluation tools and training their staff to manage loans in the agricultural sector.

**Agriculture insurance**

Out of the 13 insurance companies operating in Kosovo, only one does offer agricultural insurance products (Sigal). Another company (Croatia Insurance) does have agriculture insurance in its portfolio, but it has hardly ever activated it. Most of the insurance companies do focus on life and non-life insurances. Vehicle and transport insurances dominate the non-life insurance sector.

No other insurers have expressed interest in getting exposed to the agriculture sector. However, though the sector seems to offer potential, major obstacles include the small farm size (rather non-commercial nature) and blurred legal status of land ownership rights (i.e. property rights not transferred due to social norms), as well as poor animal treatment and registration for veterinary services.

The development of agriculture insurance could provide additional security to lenders and improve the willingness of banks to lend to the sector. At the same time, currently insurance companies’ requirements make insurance non-reachable for the typical Kosovar farmer and is only applicable for commercially run farms. New insurance products, offered in combination with loans, could simplify the access to the insurance sector for farmers. Standardisation and improvement of lending to farmers as well as enhancement of knowledge/skills and competitiveness of farmers, could offer the necessary requisites required by insurance companies for making their products affordable and accessible.

**Credit Guarantee Fund**

During the visit the team has acknowledged that the international community and the Government of Kosovo were working together to sum efforts and create the Kosovo Credit Guarantee Facility (KCGF) that will support to reduce risk for the banks and incentive them to finance the needs of MSMEs. USAID is leading the group; other members are the Ministry of Trade & Industry, KfW and the Swiss Cooperation; these institutions will be also the equity contributors to the KCGF. The KCGF will start operations with an initial capital of USD 12 Million after the Law has been passed in the Parliament in 2015.

KCGF can effectively reduce the risk of banks but the experience in Kosovo with such instrument has been limited and below its potential. Furthermore, KCGF does intend to apply the 50%-50% guarantee model inherited by USAID at first place. Other practical instruments like the first risk cover model are not foreseen in the business model of the fund in the first three years of its operations.
Summary of findings

This first important finding shows that unemployment is a major issue in Kosovo, with a high unemployment rate of 35.3% in 2014, a lot much higher than for example in Serbia where this rate is 18%. Despite several initiatives from the Government and the donor community to decrease unemployment, it continues increasing. Unemployment is especially high in the younger age group of 15-24, reaching 61% and, worst even, under this group especially women are largely unemployed (76%).

The official statistics show that a total of 323,257 persons are employed; however this number does not consider the unregistered farmers that are working all over the country producing goods and generating jobs in the rural areas, even if they create self-employment or family employment. The Agricultural Survey 2013 shows a total of 189,820 agricultural holdings exist in Kosovo.

As it is the case in neighbouring countries, the Government still is the major employer.

Another important finding is that the trade balance of the country is quite unbalanced and the exports are eight times higher than the imports (EUR 2.535 million vs. 324 million). This can be explained by several factors but the main ones are a weak productive structure, the lack of competitiveness and the influence of the remittances of the diaspora in the country as well as in the families’ income. To solve the problem of unbalanced trade, substitution of imports should be a target for the future and, in this context, the agricultural sector plays a key role to make the country less dependent at least of several food products and even to increase the quantity and value of agricultural export products. To reach this goal investments are necessary, however farmers and SMEs, including agricultural related SMEs have limited access to finance.

In Kosovo, there are 46,000 registered enterprises, employing 190,000 persons. The majority of these enterprises are acting in the Wholesale & Retail Trade (42%) and employ the largest number of people (32% of total employees); manufacturing makes for 10,5% of the enterprises and 16,2% of the employees, followed by business services with 10,2% and 13,2%, respectively. Other sectors play a smaller role. The Government is trying to impulse the touristic sector and the MSMEs that can be created or be more active in the area of Brezovica. Another sector in the focus of the Government and the international community is the sector of ICT.

The agricultural sector concentrates a large part of the unregistered employment and generates income for many families, especially in the rural areas. The land is quite fragmented and the majority of the plots are very small, less than 5 hectare and from them the larger part less than 1,5 ha. Consequently, there is no a standardization and people often produce several kinds of products, most of them for own consumption. Only a small number of holdings have more than 5 hectares and produce with a more commercial approach. Regarding land, also cultural issues influence the situation of ownership, which, in in legal terms, is hardly passed on to younger generations Often this creates problems to young farmers to access finance or even apply for Government grants.

The most important crops are wheat, maize, vegetables and fruits; while on the side of livestock, dairy is by far the most important although the country demand for meat is high. The lack of investments and infrastructure makes the situation of the agricultural sector more difficult. However, on one side, domestic demand should be an incentive for farmers to produce more instead of importing from foreign countries and on the other side, external demand for certain products such as vegetables, berries and fruits is increasing giving the producers in Kosovo opportunities to find better and sure markets. On the side of livestock, the most important is cattle, followed by sheep and goats. Milk is the main product from livestock but still the quality and the quantity have not reach the required standards from both the domestic and the foreign milk industry. Also for meat there is a huge potential for growth in the country, since meat and processed meat are being imported in large volumes.
Small farmers do not have access to bank loans, especially because of collateral requirements and normally have to take high interest loans from MFIs or use friends and family sources. The loan portfolio of the banking sector in Kosovo reflects the structure of the economy; more than a half of the loan portfolio goes to the trade sector, followed by the manufacturing sector with 13%. Other sectors participate with single digits in the loan portfolio of banks, agriculture and tourism (hotels & restaurants) for example, participate each only with 4%.

There are several donor initiatives in the country to generate growth and employment, but most of them are based on grants, which on the long term are positive neither for the sustainable economic development nor for the behaviour of the entrepreneurs/people. It is confirmed through many experiences that grants are necessary but when they are well oriented and controlled, otherwise things obtained with loans and effort are more sustainable. An example of a grant with positive results in Kosovo is the VIPA Company that produces potato chips and other potato products. This company is maintaining its production with quality, have their own potato production but also contract agreements with 80 farmers.

The Government is taking some initiatives to create more employment, for this its strategy foresees the improvement of the business climate, reducing costs for doing business, vocational training and professional education and to create a better labour market. All these should be accompanied by investments in public infrastructure. Priority sectors for the government are mining and energy, but also the strategy is supporting the private sector development through KIESA and its several programs: MSME grants, MSME competitiveness, young entrepreneurs and women entrepreneurs. The Government is also supporting the creation of the KCGF through the Ministry of Trade & Industry.
8 Project Idea using financial instruments

Based on the desk review and the interviews and focus groups conducted on-site, during the last months, the team of Frankfurt School has worked in different ideas for a potential program. Initially a program to support banks to better understand and work with the agricultural sector was proposed.

Being asked by KfW to think "out of the box" in February 2016 the team presented an idea for a program to support the agricultural sector, which was identified as the most appropriate sector for the objectives of the assignment, the creation of growth and employment. This idea and their details are presented in Annex 5 of this document, since the team still think that a complete program to support the sector is needed in Kosovo.

Again on the basis of recent discussions with KfW, in the following pages we present a new idea, exclusively oriented to the development of the financial sector and making access to finance for MSMEs from all economic sectors in Kosovo, but in particular for agricultural related MSMEs and farmers, available through the use of financial instruments of the German Financial Cooperation.

8.1 Addressing bottlenecks

Key conclusions indicate that the MSME and the agricultural sector are key for the economy of Kosovo, generating income and employment for 2/3 of the population. Because of the structure of the country and the economy, the sector with the major number of enterprises and employing the largest percentage of people is the trade sector but also in terms of employment the agricultural sector is important (around 190,920 holdings are counted in the country, from which many families benefit). MSMEs in the manufacturing sector play also a role and could have a larger potential for growth, if conditions for business and access to finance are improved.

The findings above show also that although money is not an issue in the financial system of Kosovo and even though the interest rates have fallen down in the last years, the banks are not allocating enough loans to attend the demand of MSMEs and farmers and thus credit lines from donors like KfW are not being used. There are several reasons for this, one is the risk aversion of the banks towards the sector, another one are the requirements of hard collateral that hardly can be fulfilled by the majority of MSMEs and farmers, the last also because of the property issues existing in the country; also the grant programs existing in the country lead to a different appreciation of investments from the side of MSMEs and create an artificial “competition” against which banks cannot compete. However, these grant programs are only reaching a small part of MSMEs and therefore, the demand for loans for working capital but especially for long-term investments is still not being met.

In this sense, identifying essential financial instruments and tools that can be used to overcome the obstacles which hamper growth, primarily the lack of guarantees for obtaining loans and lack of trust in financial institutions, but also the limited capacities of SMEs and farmers to make their proposals acceptable to the banks.

The German cooperation can support the development of MSMEs and farmers through financial instruments, allowing them access to finance and supporting the Government to better use the funds existing for the sector, instead grants accessible loans. Thus, the project objectives of growth and employment in Kosovo can only be reached through investing in the development of MSMEs and the agricultural sector. The proposed support mechanisms should be deployed with the partner financial institutions in order to promote business development and economic growth, which in turn will generate new employment opportunities.
The idea foresees two pillars oriented to the financial needs of MSMEs and farmers thus helping them to overcome the problem of lack of collateral through the implementation of a risk sharing facility to cover the risk as well as to the needs of technical assistance from the side of partner banks to develop agricultural lending and implement a risk sharing scheme. The idea comes also as a financial tool to facilitate the allocation of existing credit lines from KfW in Kosovo that are not being used.

Since the study has also identified constraints in the managerial and technical capacities of MSMEs and farmers the second pillar is also oriented to give them support to improve their capacities and be able to apply for loans with a more solid basis that will be more accepted by the banks.

Together, the three components will enable significantly better outreach, utilizing the existing networks, funds, channels and data. It will be also important to include the participation of the Government in the risk sharing facility with existing funds to support the MSME and the agricultural sectors.

In a graphic, the idea of the two pillars in which the program for growth and employment will be based, will look as follows:

**Chart 18: Scheme for the KfW program**
8.1.1. Prevailing conditions

For the implementation of the program, following considerations and conditions must be taken into consideration

- **Beneficiaries of the FRLC:**

Beneficiaries are all MSMEs working in all different economic sectors as well as small and medium farmers demanding funds for their business. Besides the usual exclusion list used by KfW in its credit lines, sector coverage restrictions should not be set out as a requirement. Both groups must show potential for further growth, development and employment. Special focus will be given to small enterprises that have two of the three following conditions: a) no more than 50 employees; b) a maximum of EUR 2 Million yearly turnover; or c) a maximum of EUR 1 million in assets.

On the other hand, some priority market segments are outlined as crucial for enabling deep outreach and inclusion:

1. SMEs engaged in production/manufacturing;
2. Farmers, agribusinesses and agricultural-related MSMEs;
3. Start-ups defined as “companies being registered and operating actively < 2 years”;
4. Women entrepreneurs

These four groups will have priority to use the FRLC facility (portfolio level guarantee) and will be immediately eligible for the additional benefit of risk loss claims.

- **Partner Banks:**

All interest commercial banks can participate in the program, if they will attend the demand of the priority groups. Considering that banks have strict criteria for granting loans, especially on the side of required collateral and limited maturity, partner banks’ incentives will focus on funding (short and long-term funds) and pricing (reduction of risk), so that they will be committed to attend the demand and needs of MSMEs and farmers. Flexibility in the use of funds in several sectors and sub-sectors will also be an incentive for banks to allocate loans.

Under the proposed scheme, partner banks will be highly motivated to lend to the priority groups, through provision of “enhanced” products with following prominent features: reduced collateral requirements, longer maturities and lower interest rates, all as a result of the FLC (substituting collateral and reducing the capital/provisioning requirements).

- **Loan amounts, maturity and interest rates:**

Individual loans or any other consolidated exposure towards one enterprise or a group of connected enterprises shall not exceed EUR 500,000 and the average shall be way below that figure. This is the maximum optimal loan amount for the MSME and the agricultural sector in Kosovo, which is also suitable for substantial fixed assets financing, and affordable for consolidated medium enterprises.

Besides appropriate amounts to the size and capacity of MSMEs and farmers, longer maturities must be offered to make payments affordable for final beneficiaries.

Interest rates for the end-borrowers have to be determined by the partner banks based on their underwriting process. Loans can be utilized to finance working capital, investments in equipment and fixed assets, trade receivables etc. (the loans should however not be utilized to refinance existing loans).
8.1.2. Risk sharing Facility (First Risk Loss Cover)

This is the key component of the proposed program, as it entails multiple direct benefits for both the final beneficiaries and the partner banks: MSMEs and farmers will overcome the key obstacles to obtaining adequate financing to grow in their economic activities, primarily due to the lack of hard collateral, and partner banks will be able to increase their loan portfolio, especially the long term portfolio with less risk.

The MSME and farmers’ benefits will mostly be focused on receiving support to fulfill the requirement of collateral, which is the main obstacle for accessing to finance, but also this instrument will allow them to make the needed long-term investments to increase production and to generate employment, and last but not less they will have a benefit in the interest rate, as the risk sharing facility FRLC (from a first class guarantor) releases capital requirements and risk premium requirements—all being key components of the interest rate offered to the final beneficiary—the price will also be affected (indirectly) by the risk sharing mechanism, in that the price will be lowered, even significantly. The issue of collateral, especially mortgage gains importance as the majority of clients that can offer real estate outside Pristina and even there do have the problem of not having the titles for their land. With an appropriate risk sharing facility, the collateral obstacle for this people can be successfully resolved as the requirements can be reduced or even waived completely, allowing a much wider client segment to gain access to finance, including long term-finance.

The Partner Banks will benefit significantly from the risk sharing facility, which allows them to offer products to the targeted client segment, and to open up new, unexplored and underserved market niches. In addition, the overall risk appetite and loan process complexity can be mitigated “psychologically” since there will be a third party to share the risk with the bank, and thus allow the bank more flexibility when assessing loan applications.

When it comes to FRLC facility management and operations, its functional mode can be in the form of a revolving fund, a guarantee fund or a special purpose fund. The possibility of near-sourcing the fund management is also considered as the best practice solution, compared to internalizing fund management. The features need to be structured under the FRLC portfolio level guarantee type of risk sharing mechanism

FRLC operations should be streamlined in such a way that they will enable a transparent and smooth process, and allow the facility to meet its purpose both in terms of risk and the commercial area. Possible options for the management are:

- Direct FRLC utilization and management through and by KfW,
- A special vehicle managing the FRLC, providing portfolio guarantees and reporting to KfW on a permanent basis (i.e. a separate business line within the KCGF);

After analyzing and assessing all the above listed aspects and their best contribution to the goals of this project, the proposed directions are the following:

- For the FLC facility setup, it is proposed here to create a Special Purpose Vehicle (SPV), in a form of a revolving fund or a dedicated facility, which would be more appealing for possible co-funding. The facility can be supervised by a Steering Committee, composed by representatives of the co-founding partners. Furthermore, the facility management should be near-sourced to trusted and experienced players such as the EFSE or KCGF for the purpose of operational management. This model could also provide for a stronger buy-in from side of the Government under its strategy for the MSME sector.

It must be bear in mind that the processes implemented for accessing to the FRLC benefit should not be long and complicated, otherwise the banks and especially clients will not be
motivated to apply for it. It is recommended either to have a direct FRLC utilization and
management through and by KfW, or to use a special vehicle managing the FRLC,
providing portfolio guarantees and reporting to KfW on a permanent basis. This could be
done through a Special Purpose Vehicle or Program Unit that executes the task of a
revolving fund.

The facility management can also be entrusted and experienced players such as EFSE or
the newly established KCGF. However, in the practical implementation and for capital
adequacy reasons of partner banks an EFSE guarantee might not enjoy the same rating as
a KfW guarantee, unless covered by cash. EFSE could provide the guarantee as accessory
to a loan facility as well; this could be a cash substitute which needs to be evaluated how
far it is possible within EFSE instruments. KCGF on the other hand, as an institution
registered in Kosovo and owned directly by the Government and the donor community,
could enjoy the same rating as KfW.

b) Specialization vs. Generalization of the scheme and seeking the required efficiency,
which in this specific case would also be a key determinant of overall effectiveness, it is
strongly recommended to develop a specialized approach for Kosovo or to join the scheme
developed for Serbia in case that gets extended into a regional facility. The second option
could be more cost efficient and avoid two parallel projects of the same kind. The scheme
can be tailored to the exact goals of both countries and the market needs. For the
purpose of this study, a specialized facility for Kosovo on the basis of all obtained insights
and developed assessments, both in terms of size/scope and, in terms of the country-
specific targeted effects is presented.

In case that the general approach will be chosen, important will be to take into
consideration the Risk Sharing Facility developed for KfW for Serbia, the WB EDIF
(Western Balkan Enterprise Development and Innovation Facility), which is also
supported by KfW through its component ENEF (Enterprise Expansion Fund) and the EIF
(European Investment Fund) with its key component WB EDIF GF (Guarantee Facility),
which is managed by the EIF itself, providing First Loss Portfolio Guarantees to banks and
other financial intermediaries. Each of these facilities has its advantages and strengths,
and are structured and set up in such a way as to pursue and reach specific goals for
MSMEs in the Western Balkans region.

c) Funding is an important issue requiring attention when structuring the risk sharing
mechanism facility. The FRLC facility is typically funded from donor funds, or a blend of
international donor funds and government funds. As mentioned before will come in a first
moment from BMZ through KfW but negotiations with other international organizations
and the Government of Kosovo for them to join the initiative will be carried out. The
typical fund size ranges anywhere from 5% to 10% of the aggregated senior loans within
a framework, with some extremes reaching 13 or 15% of the total loan framework.

Initially funding could come from BMZ Funds assigned to the program and at the same
time or later on additional funding from national and international institutions could be
leveraged. For example EU funds, governmental programs for MSME promotion.

d) FRLC Structure: should provide credit risk coverage on a loan-by-loan basis for the
creation of a portfolio of eligible loans (eligibility criteria for the loans to be included in
the pool apply; furthermore, the individual guarantee is accompanied by a cap on the
portfolio pool). The FLRC shall cover losses incurred by the partner banks in respect of
each defaulted eligible loan in accordance with the guarantee rate. Losses covered by the
FLRC in respect of the portfolio of eligible loans shall in aggregate not exceed the cap
amount which will be expressed as a percentage of the total disbursed credit line. The
credit risk to be retained by the partner banks will consist of 1-FRLC. The FRLC structuring is explained in the table below and is based in a excel based model developed by Frankfurt School, which is handed out together with this report.

### Table 13: Facility structuring

<table>
<thead>
<tr>
<th>FLC Coverage - Calculations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount to priority segments</td>
<td>€ 15,000,000</td>
</tr>
<tr>
<td>FRLC coverage on eligible individual sub-loan</td>
<td>70%</td>
</tr>
<tr>
<td>FRLC coverage cap</td>
<td>Max. 10% of loan amount or € 1,200,000</td>
</tr>
<tr>
<td>Probability of default of loans within the portfolio - PD</td>
<td>5%</td>
</tr>
<tr>
<td>Loss given default – LGD</td>
<td>90%</td>
</tr>
<tr>
<td>Guarantee premium</td>
<td>1,35%</td>
</tr>
</tbody>
</table>

**FLC coverage:** The four priority groups covered by the FRLC can reach maximum of 30% to 50% of senior loan disbursements; the remaining part can be disbursed to other MSMEs. FRLC should provide credit risk coverage on a loan-by-loan basis for the creation of a portfolio of eligible loans, shall cover losses incurred by the PBs in respect of each defaulted loan in accordance with the guarantee rate. Losses covered by the FLRC in respect of the portfolio of eligible loans shall in aggregate not exceed the cap amount.

**Guarantee rate/FRLC rate:** The guarantee rate can be 70% of each loss covered by the FRLC. Loss should be defined according to Central Bank definition or Basel II definition.

**FRLC coverage cap:** The FLRC can be up to 10% of the disbursed volume of eligible loans. The coverage cap maximum amount can be funded from funds of BMZ, or Government resources targeting the MSME sector.

**Assumptions:**

- A normal operating scenario where default rates of guaranteed loans do not exceed 5%. The TA to PBs and MSMEs will contribute to an appropriate loan underwriting.
- A loss given default of 90% for the underlying portfolio.
- Under these circumstances, the guarantee premium to be asked by the partner banks can reach 1,35%. These should simply cover the costs of the guarantee (or implied losses). The required coverage cap does not exceed 1,2 million EUR.
- Assuming a catastrophic/stress event, with a probability of happening of 20%, we increase the probability of default to 10%. Under such circumstances the portfolio losses of the partner banks can be as high as 1,2 million EUR. Therefore, in the design phase, KfW might want to allocate guarantee funds on the entire credit line to be disbursed.

Furthermore, the FLC is proposed as a phasing-out facility, used as a boost and “encouragement” for PBs to start working in priority segments by themselves, and in a sustainable fashion. This is because over the course of the project, the banks will accumulate greater know-how and expertise/experience to finance MSMEs with tailor-made products; therefore, the scaling down coverage and scope of the FRLC in the latter years of the framework is highly recommended.
### 8.1.3 Technical Assistance to Partner Banks

Bearing in mind the MSME and the agricultural segment targeted for the KfW program as the most important for future growth and employment, TA for the PBs would be significant in the following areas:

a) Loan underwriting for MSMEs, specifically aimed at moving more towards cash flow-based assessment and away from the collateral based approach. Furthermore, for agricultural loans underwriting policies shall take into consideration the seasonality of the activity;

b) For banks that do not have tools of analyzing agricultural loans, specialized tools that consider the agricultural characteristics should be implemented;

c) Product development and sales/marketing the new offer, which needs to include a lot of “below the line” (BTL) marketing and capillary activities in the field by branch staff, especially in the rural areas;

d) Bundling financial products (loan and other banking services) with non-financial services – Business Advisory Services;

e) Support in the application for FLRC benefits.

The TA for the PBs is envisaged to cover a tailored support leveraging on the internal capacities and strengths/weaknesses. It is aimed to provide support and build capacities in the following areas, providing the bank with sufficient know-how to continue lending to the priority areas without the FLC support:

- The loan underwriting procedures development and staff training with strong focus in agricultural lending and using appropriate tools for the loan analysis and risk assessment (i.e. ALES).
- The product development for the priority areas/segments and specific sales activities
- Support the roll-out of products and go-live activities, including a road-show in order to promote this unique offer throughout the country.

TA to banks can be done on an individual basis, but in some cases can be developed for a group of banks. Additionally, specific trainings in agricultural lending can be done:

- **Trainings for middle management and branch managers** should give an overview about agriculture in Kosovo and its importance, potential markets, the costs and risks of agri-lending, understanding the analysis, taking decisions, etc.
- **Trainings for loan officers** should concentrate on the understanding of the agricultural and livestock activities (using technical cards), risks and costs as well as the analysis of the farm management capabilities of the client and the financial situation of the farm, thus the repayment capacity and willingness of the client.

### 8.1.4 Business Advisory Services for MSMEs and farmers

- **Business Advisory Services for MSMEs**

Improve the skills and knowledge of MSMEs to make them more efficient and reliable partners for banks is normally a significant requirement. This can also contribute to bring MSMEs to be more eligible for the international competition and more successful, sustainable and susceptible for growth and employment.
Business advisory services for MSMEs should be an integral component of the facility to make a larger group bankable. This is a relatively new area and approach to the SME market: an integrated, solution-based approach, as opposed to the pure loan product. The idea is to combine banking and non-banking products under a “tailored solution” umbrella, and provide significant support for the MSMEs.

The topics and areas requiring improvement generally fallen under the financial management and obtaining funding/bankability areas, with topics covering:

- internal financial management, bookkeeping;
- controlling and reporting;
- internal organization to become more efficient;
- working capital and investment finance;
- efficient use of working capital financing;
- investment projects analysis and assessment;
- trade finance.

The remaining areas requiring support fall into two distinctive categories: a) management, including internal structures and roles/responsibilities distribution; and b) technical trainings in areas such as handling various equipment items, production and technological process management, and logistics management. These are quite straightforward items of support for better efficiency, better productivity, lower risk exposures and in general, more sustainability in the business operations, but also in terms of loan repayment.

- **Advisory Services for Farmers**

**Capacity building to farmers in model farms and specific training:**

This activity will have the goal to increase agricultural know-how in a practical way to go from traditional to modern patterns of production. Capacity building is also important to improve the level of competitiveness and efficiency of farmers, for them to be able to affront future challenges or to benefit from market opportunities and to comply with internal and external regulations (food safety standards especially for the export of commodities). The focus areas should include:

a) Provide Technical Assistance to farmers on the model farm’s premises on appropriate methods of construction and maintenance of greenhouses, the proper use of such facilities, the correct use of inputs and equipment, the correct handling of plants and harvest, organic fertilizers, etc.

b) Capacity Building on greenhouse and seedling production to enable the farmers to adapt the model farm technologies at their own farms.

c) Provide trainings on how to manage pest & diseases in the livestock production, for example how to deal with hygiene, how and when to use veterinary services and how to keep food safety standards.

d) Provide specific agronomic trainings in selected farms to groups of farmers to improve efficiency and increase competitiveness and thus contribute to sector growth.

All training measures shall include a monitoring system in order to make appropriate follow up of the use of the know-how obtained through the different workshops.
Financial literacy for smallholders:

Smallholders hardly had an opportunity to receive any kind of financial education and thus they are not able to implement even basic accounting in their farms or businesses, which turns also an inconvenience when they want to apply for loans. Therefore, financial literacy is especially important for the farmers (men and women) to better understand the products and services offered by the financial institutions (especially credits) as well as their rights and obligations when making use of them. Having at least basic knowledge about financial products and services, smallholders will be able to compare the offer as well as to be prepared to apply for loans in the financial system.

Financial literacy will also contribute to increase their entrepreneurial know-how (i.e. how to get price information for their commodities, how to manage their finances and how to present financial information, etc.). This specific know-how will help farmers to better negotiate conditions, not only with financial institutions but also with the suppliers.

The expected outreach of the facility, taking into consideration the explanation above, could reach the following dimensions:

Table 14: Expected outreach of the facility

<table>
<thead>
<tr>
<th>Loan amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000,000</td>
</tr>
<tr>
<td>Expected disbursements (3 years average maturity)</td>
</tr>
<tr>
<td>€ 25,000,000</td>
</tr>
<tr>
<td>Average loan</td>
</tr>
<tr>
<td>15,000</td>
</tr>
<tr>
<td>Total companies reached (20% going to the same companies/ repeated loans)</td>
</tr>
<tr>
<td>1,333</td>
</tr>
<tr>
<td>MSMEs # (60%)</td>
</tr>
<tr>
<td>800</td>
</tr>
<tr>
<td>SMEs # (40%)</td>
</tr>
<tr>
<td>533</td>
</tr>
<tr>
<td>MSME employees # reached</td>
</tr>
<tr>
<td>1,600</td>
</tr>
<tr>
<td>SME employees # reached</td>
</tr>
<tr>
<td>6,400</td>
</tr>
<tr>
<td>Total employees reached (Weighted average calculations)</td>
</tr>
<tr>
<td>8,000</td>
</tr>
<tr>
<td>Weighted average empl #/ client</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>Expected % of companies experiencing significant employment growth *</td>
</tr>
<tr>
<td>36%</td>
</tr>
<tr>
<td>Estimated significant employment growth</td>
</tr>
<tr>
<td>15%</td>
</tr>
<tr>
<td>Number of new direct jobs created</td>
</tr>
<tr>
<td>432</td>
</tr>
</tbody>
</table>

* based on available estimations for the 5 year period

The above calculation provides an estimate on the loan funds outreach and effects on employment. All the figures include exact calculations concerning employee numbers, as well as weighted averages concerning aggregate figures. All others include conservative estimations based upon the existing statistical data for Kosovo.

Assuming a senior loan with a maturity of 5 years and an average sub loan maturity of 3 years, the total amount of disbursed loans will be multiplied to almost EUR 25 million throughout the senior loan tenure, including loan repayments collection and re-allocation of those funds. Bearing in mind the targeted market segment, the expected average loan amount for the facility is at the lower end of the scale, and estimated at EUR 15,000. Based on these assumptions, on the part of SMEs, a total of over 1,333 different companies can be reached, of which at least 30% will be in the lower ranges of the size spectrum. Furthermore, when applying the average number of employees according to the weighted overall structure of sub loan beneficiaries (small and medium), an
estimated total of 8,000 employees will be reached. According to the available data 36% of the companies that have received tailored advisory services and adequate funding, have shown significant employment growth. For the purpose of this study, this percentage has been conservatively quantified at 15%, given the lack of precise figures in the available statistics. Thus, based on the set of assumptions explained above, the total expected number of additional jobs created is estimated at just over 432.

Table 15: Expected Advisory Services Outreach of the facility

<table>
<thead>
<tr>
<th>Advisory Services Outreach</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Advisory Funding available</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Training budget (100 trainings)</td>
<td>€ 240,000</td>
</tr>
<tr>
<td>Individual project value (MSME)*</td>
<td>6,000</td>
</tr>
<tr>
<td>Subsidy/grant %</td>
<td>80%</td>
</tr>
<tr>
<td>Total number of direct beneficiaries</td>
<td>263</td>
</tr>
<tr>
<td>Estimated number of trained SMEs (10 trainings per year *15 participants)</td>
<td>1,500</td>
</tr>
<tr>
<td>% of overlapping clients</td>
<td>64%</td>
</tr>
</tbody>
</table>

For the advisory services it is recommended to use local qualified consultants, selected by the facility to provide advisory and training in the selected topics: finance, management, marketing, IT, EE, best agricultural practices, etc.) as well as advisory services on an individual base to SMEs.

The figure of 432 shows the number of MSMEs and farmers to be reached in 5 year period (loan duration). Thus, reaching the first 50 clients will represent a significant milestone, and reaching the entire 432 will require significant effort, however, as the expected credit line duration is set at 5 years and the market potential is large, the goal is reachable. However, because the supported MSMEs and farmers to be reached over program-period will be equipped with the entire package: adequate funding and the complimenting banking services, development of skills obtained through targeted TA and trainings and advisory, the program will support the development of a solid core of the entire Kosovo economy and can contribute to generate strong, long-term sustainable growth and employment.
Annex 1

List of meetings
<table>
<thead>
<tr>
<th>Name</th>
<th>Company/Organization</th>
<th>Sub-sector</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zijadin Gojnovci</td>
<td>Consultant</td>
<td>Expert</td>
<td><a href="mailto:zijadin.gojnovci@gmail.com">zijadin.gojnovci@gmail.com</a></td>
</tr>
<tr>
<td>Shqipe Dema</td>
<td>Ministry of Agriculture, Policy Development Department</td>
<td>Ministry</td>
<td><a href="mailto:Shqipe.Dema@rks-gov.net">Shqipe.Dema@rks-gov.net</a></td>
</tr>
<tr>
<td>Ekrem Gjokaj</td>
<td>MoA, Department for Economic Analysis and Agricultural Statistics</td>
<td>Ministry</td>
<td><a href="mailto:Ekrem.Gjokaj@rks-gov.net">Ekrem.Gjokaj@rks-gov.net</a></td>
</tr>
<tr>
<td>Zenele Bunjaku</td>
<td>Initiative for Agriculture Development in Kosovo</td>
<td>Association</td>
<td><a href="mailto:zbunjaku@yahoo.com">zbunjaku@yahoo.com</a></td>
</tr>
<tr>
<td>Agran Halime</td>
<td>Pestova</td>
<td>Potato processor</td>
<td></td>
</tr>
<tr>
<td>Ardian Purrini</td>
<td>Association of milk producers</td>
<td>Association</td>
<td><a href="mailto:Ardianpurrini@gmail.com">Ardianpurrini@gmail.com</a></td>
</tr>
<tr>
<td>Afrim Berisha</td>
<td>Bylmeti</td>
<td>Milk processing</td>
<td><a href="mailto:bylmeti@gmail.com">bylmeti@gmail.com</a></td>
</tr>
<tr>
<td>Nuratdin Bajrami</td>
<td>Hitflores</td>
<td>Wild Berries, Soft fruits</td>
<td><a href="mailto:Hit_flores@hotmail.com">Hit_flores@hotmail.com</a></td>
</tr>
<tr>
<td>Dukagin Deda</td>
<td>Agroloni</td>
<td>Milk producer</td>
<td></td>
</tr>
<tr>
<td>Muharem Dinaj</td>
<td>Dinamica LLC</td>
<td>Meat processor</td>
<td><a href="mailto:dinamikacorporation@hotmail.com">dinamikacorporation@hotmail.com</a></td>
</tr>
</tbody>
</table>

**Focus Group Discussion 1: Fruit and Vegetables (Prizren)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Company/Organization</th>
<th>Sub-sector</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elvin Huduti</td>
<td>Mixed Product</td>
<td>Vegetables Collection Center, Processor</td>
<td></td>
</tr>
<tr>
<td>Fehim Rexhepi</td>
<td>Agro Celina</td>
<td>Collection Center</td>
<td></td>
</tr>
<tr>
<td>Qamil Shala</td>
<td>Shala Produkt</td>
<td>Vegetable Producer</td>
<td></td>
</tr>
<tr>
<td>Nuratdin Bajrami</td>
<td>Hitflores</td>
<td>Berries, medical herbs and aromatic plants, organic producer, Collection Center, Processor</td>
<td></td>
</tr>
</tbody>
</table>

**Focus Group discussion 2: Vegetables, Dairy and egg producer (Peja)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Company/Organization</th>
<th>Sub-sector</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mehdi Mulaj</td>
<td>Municipal Agricultural Advisor</td>
<td>Ministry, Fruits</td>
<td></td>
</tr>
<tr>
<td>Selman Shala</td>
<td>Individual Farmer</td>
<td>Vegetable Producer</td>
<td></td>
</tr>
<tr>
<td>Izet Kastrati</td>
<td>Individual Farmer</td>
<td>Vegetable Producer</td>
<td></td>
</tr>
<tr>
<td>Sani Uka</td>
<td>Individual Farmer</td>
<td>Milk Producer</td>
<td></td>
</tr>
<tr>
<td>Besim Kuci</td>
<td>Individual Farmer</td>
<td>Milk Producer, Milk Producer Association</td>
<td></td>
</tr>
<tr>
<td>Xhevedet Sejdiaj</td>
<td>Individual Farmer</td>
<td>Poultry and Egg producer</td>
<td></td>
</tr>
</tbody>
</table>

**Focus Group 3: Meat producers (Lipjan)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Company/Organization</th>
<th>Sub-sector</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niazi Ibrahim</td>
<td>Municipality Agricultural Advisor</td>
<td>Ministry</td>
<td></td>
</tr>
<tr>
<td>Abri Azimi</td>
<td>Individual Farmer</td>
<td>Fattening</td>
<td></td>
</tr>
<tr>
<td>Remzi Mehmeti</td>
<td>Individual Farmer</td>
<td>Milk producer</td>
<td></td>
</tr>
<tr>
<td>Mehmet Budukova</td>
<td>Individual Farmer</td>
<td>fattening</td>
<td></td>
</tr>
<tr>
<td>Hasan Haidine</td>
<td>Individual Farmer</td>
<td>Milk producer, fattening</td>
<td></td>
</tr>
<tr>
<td>Gafur Recica</td>
<td>Individual Farmer</td>
<td>Fattening, vegetable producer</td>
<td></td>
</tr>
</tbody>
</table>
# Banks

<table>
<thead>
<tr>
<th>Institution</th>
<th>Person/Position</th>
<th>Contact</th>
</tr>
</thead>
</table>
| NLB         | Fisnik Selimi, Assistant to President Of Management Board  
Yll Sejdiu, Deputy Director | Fisnik.selimi@nlbprishtina-kos.com; yll.sejdiu@nlbprishtina-kos.com |
| TEB         | Arton Celina, Deputy Managing Director – Corporate and SME Banking | Arton.celina@teb-kos.com |
| Raiffeisen  | Fatos Krasniqi, Head of Micor Businesses  
Megzon Nela, Head of SME | Fatos.krasniqi@raiffeisen-kosovo.com; Megzon.nela@raiffeisen-kosovo.com |
| BKT         | * Mete Aytekin,  
* Mentor Berisha, Manager Corporate and Commercial Marketing Department  
* Jehona Uruqi, Head of retail and Micro Credit Risk | maytekin@bkt.com.al; mberisha@bkt.com.al; joruqi@bkt.com.al |
| BPB         | Shpend Nura, Deputy CEO | Shpend.nura@bpbbank.com |
| Banka Ekonomike | Adonis Bllacaku, Head of Business Departm. | Adonis.bllacaku@bekonomike.com |
| KEP         | Alket Gradeci, CEO  
Debatik Hoxha | agradeci@keonline.net |

# Projects/industries/Others

<table>
<thead>
<tr>
<th>Organization</th>
<th>Person/Position</th>
<th>Contact</th>
</tr>
</thead>
</table>
| Kosovo Chamber of Commerce | Parim Bajrami, Secretary General  
Besim Mustafa, Director of the Department for Vocational Education | Parim.bajrami@oek-kcc.org; besim.mustafa@oek-kcc.org |
| German-Kosovar Chamber of Commerce | Albert Matoshi, Secretary General | info@kdww.eu |
| USAID        | Brian Fahey, Senior Economic Advisor  
Besa Ilazi, Project Management Specialist | bfahey@usaid.gov; bilazi@usaid.gov |
| Financial Markets International/USAID | Edward Nolan, Chief of Party | enolan@usaid-ecs.org |
| Cardno/USAID | David King, Chief of Party | David.King@Cardno.com |
| World Bank   | Agim Demukaj, Country Economist  
Blerta Qerimi, Private Sector Dev. Specialist  
Trandelina Baraku, Operations Officer | ademukaj@worldbank.org; bqerimi@worldbank.org; tbaraku@worldbank.org |
| EBRD         | Elena Petrovska, Head of Office  
Hekuran Neziri, Associate Banker  
Tribun Ferizaj, Analyst | peetrovse@ebrd.com; nezirih@ebrd.com; ferizajt@ebrd.com |
| GIZ          | Veronika Hoffinger | Veronica.hoffinger@giz.de |
| KIESA        | Besian Mustafa, Executive Director  
Xhemaj Syla, Head of SME Projects Sector | Besian.mustafa@rks-gov.net; xhemaj.syla@rks-gov.net |
| STIKK (Association of ICT Companies) | Vjolca Çavolli, Executive Director  
Bardh Kadiu, Programme Coordinator | vcavolli@stikk-ks.org; bardh.kadiu@stikk-ks.org |
| Association of Construction Co. | Blerim Uka, Secretary General | info@bsgroup-ks.com |
| Association of Recycling Co. | Fahri Latifi, Secretary General | Euro_steel@hotmail.com |
Annex 2

Summary of Existing studies, literature and donor projects related to SME/agriculture support and employment creation
Existing studies, literature and donor projects related to SME/agriculture support

**USAID:**

It runs three main initiatives in Kosovo: a) Empower Programme; b) Credit Guarantee Fund; and c) Agriculture Programme.

Main aim of the **Empower Programme** is employment creation. For this purpose, USAID has identified sectors that have the largest impact on employment and is trying to support those sectors through grants and investments (donated equity) as well as technical support. The grant support is worth 8 million EUR whereas the investment worth 2 million EUR.

The sectors have been selected based on three evaluation criteria (growth, scale and impact potential) and after conducting a series of validation interviews with companies on the ground. The approach of USAID is more opportunistic and transactional, focused more on relatively quick wins in order to achieve job-creating objectives over the five years of the project rather than select companies with long-term competitive potential. The sector selected include: 1) wood processing; 2) apparel and leather; 3) food processing, 4) ICT, 5) tourism, 6) energy efficiency and renewable energies.

<table>
<thead>
<tr>
<th>Sector</th>
<th># of Cos.</th>
<th>Turnover (EUR)</th>
<th>Min turnover (EUR)</th>
<th>Max turnover (EUR)</th>
<th># of staff</th>
<th>Turnover per staff (EUR)</th>
<th>Expected growth 2015-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood processing</td>
<td>10</td>
<td>7.600.000</td>
<td>50.000</td>
<td>1.750.000</td>
<td>630</td>
<td>12,063</td>
<td>22%</td>
</tr>
<tr>
<td>Apparel and leather</td>
<td>10</td>
<td>5.400.000</td>
<td>50.000</td>
<td>1.750.000</td>
<td>890</td>
<td>6,067</td>
<td>25%</td>
</tr>
<tr>
<td>Food processing</td>
<td>15</td>
<td>14.800.000</td>
<td>175.000</td>
<td>1.750.000</td>
<td>390</td>
<td>37,949</td>
<td>23%</td>
</tr>
<tr>
<td>ICT</td>
<td>10</td>
<td>18.500.000</td>
<td>50.000</td>
<td>6.250.000</td>
<td>360</td>
<td>51,389</td>
<td>18%</td>
</tr>
<tr>
<td>Tourism</td>
<td>18</td>
<td>8.900.000</td>
<td>50.000</td>
<td>1.750.000</td>
<td>410</td>
<td>21,707</td>
<td>48%</td>
</tr>
<tr>
<td>EE&amp;RE</td>
<td>15</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: USAID, Kosovo Sector Assessment and Selection Report, 2014; own calculations

So far the project has disbursed the entire capital at his disposition and has financed 65 enterprises with an average equity of 65,000 EUR (max. amount 75,000 EUR). In return the companies have committed to create at least one job per 1,000 EUR invested. There is however, no commitment as far as type of job is concerned (part-time or full time) and how long they should persist. The Empower Programme selected the companies through an open section process and received 800 applications seeking finance worth 40 million EUR. Most of the companies are being supported now through technical assistance in order to materialise growth, increase their output capacities, increase quality and enter new markets. In order to overcome obstacles on an industry-wide basis, the Programme is also supporting the establishment of industry association (the case of apparel industry for instance in order to maintain quality standards and establish links with Italian and German companies).

Credit Guarantees are an instrument widely used by USAID. Over the last years USAID has provided it to several banks and given its repetition and increase demand, the idea of establishing a credit guarantee fund emerged. The actual work has started and USAID is setting up the implementing structures in anticipation of the new law being passed by the parliament this year. The business plan of KCGF acknowledges an excess of liquidity in the banking sector of about 450 million EUR that can be further channelled to the real sector where a gap of at least 870 million EUR has been calculated. Six banks in Kosovo have already had experience in dealing with credit guarantee instruments of USAID. The business plan of KCGF foresees an equity set-up of 15 million EUR which will be leveraged at least five times; with a 50% guarantee the fund can instil the increase of an additional portfolio of 150 million EUR, mostly in agriculture finance. In the past however, not all guarantees have been fully utilized. Only two out of ten guarantees have seen a
utilisation in excess of 95%. Largest beneficiary of these guarantees has been Raiffeisen which is well advanced in agriculture lending. The other smaller banks have made limited use of the guarantees (app. 1 million EUR); this shows that apart of the guarantees banks might need other support to substantially increase their capacities for lending to the agricultural sector.

Furthermore, the guarantees for SMEs which were launched in 2011 with two banks, hardly have passed the utilisation mark of 5%. This low utilisation grade, indicates that collateral is not the only impediment to banks to lend to SMEs. Low growth prospects, weaker macroeconomic environment, instability of power supply etc. prevent most SMEs from growth, hence the reduced need for credit.

**The Agricultural Growth and Rural Opportunities** programme (AGRO 2015-2020) aims at increasing agricultural productivity, marketability and competitiveness of the sector. In this context, the project expects to create 3,800 new jobs and to attract USD 10 million of new private sector investments. Furthermore, AGRO aims at establishing an Agro Jobs & Career Center in collaboration with the Faculty of Agriculture of the University of Pristina. Other main project focuses are be on: a) building linkages between the most important value chain actors; b) distributing high quality inputs (seeds, fertilizers, plant protection) and modern equipment through contract farming schemes of strategic value chain partners; c) facilitating (long term) supply contracting schemes between producers and aggregators as well as with supermarkets and improve labelling and packaging in order to improve the population’s perception of products from Kosovo and finally increase the demand; d) Improving food safety and establishing quality standards through awareness raising and building up capacities and infrastructure including local certification bodies; e) providing grants to strategic partners driving agricultural growth.

**World Bank:**

World Bank started an agriculture project in 2012 aimed at supporting the sector by strengthening the capacities of MAFRD and providing grants to the agriculture sector. Total project costs estimated at 20.15 million USD. The Project has three components:

a. transferring knowledge to the rural sector (2.18 million USD),

b. enhancing investments to promote sustainable rural development (16.86 million USD),

c. establishment of a Project Management Unit (PMU) within MAFRD for managing, coordinating and monitoring the project (1.11 million USD).

Training provided under component a) are resulting in improving the knowledge and skills of participating farmers, entrepreneurs, municipal advisors and national extension staff in developing good quality investment plans and grant applications for support under component b). Until 2015, 1,600 framers have been trained and 644 have received grants. Horticulture and livestock are the prevailing support sectors. DANIDA is supporting the project as well with additional funding of 9.28 million USD.

To determine the impact of project activities in terms of increased productivity, employment generation and improved incomes, a results’ assessment study is under way to ascertain results on the ground, determine good practices as well as identify areas of improvement to better inform the design and execution of future of rural grant programmes. The study is expected to be available by fall 2015.

The Country Partnership Strategy of World Bank report recognizes five major challenges in promoting private sector investments and creating employment. These include severe infrastructure gaps, deficiencies in the rule of law, shortages of appropriately skilled labour, limited access to finance, and onerous regulatory procedures for business entry and operations.

Furthermore, the strategy has identified two main objectives to support Kosovo: (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental
management. These two objectives build also the two pillars of WB strategy. Under pillar (i), promoting private sector development and financial sector strengthening, strengthening agriculture development, investing in education and skills, promoting sustainable employment and inclusion are among the top priorities. These however, are dealt mostly on a policy level.

**EBRD**

The priorities of EBRD strategy in Kosovo include: a) supporting privatisation and private sector development; b) enhancing commercialisation, competition and private sector involvement in infrastructure; and c) promoting and supporting sustainable development of the energy and mining.

Under priority c) EBRD intends, via the support of its own Small Business Services team to accelerate development of the country’s private sector, enhance its competitiveness and introduce best practices with a particular focus on innovation, value added processing, agribusiness, industries with export potential or ability to compete with imported product alternatives, and attraction of investment capital to the country. Recently EBRD has through its Women in Business facility, provided a credit line with a first-loan risk cover mechanism to TEB bank in order to support financing to women-led MSMEs. Access to finance for women-led enterprises is considered to be very low in Kosovo; in particular women entrepreneurs lack additional support or networking like their male counterpart. The EBRD initiative is aiming at reducing these barriers and support women-led enterprises through a combination of finance and business support services. The credit line of three million EUR provided to TEB is being completely utilised and the bank is considering to top-up the facility by a similar amount.

**EFSE**

In 2014, EFSE conducted a study related to the agriculture finance in Kosovo. The study acknowledges the role of agriculture as employment generator and contributor to the GDP; agriculture in Kosovo is by far not living its full potential due to various reasons. The study highlights also the main areas with future development potential in agriculture include horticulture and livestock. The support to such sector would help to reduce the imbalances that exist between the import and export of products in these two areas.

Furthermore, the study recognizes that financial institutions, though interested in financing agriculture, face difficulties in doing so due to affordability, availability and ability constraints. All these three areas were further scrutinized and discussed jointly with the banks in Kosovo in order to generate tangible and concrete project proposals as part of this study.

**Other**

Moreover, portfolio guarantees for SMEs are offered by Western Balkans Enterprise Development and Innovation Facility (WBEDIF) - Guarantee Facility in cooperation with private banks in Kosovo. Such facilities are available to all banks in Kosovo, however so far only ProCredit has made use of the them. The facility is managed by European Investment Fund, situated in Luxembourg.

In addition, WBEDIF runs also the Enterprise Expansions Fund (ENEF) and the Enterprise Innovation Fund (ENIF). ENEF facility is managed by EBRD which has invested 48.5 million EUR (as a successor of Local Enterprise Facility); another 48.5 million EUR are invested by KfW. So far the facility has made one investment in a trading company worth 6.5 million EUR. The main target of ENEF are SMEs with high growth potential that need equity investments in the range of 1-10 million EUR. ENIF has a similar objective, however it targets smaller, innovative SMEs with blended investments (equity and quasi equity) in the range of 100,000 EUR to 2 million EUR. The facility aims at reaching a maximum of 60 enterprises across the region.
Annex 3

List of literature
List of reviewed documents


International Monetary Fund, Country Report Nr. 15/131, May 2015

KfW (June 2012): The Need for Credit Guarantees for Bank Loans to SMEs in Kosovo.


Kosovo SME Promotion Programme, Report on SMEs in Kosovo, 2014

Ministry of Trade and Industry (August 2015): Draft Law on the establishment of the Kosovo Credit Guarantee Fund.


USAID (September 2015): EMPOWER Credit Support. Six year Business Plan for the Kosovo Credit Guarantee Fund.


World Bank (2011): Project Appraisal Document on a proposed credit in the amount of SDR 12,80 Million (US$ 20,15 Million Equivalent).


Zivkov, Goran (FAO, 2013): Association of farmers in the Western Balkan countries.
Annex 4

Summary of meetings with representatives of Banks and MFIs in Kosovo
NLB

Is the fourth largest bank in the country which was established by the merger of two local banks in 2007, purchased at the same time by NLB Bank in Slovenia. The biggest shareholder of the bank is the Slovenian Government (80%).

The bank has a dedicated agriculture loan product in place. Nevertheless, its exposure to agriculture with a total of three million USD remains minimal. Out of it, one million USD, have been disbursed using the USAID portfolio guarantee. The bank considers the sector to be risky and does not apply any specialized tool as far as the underwriting of agriculture businesses are concerned. Furthermore, it does not maintain specialized credit staff for agriculture finance. Very often, this lead to misconceptions and lack of skills to understand and then offer tailored financial services to farmers and agriculture producers. Instead, regular collateral procedures and repayment methods are applied to agriculture business; in addition, contracts or promissory notes from the government are not recognized during the underwriting process. NLB intends to use the services of KCGF once it is established, however its limited internal capacities might prevent it from making proper use of the funds.

Raiffeisen

The bank is one of the leaders in Kosovo as far as the agriculture finance is concerned. Its experience in the sector goes back to founding year as the American Bank of Kosovo (with USAID support) that started to deal with agriculture in the early days of its operations. Therefore, Raiffeisen seems to understand very well the particularities of the agriculture sector and invests in staff and resources in particular since 2006.

Its involvement in agriculture sector is part of its financing to micro and SME enterprises. Raiffeisen defines its micro clients as those with a turnover of less than one million per year and who require lending facilities in the range of 1,000 EUR to 100,000 EUR. The outstanding exposure of agriculture loans within the micro portfolio comprises 1,700 loans worth 12 million EUR (20% of micro portfolio, average loan size 7,000 EUR). Since the start of the agriculture lending operations the bank has disbursed over 40 million EUR of funds.

In order to keep the administrative costs low and at the same time reach also small clients, usually small farmers are served via the plastic card unit. Loans in the range of 1,000 EUR – 5,000 EUR for purchase of seeds and fertilizers are served through pre-loaded cards which can then be utilized for purchase of inputs at selected suppliers.

Furthermore, in order to gain market share, Raiffeisen strongly combines its corporate and micro businesses activities in the agriculture sector. For instance, often large corporate clients that run milk dairy factories are requested to share with Raiffeisen the lists of their small milk suppliers. In return the small farmers are offered financial services. The settlement of payments for milk supplies is mostly done through Raiffeisen on a monthly basis; an approach that is welcome by the farmers, the dairy factory and of course Raiffeisen.

Raiffeisen recognizes that despite its strong efforts, small farmers have severe difficulties in booking and maintenance of accounts, marketing of their products and in packaging technology. Often these translate in missed market opportunities or higher costs for credit.

Few years ago the bank started also Raiffeisen-leasing. While the leasing of commercial vehicles has performed well, leasing for agriculture equipment has remained way below expectations.

As far as the SMEs are concerned, the bank groups them as companies with a turnover of one million EUR to five million EUR making use of lending facilities in the range of 100,000 EUR and 1.5 million EUR. Within the SME portfolio, almost 6% are agriculture loans. Some large processors
of agriculture input are accounted within the corporate sector though. The bank could however, not report separately on those.

Contrary to the micro segments, Raiffeisen consider the agriculture SMEs of being more complex in serving. Many companies fail to gain new knowledge in modern agriculture or apply modern farming techniques. Furthermore, their investment plans are limited and often not forward-looking. This hampers Raiffeisen expectations of a fast growth unless companies are supported by technical services.

The bank has 17 loan officers specialized in agriculture finance. They have received formal training from the bank or the various agriculture projects that the bank has implemented with USAID (in particular the credit guarantee scheme for agriculture loans). The staff does also apply specialized tools for underwriting agriculture businesses (so called tech cards), hence lending products and repayment cycles are tailored according to the farmers’ needs.

The bank considers ProCredit Bank to be its biggest competitor in the agriculture sector. Though the bank has specialized staff for agriculture finance, it is open to receive additional support (in particular for new lending staff) on the topic. The bank intends to make good use of the Kosovo Credit Guarantee Fund that will be established soon.

In general the bank considers the apparel and IT sectors the ones which will offer growth potential to the SMEs over the mid-term. Tourism and mining are considered less optimistic.

**BKT**

The bank is a member of BKT bank that operates in Albania. It serves corporate, commercial and private individual clients. Under commercial clients, the bank summarizes MSME as well as agriculture and rural enterprises. MSMEs are defined as those enterprises with a yearly turnover of up to 10 million EUR and credit exposures of up to one million EUR. Though the bank does not apply any entry-level limit, for efficiency reasons, it starts granting credits from 50,000 EUR. The exposure of agro loans stays currently at 2.6% of the portfolio and the NPL hardly exceeds 1%.

The bank started to offer agriculture loans only in 2014, this thanks also to an entrant from the ProCredit Bank who brought expertise and motivation for expanding into the sector; at the moment the bank is focusing only in financing potato producers as well as livestock. Furthermore, it has received support from USAID and EFSE. The bank works well in particular with farmers that do qualify for grant or subsidy support from the Ministry of Agriculture.

The bank does approach potential clients directly and tries to leverage from its corporate business as well. Often large agro processors are asked to refer BKT to their supplier’s network.

The bank has very few loan officers with specialized knowledge in agriculture finance and they are all placed in the head office. Loan officers have received some introductory training from the head office, however they are by far not specialized lending staff. Therefore, the bank welcomes any kind of support it can receive in terms of increasing staff skills for expanding its agriculture lending operations.

**BPB**

BPB is one of the small local banks. In 2011, EBRD joined BPB as a shareholder with a 10% equity stake. The bank has a loan portfolio of about 90 million EUR; the share of agriculture loans, with one million EUR exposure, remains small. To increase that share the bank received recently a 4 million EUR agriculture credit line from EFSE. The objective of the bank is to increase lending to agriculture to about 10% of the loan portfolio in the span of three years. The bank is even considering the idea of acquiring a specialized MFI in order to achieve that growth target.

The bank distinguishes micro enterprises as those with loan exposures of up to 150,000 EUR. SMEs can borrow up to 1 million EUR.
The bank introduced agriculture finance only in 2014 by hiring specialized staff. At the moment it employs seven specialized staff for agriculture lending (one per region). Most of the staff has been trained by USAID under the credit guarantee programme. Therefore, the bank is very interested to continue the work with KCGF; however, the bank is very cautious and sensitive of the pricing mechanisms KCGF intends to apply.

As far as the current distribution of the loan portfolio is concerned, almost 50% is with trade companies. The remaining part is distributed among manufacturing (15%), services (15%) and construction (20%). Apart of the agriculture sector, the bank sees further growth potential in the small manufacturing industries (apparel, shoes, worker’s wear etc.). The investment required in these industries is small whereas the employment effects are large. Incentives to these industries, in particular conducive framework, could support even the attraction of FDI.

**Banka Ekonomike**

The bank does serve retail, MSME and corporate clients and is now successively reducing its exposure in the corporate sectors and is diversifying its lending portfolio by moving away from the product-centric approach to a more client-centric approach.

At the moment the agriculture portfolio stands at about three million EUR or 2.3% of the total loans. Agriculture loans are offered only in selected branches and are mostly handled by loan officers that handle MSMEs. The strategic goal is however to double the portfolio by end 2016 and reach 10 million EUR of exposure in 2017. The bank sees here growth potential and it has recognized that it has to catch up with its peers, both in terms of lending figures and technology and staff capacities. At the moment, 35% of its portfolio is with households (retail) whereas the other 65% are exposures with businesses (micro, SME and corporates).

Currently the bank has opened two vacancies for hiring two agriculture finance experts; another three experts will be hired until the end of the year in order to reach the growth targets mentioned above.

Last year the bank hired a former ProCredit staff who is now working as the deputy CEO of the bank. He has brought enough expertise and knowledge which is now reflected into the new set of lending policies and procedures. The bank segments its market according to exposure sizes. Micro enterprises are considered those with exposures of up to 100,000 EUR; SMEs with exposures ranging between 100,000 EUR and 500,000 EUR; and corporates with exposures in excess of 500,000 EUR.

The bank welcomes any support it can receive in terms of technical assistance for enhancing its specialisation in agriculture finance and training of staff. It also plans to make use of KCGF for expanding its agriculture portfolio. The bank has already cooperated with USAID in making use of the credit guarantee scheme for agriculture.

**KEP**

The institution is a “credit only” microfinance institution derived from a previous social project of the International Catholic Migration and registered by the Central Bank of Kosovo since 2002. The institution does not have shareholders and all profits and cash donations are capitalized.

The institution has a total of 33 branches and the advantage to be the only financial institution working in the northern part of the country with 7 branches, although this is changing with the incursion of other financial institutions in the region.

The loan portfolio currently sums EUR 17 million, which is allocated to 10,243 clients. According the local regulation, the MFI has a limit of EUR 25,000 for their loans. Main sectors to which the institution confers loans are: agriculture (17.2% of the loan portfolio), business, home improvement and multipurpose loans. KEP plans to increase its agricultural loan portfolio up to 25%, since the experience with this sector has been positive and to maintain its focus on micro
enterprises. In the production side of business clients, they have some textile and furniture products.

For its agricultural loans the institution has developed their own tools, which take into consideration the seasonality of the activity, yields, new technologies used and market prices. The main agricultural products been financed by KEP are wine yards and apple production, as well as milk production and food-processing. Loans go mostly for working capital, but some also for small investments. Main problems identified by the institution to disburse more loans are: lack of collateral, lack of irrigation, small parcels of land and no development of economy of scales.

The managers see a need to tailor more the product to the practical needs of farmers, not only in improving technical skills of farmers through strategic alliances with service providers but also introducing financial literacy, for example training to farmers in how to better invest better its resources. Furthermore, the institution recognizes the need to improve its credit technology to better serve the target group of farmers and to increase efficiency in its own processes.

TEB

The bank is organised as a universal commercial. Credit decisions are rather centralised in the head office and branches are assigned very small approval limits. Branches can approve on their own business loans of up to 10,000 EUR and individual loans of up to 5,000 EUR. Above these thresholds, approvals have to be received at the head office. The bank is present almost throughout the country, though it does not have branches in some of the communes like Deçan, Vushtri and Kamenicë.

The bank has almost an equalised exposure of its 300 million EUR portfolio among corporates, MSMEs and private individuals. Agriculture loans, introduced in 2014, are offered to MSMEs. These are offered for maturities of up to 48 months and comprise flexible repayment terms as well. Only few lending staff in the branches and head office are specialized in agriculture finance. The bank is strongly interested to increase its staff capacities in agriculture finance.
Annex 4

Summary of meetings with representatives of Banks and MFIs in Kosovo
Conclusions and ideas for a KfW Program

The agricultural sector is important for a large group of the rural population and the one showing potential for growth and employment in Kosovo. The perspectives of development in this sector are not only in substituting imported products with domestic production, but also in the possibility to increase the production of export products that are demanded in bordering countries (i.e. fruits and vegetables). The statistics show that the imports of food and live animals are considerable high compared with the small proportion of exports being done up to date (EUR 25 million exports against EUR 460 million of imports). Therefore, the rationale for import substitution lies at hand.

However, the current situation of the agriculture, especially the one developed by small farmers, is very precarious not only because of the small size of the plots (72% of them have less than 1,5 ha which makes it difficult for them to grow production and capture new markets) but also due to the low level of knowledge regarding good agricultural practices and new technologies for better agricultural production. Furthermore, the lack of knowledge regarding the requirements and rules to comply for accessing markets, limited access to finance and to infrastructure facilities and entities (i.e. certification) aggravate the situation of the agricultural sector in Kosovo. This leads us to believe that that a KfW intervention in the sector will assist in removing some of the barriers that keep the agriculture sector from growing and becoming an income driver in the country.

The following ideas for a possible KfW project consider all the presented problematic and try to present a solution to it. The ideas are thought to support the development of the agricultural sector and particularly of the farmers, for them to have better production and thus better access to markets, to improve their standards and ensure employment in rural areas. The ideas are also considering the current situation identified in Kosovo, where many donor-funded projects are working with subsidies or grants rather than financing. In this sense, the project goal is to support farmers to reach a level, in which they will be subjects of crediting by the banks. In addition, examples of investments fostering the development of agriculture are taken in account.

Project idea 1 – Thinking “out of the box”

The project idea for Kosovo focuses on a three-pillar approach that aims at addressing bottlenecks on the public domain as an incentive for creating an enabling environment for farmers, building capacities of small farmers (stimulating demand) and assisting financial institutions in expanding the supply of financial services into rural areas (stimulating supply).

Chart 19: Intervention areas

Project Ideas for Kosovo

- Public investments as an incentive
  - Warehouses
  - Cooling facilities
  - Packaging facilities
  - Laboratory & certification
  - Slaughterhouses

- Building capacities of small holders
  - Training
  - Introduction of good practices
  - Model Farms
  - Financial literacy

- Expanding financial outreach in rural areas
  - TA to FFs on modern agriculture tools and cultivation methods
  - Training of staff at FBB
  - Product development
Pillar 1: Public investments as an incentive for growth & employment

Taking into consideration that agriculture sector in Kosovo plays an important role in the generation/maintenance of jobs and income for a large number of households (129,200 agricultural holdings exists in the country) and that the existing supporting infrastructure in the country is weak or not accessible for the majority of farmers, investments in public facilities can contribute to solve some problems faced by smallholders such as lack of storage or cooling or packing facilities. However, only constructing or improving infrastructure without a good concept for a sustainable management of such objects will only be a waste of resources; therefore, any idea to be implemented in the framework of the program must be supported on the one side by strong governmental policies and investments (at best on municipality level) and, on the other side, by the farmers that are going to benefit from those facilities or by private investors that will like to manage them as a business service providers with a commercial and sustainability approach. In the last case, the investment can be done initially as a joint capital or as a loan under favorable conditions.

Some reasons that lead to structure this pillar are the following:

- Small holders, especially, produce in traditional way relying mainly on rain feeding and bringing their products to the markets in certain periods of the year and all farmers at the same time. This mean for them that due to a great offer, the price at that moment can be very low and the farmers may not even cover their own costs of production. In the case of non-perishable commodities, the access to good functioning and well-equipped warehouses can allow the farmers to storage production until the price has recovered or reached a better level.

- The data of the agricultural sector shows that fruits and vegetables have a high potential for growth and have good market opportunities in Kosovo and outside. In order to make this production acceptable in the markets and more profitable for the farmers, they will need some support infrastructure such as: cooling houses and/or packing facilities. This will not only allow farmers to produce more and storage the products under safe and good conditions but also to comply with the required standards when the products will be sent to the market.

- When targeting to the export of commodities, farmers must comply with high standards of quality, hygiene and other international requirements; therefore, it is necessary for farmers to count with appropriate facilities that will help to comply with those requirements such as laboratories and certifying companies, which normally are public or private investments.

- In the study it was also identified that the meat sub-sector shows also a high potential for growth. Currently the trade balance of this product is negative and imports of processed meat are quite high while exports of live animals are being done mainly in an informal way. In Kosovo there are only few old slaughterhouses that do not comply with the required standards. An investment in a “state of the art” slaughter house will not only be important for the small farmers and dealers of livestock but also will reduce considerable the informal exports of meat, since the meat will be handled in an appropriate way and thus increasing the price and income for the farmer/dealer. If it would be the case, the slaughterhouse can also be complemented ahead with the parallel creation of a modern meat industry.

Again, in this case the topic of sustainability is an issue. A slaughterhouse must be managed with a commercial approach and therefore professional management will be crucial to make this investment profitable and sustainable within the time. Like in the case of the storage facility, a strategic private partner or a structure that will ensure the sustainability must be assured.
For the purpose of the program, it will be important to clearly identify and give priority to the most needed investments, which will have a great impact for the farmers, the sector and the country. Probably cooling facilities for fruits and vegetables and a slaughterhouse for the meat sub-sector will be a first step to support the sector development.

**Pillar 2: Building capacities of small hold farmers**

The results result of the study show that farmers lack know-how in new technologies as well as in agricultural and livestock best practices. It is demonstrated that agronomic technical assistance (introducing best practices) and trainings to farmers contribute to improve agricultural production, increase efficiency and develop personal and commercial skills. There are several ways of conducting impact-oriented trainings:

a) Establishing strategic alliances with input and equipment suppliers that are offering goods in the rural areas as well as with processing companies that are interested in both selling themselves good products and thus buying farm products with the expected quality. All these actors in general offer technical assistance to the farmers and within the program incentives for both companies and farmers can be developed;

b) Using local service providers on agricultural training (firms, NGOs, agronomists of the Ministry of Agriculture or municipalities, etc.);

c) Making use of leading farmers (in terms of yields and quality in the production of farm products) that can transfer their know-how and good practices to other producers,

d) Finally, building a training team within the framework of the program for specific agricultural and livestock training and model farming. The team specialists can be strengthened during the project duration for them to be able to continue offering training and technical assistance services after the program finishes.

As mentioned previously, farmers often stick to traditional practices and hesitate to try new technologies and agricultural practices to improve yields and quality of production. Capacity building through trainings is crucial for better farming. In this sense, the concept of model or experimental farms could be a promising opportunity to demonstrate and convince farmers in a practical way how positive can be the impact of using new inputs and methods of production. The support for setting-up these could look as follows:

- **Investments in model farm facilities:**

  Model farms are a good tool to train farmers direct on the field to learn and introduce better practices in agriculture of livestock breeding. Investments in such farms are not huge but the added value for farmers is high. Within the project budget and in coordination with the Ministry of Agriculture or with the agroindustry 2 or 3 model farms can be implemented for practical training purposes with the support of the technical assistance planned for the program. The type of model farms can include:

  a) Construction and conditioning of greenhouses to produce off-seasonal, high quality fruits and vegetables according to good agricultural practices (quality inputs, seedlings, appropriated fertilizers and pesticides, etc.). Furthermore, greenhouses can be used for seedling production.

  b) Model farms in the livestock production with appropriate construction, equipment and machinery to be example on how to produce according to contemporary food safety standards and demonstrate how such production patterns increase productivity and income of farmers.

- **Capacity building to farmers in model farms and specific training:**

  This activity will have the goal to increase agricultural know-how in a practical way to go from traditional to modern patterns of production. Capacity building is also important to improve
the level of competitiveness and efficiency of farmers, for them to be able to affront future challenges or to benefit from market opportunities and to comply with internal and external regulations (food safety standards especially for the export of commodities). The focus areas should include:

e) Provide Technical Assistance to farmers on the model farm’s premises on appropriate methods of construction and maintenance of greenhouses, the proper use of such facilities, the correct use of inputs and equipment, the correct handling of plants and harvest, organic fertilizers, etc.

f) Capacity Building on greenhouse and seedling production to enable the farmers to adapt the model farm technologies at their own farms.

g) Provide trainings on how to manage pest & diseases in the livestock production, for example how to deal with hygiene, how and when to use veterinary services and how to keep food safety standards.

h) Provide specific agronomic trainings in selected farms to groups of farmers to improve efficiency and increase competitiveness and thus contribute to sector growth.

All training measures shall include a monitoring system in order to make appropriate follow up of the use of the know-how obtained through the different workshops.

- **Financial literacy for smallholders:**

Smallholders hardly had an opportunity to receive any kind of financial education and thus they are not able to implement even basic accounting in their farms or businesses, which turns also an inconvenience when they want to apply for loans. Therefore, financial literacy is especially important for the farmers (men and women) to better understand the products and services offered by the financial institutions (especially credits) as well as their rights and obligations when making use of them. Having at least basic knowledge about financial products and services, smallholders will be able to compare the offer as well as to be prepared to apply for loans in the financial system.

Financial literacy will also contribute to increase their entrepreneurial know-how (i.e. how to get price information for their commodities, how to manage their finances and how to present financial information, etc.). This specific know-how will help farmers to better negotiate conditions, not only with financial institutions but also with the suppliers.

- **Measures to strengthen cooperation amongst farmers:**

Additionally model farms can also act as a nucleus farm, input supplier and/or important actor to establish contract-farming models. The model farm can collect the production from neighboring smallholders; provide them with high quality and tested inputs and advisory and training services. Joint purchase of inputs as well as selling will foster vertical and horizontal cooperation without labeling such cooperation as a cooperative which is perceived badly by farmers in Kosovo. At the same time, the model farm is able to always provide a minimum of products to a possible buyer through its own state-of-the-art production. This way, contract agreements become possible to the benefit of all farmers. Technical Assistance measures could facilitate such contracts and rebuild linkages along the value chain. Funding to (commercial) model farms could be provided against compliance with specific conditions, among others:

- Willingness to train smallholders,
- Willingness to conclude contracts with other value chain actors,
- Willingness to guarantee for credits for the smallholder for adaptation of newly obtained knowledge and skills,
- Recruit new staff,
- Pass certification process for the products.
This pillar needs specific technical assistance for both, the implementation of model farms as well as the delivery of trainings and technical assistance to the farmers. This will allow the project to select the best farmers and, if needed, certified them to have better cards in front of the buyers.

**Pillar 3: Expanding financial outreach in rural areas**

It will be important to engage banks to expand their outreach in rural areas, since only few banks are working in the sector in Kosovo. Introducing or expanding agricultural lending requires that the financial institutions understand the sector, their characteristics and risks and develop appropriate tools and products as well as processes.

It is foreseen that this pillar will benefit from the measures completed in Pillar 1 and 2, since they will contribute: a) to improve the production patterns of smallholders, b) to have access to the needed facilities (public investments), and c) to improve their production know-how and their managerial skills, which will make them more interesting for the banks. In this sense the demand of smallholders will grow within the time as well as the needed amounts for working capital or investments.

In rural areas of Kosovo, due to the quantity of existing smallholders the focus for the expansion will be necessarily on this group of producers and mainly financing their working capital needs. This product should target especially to the promising sectors (vegetables, fruits, dairy and meat). However, some farmers, especially those commercial-oriented, besides of working capital they will also have needs for small investments, among others: a) small processing facilities for traditional products demanded in the internal market such as fruits, milk, vegetables, etc., b) small irrigation systems, c) small stables, d) equipment and tools, d) land expansion, etc.

Even though the demand in terms of number will be lower, but in terms of loan amounts bigger, medium and large farmers will need to improve efficiency, increase competitiveness and thus to contribute to sector growth. They will demand loans to finance machinery, bigger irrigation systems, storage and processing facilities, etc. This demand can be financed by banks without problems but also to serve this group of clients banks need to understand the sector to be able to mitigate and manage risks.

Incentive the banks to expand activities in rural areas can be done through a strong technical assistance that will:

- a) introduce modern agriculture tools and evaluation methods to better assess agricultural loan applications and diminish risks and costs of agricultural lending by appropriately managing risks related to agriculture,

- b) carry out trainings for loan officers on how to analyze and manage agricultural loans and for middle and top management to understand the sector and the risks involved in it, and

- c) develop new products and financial offering to small, medium and large farmers the right financial products. The loan granting can also be complemented by using other products such as insurance or credit guarantees.

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**Modern Agriculture Tools and Evaluations Methods**

Instead of using enhanced methodologies for evaluating credit applications in the agriculture sector banks should start using specific tools to better analyse their agricultural clients. The methodologies could either apply traditional or modern methods.

- a) the traditional agricultural credit methodology do embrace the complete credit cycle, including the visit to the client and assessment on individual basis, which normally depends on agricultural technical cards *(tech-cards)* or in the local know-how of the bank staff, and
b) the more innovative methodology that complements the first one with the use of the *scoring tool* based on tech-cards and therefore decreases the necessity to visit every type of client at the initial level and minimizes operational costs by shortening and facilitating loan assessment and loan decision steps as well as reduces the risk of lending to agriculture.

How do these methods work in detail?

**Tech-cards.** Banks should be equipped with the necessary tools that are aimed at capturing potential clients in a way that they attract “good and right clients” and filter out agricultural producers with a poor performance (lack of repayment capacity and creditworthiness) prior to the loan application stage. In such way banks avoid processing loans that have little chance of getting disbursed and save costs linked to the assessment of the credit applications. This requires a good pre-application process that many banks do not apply at the moment in Kosovo. In this sense, financial institutions should be equipped with the necessary know-how on agricultural production before doing loan assessments so that they can really analyse the information provided by the farmers. This is where tech-cards come into play: Tech-cards contain detailed information sheets including all necessary items to produce an agricultural product (including animals) with their units, sizes and costs. Anyone can find total cost of production for a specific product per hectare/unit, together with the expected yield, price and total revenue per hectare area or unit. Thus, a loan officer (or a relationship manager) can easily obtain the overall expense and revenue figure for each product, in each different region. Tech-cards can be developed for each crop, vegetables and fruits and each sub-activity available in Kosovo. In addition to crop production, tech-card formats can be established also for other agricultural activities such as greenhouse (according to the greenhouse technology used), animal husbandry (breeding vs. dairy farming; great cattle vs. small cattle); poultry (meat production & egg production); fisheries (cultural fishing & aquaculture) and apiculture. The tech-cards establish the standardised basis for the overall cash flow structure of an agricultural client in an easy and reliable format.

**Scoring tool for agriculture.** One of the major impediments to agricultural lending is the high cost of evaluating borrower creditworthiness, as mentioned in the traditional assessment above. The specific nature and diversity of agriculture requires sophisticated agronomic expertise, which banks very often resist to invest into. However, it is more expensive to use “expert” loan officers to collect and evaluate borrowers individually and estimate anticipated cash flows. As a result, a considerable part of agricultural MSMEs and households remain without access to finance. However, the increasing demand for agricultural commodities as well as rising competition in the urban areas has led financial institutions to think again about working with this sector and, therefore, they demand some innovative approaches to implement agricultural loan products with an appropriate system to evaluate risks, calculate cash flows and reduce costs. Identification of the real financing need of each agricultural producer and mitigation of risks in agri-lending process require a sound and efficient lending mechanism.

This can be done by integrating tech-cards into a sophisticated tool which can either be web-based or bank-software based. In this way, financial institutions can create a comprehensive risk assessment model and loan calculator. Through its scoring methodology, the tool determines the credit risk of farmers and rejects loan applications from non-profitable farmers. The agricultural tech-cards integrated into the tool and based on the qualitative and quantitative information provided; allow the tool to calculate the working capital needs and the most likely yield/income from various agricultural activities, suggesting loan limits for each client in line with the repayment capacity and real need of them. It also provides recommendations on appropriate loan maturity. That means that the credit decision is based on projected cash flow in line with the agricultural production cycles and also takes into consideration not only agricultural income and expenses but also non-agricultural income and expenses of the producer in order to reflect the most likely income-expense projection of the loan applicant.
In our experience, the management of large portfolios and heavy operational processes generates considerable expenses. This is even more evident in the case of agricultural lending, where operating expenses, because of dispersion, are higher than in urban areas. Therefore, we believe that a new approach to agriculture lending will be able to add value to the banks.

- **Training of middle management and loan officers.**

A good understanding of the economy in rural areas and technical knowledge is very important in the case of agri-lending. Therefore, staff working with these products must be able to make an appropriate assessment of the farm and the market. In this sense, training of agricultural credit staff is a pre-condition to make a good analysis of agricultural clients and reduce unnecessary risks.

Trainings can be in form of classroom ones or coaching on-the-job. This should be part of professionalization efforts of the banks. Trainings can be offered to two distinct groups of participants:

**Trainings for middle management and branch managers** should give an overview about agriculture in Kosovo and its importance, potential markets, the costs and risks of agri-lending, understanding the analysis, taking decisions, etc.

**Trainings for loan officers** should concentrate on the understanding of the agricultural and livestock activities (using technical cards), risks and costs as well as the analysis of the farm management capabilities of the client and the financial situation of the farm, thus the repayment capacity and willingness of the client.

- **Developing new products for agricultural lending (including insurance)**

It is important to remark that working with MSMEs and smallholders in the rural areas has shown everywhere that the larger part of the demand for finance is for working capital rather than for investments. Therefore, the portfolio will grow more with seasonal working capital loans, for which appropriate demand oriented products are needed (inputs’ purchase, labour force payments, rent of machinery, veterinary services, transport services to go to the markets, etc.). However, visionary and commercial-oriented farmers will be interested in investing in fixed assets in order to increase their yields and income, if the access for financing such investments is attractive and the maturity will allow them to do so.

As mentioned before, agricultural clients’ needs can be fulfilled only if the opportunity and the loan conditions are adapted to the specific characteristics of their businesses, which in most cases is seasonal (can be permanent in the case of perennial crops). Therefore, loans must be designed towards demand, be disbursed on time and the cash flow analysis must consider the seasonality of the activity to be financed as well as the other activities (agricultural and non-agricultural) that the clients is carrying out to generate additional income (wages, income from service, trade and handicrafts, etc.). All sources of income shall be taken into consideration for the repayment plan, since some sources could allow the client at least to pay the interest rate in monthly basis or make some partial payments to the capital and thus reducing the risk for the financial institution and alleviating the client’s last payment, which will only include the principal and not both, interest + principal. All these elements need to be reflected in the product choice of the banks, otherwise serving agriculture clients with loan products intended to serve trade business might end up producing frustration on the banks’ and client’s side.

**Transversal issue - Strategy for agricultural sector development**

To ensure the achievement of the expected goals of the program, it will be important to count with the support on the macro level towards the sector development. Among the top priorities, the “Agriculture and Rural Development Plan 2014-2020” of Kosovo includes the enhancement of farm viability and competitiveness, promotion of social and economic inclusion and lastly the transfer of knowledge and innovation. These priorities are largely compatible with the objectives of
a KfW program that aims the same, but with a particular focus on stimulating the demand and supply for financial services in the agriculture sector.

The strategy of the Government looks for means to strengthen the sector by investing in public facilities to support farmers to confront the challenges of the demanding markets and the requirements of food safety standards as well as to put efforts in providing practical training for a large group of farmers. In this sense, the commitment and support of the Ministry of Agriculture seems to play a key role within the framework of the program and in the sector development.

Finally, for an efficient implementation, the Government should appoint a coordination structure for all the various initiatives going on in the country in order to avoid overlapping and double unnecessary efforts. Coordination between projects and measures being implemented will have more positive impact in the sector, the production and the farmers.

8.2 Potential project structure

Based on the previous description of the content of each Pillar the project structure there are several actors:

- **On the macro level** is the **Ministry of Agriculture (MOA)**. Any program related to the agricultural sector must have the support of this Ministry, especially if it is also related with public investments and technical assistance, fostering the improvement of agricultural production and the use of best practices.

- **KfW** acts as financing agency for the program. The support of KfW will go concretely to finance the required technical assistance for all three pillars: the management of the investments, the training of farmers and the support to the banks to introduce appropriate tools and products to serve agricultural clients and thus expand the Banks’s outreach to rural areas.

- The **Partner Banks (PBs)** are those banks that want to participate in the program to expand outreach to rural areas and concretely to small- and medium holders. The banks will receive technical assistance to introduce best practices, tools and products to better manage the risk and costs of agricultural loans: scoring tools and insurance products.

- **Smallholders** will benefit on the one side from special agronomic training to learn about best practices in the production of crops with high market potential and on the other hand, they will be able to use the services offered by the public investments done by the MoA in cooperation with KfW technical assistance. With this dual support they will be able to apply for loans for working capital or investments by the PBs.

- The technical assistance to implement the tasks specified in the three pillars must be carried out by a consultant company that can show experience in both the agricultural as well as the financial component.

- Finally the proposed structure considers also an additional actor to support the loans granted by the banks to the clients in the rural areas, the **Credit Guarantee Fund** that is being created by several donors.

The project structure links the three pillars since all are related to each other to reach the objective of the project, which is to enhance growth and employment and thus to improve the generated income of the rural population.
In order to have a better impact and results, all this measures shall be coordinated with other ongoing programs in the country.

**Impact and Risks of the Idea**

a) **Possible impact of the Project Idea 1**

- **Increase in production and competitiveness** through the use of better inputs, greenhouse production and good agricultural practices as well as to maintain safety and food standards in the livestock production will contribute to the sector growth as well as to improve the income of farmers,

- **Employment generation**: Warehouses and Greenhouses extend the season and enable farmers to produce agricultural goods off-season and therefore can demand more working force,

- **Better quality and increased productivity** will result in better access to markets and to increase income for the farmers. Especially the opportunity to sell agricultural products off season will contribute to this target,

- All measures will contribute to at least maintain if not increase labor force and thus reducing a bit the migration process to the urban areas or to foreign countries,

- The program can contribute to reduce the negative trade balance for some products,

- **Strategic alliances with agribusiness** will allow farmers to better produce and ensure the sale of their production,

- **Cooperation between farmers** can increase in order to be more competitive,

- Trained farmers will be able to better manage their farms and business as well as to be prepared to use financial products,
Financial institutions can benefit from technical assistance to develop demand-oriented products, to introduce adequate credit technology for agricultural lending, to introduce risk management tools and schemes and to train their staff for managing loans in rural areas.

b) Possible risks for the program

Table 16: Risk matrix

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Risk estimation</th>
<th>Probab. Impact</th>
<th>Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>The political and economic situation in Kosovo as well as the banking system remains viable and active.</td>
<td>In the scenario of a financial crisis or as a result of political reasons, the business environment may change negatively</td>
<td>Low</td>
<td>In order to mitigate this risk, the stakeholders of the program will continuously monitor the financial and political environment.</td>
</tr>
<tr>
<td>Climate problems affect agricultural production</td>
<td>Production will be affected if any negative climate event will happen in the country</td>
<td>Low</td>
<td>Using risk management tools such as climate risk evaluation or developing insurance products</td>
</tr>
<tr>
<td>Rural areas remain unattractive due to the lack of infrastructure</td>
<td>The expected maintenance or creation of employment could be in danger</td>
<td>Medium High</td>
<td>Investing in public goods can keep the population working in rural areas</td>
</tr>
<tr>
<td>Needed working force is not available</td>
<td>Migration to the urban areas especially of young people can reduce the availability of working force</td>
<td>Medium Medium</td>
<td>Training young people in agriculture with a commercial perspective</td>
</tr>
<tr>
<td>The Government is not willing to develop a strategy for the sector</td>
<td>This risk could affect the whole approach of the program</td>
<td>Low Medium</td>
<td>Straight away implementation of the foreseen measures looking for an impact in the smallholders</td>
</tr>
<tr>
<td>Political measures such as debt forgiveness affect the loan portfolio of banks</td>
<td>This can not only reduce the loan portfolio but decrease considerably the interest of banks to go into the sector</td>
<td>Medium High</td>
<td>Continuous monitoring of the sector policies, especially previous to any election process</td>
</tr>
<tr>
<td>Banks are not willing to expand their outreach to rural areas and less to small holders</td>
<td>The allocation of loans to smallholders will not happen and thus will not contribute to the sector development</td>
<td>Low High</td>
<td>Specific training and risk management tools introduced by the banks will help to overcome this risk</td>
</tr>
</tbody>
</table>

Estimation for the program total cost

On the basis of a 36 months duration of the project, the costs for the whole program and the implementation of tasks described for the three pillars are estimated in EUR 3,01 million. However, the final amount will depend of the total investment to be done under the first pillar. The
budget can increase if risk management tools will be introduced either in each partner bank or in a network institution (i.e. Credit Guarantee Fund).

A gross estimation for the investments for Pillar 1 could reach up to EUR 1,23 million. However, the amount to be invested will depend from the priorities and the sources that the MoA will have to make such investments. In any case, the program does not necessarily need to invest in all measures, but in the ones that a preliminary assessment will show as feasible and with potential to be managed in a commercial and sustainable way.

Table 17: Cost estimation for public investments

<table>
<thead>
<tr>
<th>Measure</th>
<th>Units</th>
<th>Total cost in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse</td>
<td>1</td>
<td>100.000</td>
</tr>
<tr>
<td>Cooling house (40m2)</td>
<td>1</td>
<td>80.000</td>
</tr>
<tr>
<td>Packing facility</td>
<td>1</td>
<td>100.000</td>
</tr>
<tr>
<td>Certification facility and Laboratory incl. equipment</td>
<td>1</td>
<td>750.000</td>
</tr>
<tr>
<td>Slaughter house</td>
<td>1</td>
<td>200.000</td>
</tr>
<tr>
<td><strong>Total investment</strong></td>
<td></td>
<td><strong>1,230.000</strong></td>
</tr>
</tbody>
</table>

The estimated costs for the implementation of Pillar 2 could reach a total of EUR 450.000, which includes the half of the time of the long-term expert, 5 months of short term experts and EUR 90.000 for the model farms.

The technical assistance for the MoA for the implementation and accompanying measures under Pillar 1 plus the technical assistance of the PBs under Pillar 3 is estimated in EUR 1,33 million distributed between long-term and short-term experts as follows:

- 15 from a total of 30 months (the half of the time is considered under the budget of Pillar 2) for a long-term agricultural specialist to implement Pillar 1. This expert will be on a permanent basis on the project and the planned 30 months will be spread between Pillar 1 and 2 equally.
- 3 months for short-term experts with specific technical knowledge to conduct technical assistance in bringing new technologies and international standards under Pillar 1.
- 36 months of a local agronomists to support the international specialists and accompany the implementation on permanent basis. These experts will support also the implementation and monitoring of the activities to be carried out under Pillar 2.
- 18 months for the financial expert to assist the PBs to build up a loan portfolio in the agricultural sector and the segment of small holders, introducing appropriate tools to manage risks and costs and train bank’s staff.

The budget of the TA for Pillar 2 and 3 will reach a total of EUR 1,8 million; it includes all costs needed to run the project: fees, allowances, flights and travel costs, reporting, training logistics, project vehicle and other costs.
Annex 6

Project Proposal of the Craftsmen and Entrepreneur Association of Prizren
To: Colonel Jochen Gumprich  
KFOR German Contingent

CC: GIZ Organization - Prishtina

From: Association of Artisans and Businessmen of Prizren  
Mr. Sami Dida, Chairman of the Board

Concept proposal for potential use of German KFOR field camp  
For educational and economic purposes
Dear All,

Further to a visit by Colonel Jochen Gumprich to the Association's office, and further to a visit by the Board of the Association to the KFOR field camp on 04.04.2017, we accepted permission from the Colonel to present a concept proposal for the future potential utilization of the camp for educational and economic purposes. Since the Association is interested to provide our contribution and to be involved in future economic use of the camp, we have prepared a concept proposal for future economic and educational use of the camp.

**General Information on the Association of Artisans and Businessmen of Prizren-AABP**

AABP is one of the oldest associations in the region, as it will celebrate its 71st anniversary as a nonprofit association at the end of this year. Its main purpose is the promotion, training and protection of interests of artisans and businessmen - their products and services; it reviews, proposes ideas related to regulations and laws on to the country's economy, and acts as a liaison between businesses and the local and central government.

The Association has its membership in the city of Prizren, consisting of artisans, small and medium-sized businesses. The basic document of the Association is the Association's statute and rules of procedure. The Association has its Executor, Chairman, Vice-Chairmen, Department of Women, Administration staff and the Cashier.

**Potential use of the KFOR field camp in Prizren.**

The Board of the Association of Artisans and Businessmen of Prizren (together with a group of artisans and businessmen) had the honor to visit the KFOR field camp in Prizren on 04.04.2017 and to assess the capacity of this compound.

*According to the Association's assessment, this camp has all the necessary capacity to turn into a light industrial zone and support center for internships, vocational training and retraining, start-up businesses and growing businesses.*

The following options are considered to be the most efficient use of the camp:

1. Training Center for professional training and retraining;
2. German/Kosovar economic and industrial zone for co-investments with potential investors from Germany and Kosovo
3. The involvement of the German organization GIZ as an important stakeholder, in the process of changing the camp's destination from a military area to an economic area.

**1. Training Center for Vocational Training and Retraining**
Over the past few years, with the opening of private universities, the number of graduates in social sciences has increased sharply, while a significant number of graduates are unemployed and unable to cope with the labor market. Manufacturing and processing companies face difficulties in finding professional staff capable of working as part of the production process.

It is estimated that the camp compound has adequate capacities for the establishment of training centers for vocational training and retraining. The utilization of such capacities for these purposes will contribute to the increase of vocational training in Prizren and it may be more productive if transformed into a small industrial area which would include a vocational secondary school and a support center for initial training and retraining for the education and training of existing staff. Establishing co-operation for internships with vocational secondary schools in the city will increase the quality of vocational training and provide the opportunity for young people to get hired or self-employed after completing education.

The training center will also serve for vocational training and retraining for existing staff of private companies thus increasing human and manufacturing capacities. Establishing a professional training center which meets international standards would increase the interest of young people to participate in such training and may reduce the interest for migration of young people from Kosovo.

The following objectives may also be achieved:

1. Increase in the number of employers who offer vacancies for professional practice,
2. Increase in the number of vocational training students who participate in professional internships,
3. Increase of access to professional internships
4. Increase of quality of professional practice,

2. German/Kosovar economic and industrial zone for co-investments with potential investors from Germany and Kosovo

The camp compound has all the capacity to become an industrial economic zone for German and Kosovo businesses. The current camp area is constructed at the highest standards (including infrastructure such as electricity, sewage, road infrastructure, etc.) by the German KFOR and this can be a good reference for potential German businesses.

We believe that this location will provide German investors with a better opportunity to co-invest in production and mitigate unemployment in Kosovo. This industrial area would also help the city of Prizren in terms of social development, by providing employment opportunities for young people in the city rather than thinking about migrating to Germany.

This proposal is ideally combined with the first proposal since a professional training center in this compound would make it easier for German businesses to recruit adequate local staff.

The involvement of the German organization GIZ as an important stakeholder, in the process of changing the camp's destination from a military area to an economic area.
For the process to be successful, the involvement of German GIZ is crucial and decisive to the process of changing the compound to be used for economic rather than military purposes.

During the past years it was shown that vocational schools in the city, including the municipality of Prizren, did not manage to achieve the required level in vocational education and professional training. Failure of such institutions is evident from the very low number of employed young people, the lack of skills among young people for self-employment and the tendency to leave Kosovo. This problem is equally prevalent for both genders.

Building a contemporary Training Center for vocational training is a necessity. The infrastructure of said compound and the involvement of German GIZ, by all means gives added value to this Concept Proposal.

Proposals by the AABP

- GIZ to manage transformation of the compound to be used for economic rather than military purposes. Training center to be managed by GIZ within a time period of several years.
- AABP to be the local implementing partner, since it has a network of members of artisans and businesses (and good knowledge of the economic situation).
- Feasibility, financial and operational analysis to be carried out by GIZ together with the AABP as a local partner,
- To contract foreign or local professional staff to be engaged in the provision of training,
- To enter into agreements with vocational schools and adopt appropriate legislation to carry out the internships in the training center.
- Promotion of the Center for Professional Retraining,
- GIZ and AABP to organize certification and assessment of trainees (agreement with the institutions for such certificates to be recognized at the central level)
- To organize study visits for GIZ and AABP staff to German business and training organizations to learn the best practices for such cases.

To promote the compound as a light industrial area for the German investors, to organize conferences and symposia promoting the compound among potential German investors in Germany and Kosovo, pointing out the advantages of the compound in Prizren and the recruitment facilities for new employees because they can come directly from the training center of the compound.

may in coordination with the Minister of Diaspora of the Republic of Kosovo promote the compound among the German Diaspora to absorb investments from Albanian Diaspora as well.

The Chairman of AABP

[Signature]

The Chairman of AABP

z. Sami Dida
Annex

There are three vocational secondary schools in Prizren: Namely, the "Ymer Prizreni” school, "11 Marsì” school and the Center of Competence. In addition, vocational training is offered in the municipality by the Center for Employment and Vocational Training.

Deficiencies or weaknesses were identified in the schools ranging from:
- Cabinets that are not well equipped for practical work,
- Unsustainable agreements with private companies,
- Inadequate and poorly organized co-operation with private companies,
- Lack of funds,
- Lack of professional staff,

Below are some recommended vocational skills according to businesses, business associations, or foreign investors who have faced difficulties in recruiting employees in the following areas.

To summarize a short list, the following is a list of priorities for vocational training:

1. Tailors,
2. Welders,
3. Shoemaker (Shoe Sewing, Modeling)
4. Vehicle industry,
5. Metal products,
6. Wood products,
7. Electric equipment installers,
8. PVC products,
9. Food industry,
10. Handicrafts (gold and silver, filigree),
11. Laboratory technician for quality control of construction materials,
12. Operator of production lines,
13. Driver for heavy machinery in construction,
14. Auto electrician,
15. Production technology expert,
16. Household appliance electrician

In a summarized form, the vocational secondary schools in Prizren offer the following training/services:

- Business administration,
- Auto electrician,
- Hydraulic and pneumatic mechanics,
- Industrial electronics,
- Household appliance,
- Electrical installer,
- Welding,
- Enterprise,
- IT electrician,
- Tailor,
- Hairdressing,
- Waiter,
- Accounting,
- Banks and insurance,
- Logistics freight forwarding,
- Marketing assistant,
- Legal assistant,
- Organization of social activities,
- Retail and wholesale trade,
- Food technology,
- Hotels, agribusinesses,
- Mechatronics,
- Software design
- Audio and video, in organizing events.
- Road traffic,
- Auto mechanics,
- Water and sanitation installers,
- Designing precious metals (filigree),
- Tool constructor,
- Metalworking-metal design,
- Auto body mechanic,
- Heating and cooling equipment installer,
- Geodesy,
- Construction,
- Architecture,
- Design of clothing and textiles,
- Graphic design,
- Interior design,
- Hairdressing,
- Administration clerks,
- Human resources officers,
- Customer service and sales,
- Import-export clerk,
- Assistant at information office,
- Travel guide and tour groups,
- Assistant
- Cook
Annex 7

Needs Assessment by PEN and forumZFD: German KFOR camp future use study
Needs Assessment

German KFOR Camp Future Use Study

Submitted by:
Peer Educators Network (PEN)
and
Forum Civil Peace Service (forumZFD)
on behalf of
Providers of non-formal education for youth

Pristina, 29.09.2017
1. Introduction

At the current location of the German KFOR Camp in Prizren, an Education, Innovation and Business Park\(^1\) will serve as an inclusive hub that facilitates an exchange between businesses, educators, civil society and youth to improve their employability, showcase job opportunities and empower them to become social and business entrepreneurs, who will develop creative approaches to advance culture, public life and the economy of Prizren, Kosovo and the region. The NGOs Peer Educators Network (PEN) and forumZFD propose to include a Youth Education Center (Jugendbildungsstätte), which offers an educational facility to local and regional providers of non-formal youth education. Thereby the park would achieve its unique selling point, which distinguishes it from other business parks in the region.\(^2\)

The combination of top-notch businesses, educational facilities and art spaces\(^3\) with a youth education center (that targets younger students, complements the education content and offers accommodation) would make the Education, Innovation and Business Park a national and international hub for events and youth exchanges that connect people from across the Balkans. Thereby, the good reputation of Germany – which has been symbolized by the KFOR Camp and gained by the Bundeswehr through its peacekeeping mission to ensure the security and peaceful living together of people from different ethnicities – will be continued through fostering peace through inter-ethnic youth exchanges and stability through economic and social development. Such a youth education center is currently lacking in Kosovo and its establishment is supported by the German-French Youth Organization (DFJW),\(^4\) the recently established Regional Youth Cooperation Office (RYCO),\(^5\) and Kosovar youth education organizations,\(^6\) all of which are interested to host their exchanges, trainings and workshops in such an institution.

2. Target Group Youth

   a. Lack of Quality Education

Kosovo’s education system faces many challenges and has undergone many attempts at improvement without succeeding to achieve a substantial improvement of the education quality (as the recent PISA

\(^{1}\) During the business lunch meeting on September 12\(^{th}\), 2017, with Mr Reinhold Robbe and representatives of GIZ, STIKK, ICK, BONEVET and forumZFD, it was mentioned that the overall concept of the future use of the KFOR camp in Prizren aims at establishing a “Technologie-, Trainings- und Businesspark”. We named it differently to highlight its uniqueness (focusing on education and creativity).


\(^{3}\) As said during the meeting on September 12\(^{th}\), 2017, the future tenants will include office spaces for business (ICT incubators, startups, offices for Kosovo ideas, ICK and STIKK), educational facilities (university faculties, an agricultural innovation lab, vocational training workshops and a sheltered workshop), spaces for art (a modern art gallery and facilities that can be used during DokuFest), as well as other public facilities (a German KFOR museum, student dormitory and facilities for the fire brigade of Prizren).

\(^{4}\) As expressed in an email from Frank Morawietz, DFJW’s Special Envoy for South-Eastern Europe (September 27\(^{th}\), 2017, 5:09PM) – cf. attachment.

\(^{5}\) As expressed in an email from Fatos Mustafa, RYCO’s Deputy Director (September, 29\(^{th}\), 2017, 1:26AM) – cf. attachment.

\(^{6}\) As expressed in a quick needs assessment among non-formal education through CIVIKOS’ network of Kosovar Civil Society Organizations, which was carried out from September 26\(^{th}\) to 28\(^{th}\), 2017.
results demonstrated). One reason why change comes slowly is the fact that Kosovo does not have enough qualified teachers to raise the standard of education. The number of teachers who engage the students, make them ask questions, work in teams, offer projects and present their ideas is very low.

Providers of non-formal education supplement the offer of education opportunities of every country, as can be seen in the example of the network of youth education centers in Germany. In Kosovo, their contribution could be vital in the short- and medium-term as they are more flexible and faster in adapting their offer to the pressing needs.

**b. Weak Youth Participation**

Extracurricular activities, which can be sources for learning creativity, critical thinking, problem solving and being proactive, are often lacking at schools. Youth participation – e.g. in students councils – is not encouraged and sometimes not available. Formal structures exist everywhere on paper, but their implementation is pending (e.g. student representations at every school, the Kosovo Youth Council (KYC) with branches in all municipalities and the youth centers in every town).

In relation to Kosovo’s large youth population, their positions and ideas are underrepresented in the public discourse. Outstanding exceptions may be the initiatives to save “Lumbardhi” cinema from being demolished, to establish “Pristina hackerspace” and to transform a factory building into the culture and art space “Termokiss”. However, other forms of independent expressions of youth subcultures are rare sights even in the cities. Whereas active youth protests are mostly channeled through the opposition party Vetevendosje.

To sum up, youth concerns are hardly heard beyond singular projects that evolve around physical spaces and within protests organized by political parties, who exploit the youth for the expression of their power. This shows a great need for engaging the youth to empower them to express, organize and represent their needs and opinions in the public space.

**c. Youth Unemployment and Employability**

Kosovo is the youngest country in Europe. 50% of its population being younger than 25. Reliable data about Kosovo’s unemployment is hard to come by. Relying on data from the Kosovo Agency of Statistics,

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8 Despite the fact that many youth educational spaces were originally founded by the Allied forces to de-Nazify the German youth, they are still in high demand today and thus continued to exist. The history of youth educational spaces in Germany has been documented by the Arbeitskreis deutscher Bildungsstätten e.V., which is an umbrella organization since 1959: [https://www.adb.de/](https://www.adb.de/)


11 Cf. [http://www.osce.org/kosovo/97204](http://www.osce.org/kosovo/97204)

an optimistic source estimates that 27.5% in general and 60% of youth were unemployed in 2016.\textsuperscript{13} In light of the large proportion of young people among the population, these numbers are worrying. Considering the violent protests of 2015 and 2016, Kosovo’s youth may be its greatest threat to societal peace and at the same time its most precious resource.\textsuperscript{14}

Besides other factors, one of the main reasons for the high rate of youth unemployment is the gap between the skill set that the youth learn at Kosovo’s schools and universities and the labor market demands.\textsuperscript{15} Hence, many donors (e.g. GIZ, USAID and LuxDev) have programs that try to narrow this gap through a variety of actions. Some of those programs target the ICT sector and creative industries through supporting trainings, ICT incubators and startup companies, as the ICT-sector bears great potential for economic growth and youth employment. However, these programs often focus on trainings in ICT-skill, management and marketing etc., but do not address the creative industry’s demand for creative employees who take the initiative and work independently (i.e. without close supervision).\textsuperscript{16} In other industries “companies report training needs for communication skills (foreign languages and mother language), problem and conflict solving skills, mathematical-numeric skills, client-oriented services, etc.”\textsuperscript{17} Thus, ICT-trainings have to be paired with other content to achieve a more comprehensive education. We argue that this aim can only be achieved if the Education, Innovation and Business Park in Prizren does not only include institutions from the ICT-sector, but also providers of non-formal and formal education.

3. Civil Society’s Role in the Education, Innovation and Business Park

a. Streamlining Non-Formal Education

Since the war of 1999, Civil Society Organizations (CSOs) contributed greatly to the development of Kosovo. After the boom following the war, Civil Society has been consolidating over the past few years and a number of NGOs have crystalized to be providers of quality non-formal education for youth. In their trainings, seminars and workshops, they cover a wide variety of topics: empowerment and activism, youth participation and taking the initiative, communication and campaigning, critical thinking and media literacy, human rights, gender equality, health awareness, ecological consciousness, inclusion of people with special needs, and many more. Probably the largest provider of non-formal education

\textsuperscript{13} Cf. \url{https://tradingeconomics.com/kosovo/unemployment-rate} In contrast, the 2010 study “Unleashing Change. Voices of Kosovo’s Youth 2010.” by UNICEF and the Kosovar Stability Initiative estimated youth unemployment at 73\% and emphasized that among women the rate goes up to 81.8\%. This may suggest that the actual numbers for 2016 are higher.


\textsuperscript{15} Ibid. pp. 38

\textsuperscript{16} The demand for these skills were expressed during three interviews with directors of ICT companies in Pristina.

\textsuperscript{17} Besim, Mustafa, Lleshi, Samir 2014: Education in Entrepreneurship in Kosovo, page 68. See also: Berlin-Institut 2017: Beschäftigung und Migration in der Region Westbalkan: Übersicht der Wanderungsbewegungen und Arbeitsmärkte, page 8.
for youth is the local organization Peer Educators Network (PEN) - one of the submitters of this proposal.¹⁸

Faced with high youth unemployment rates (as described in section 2c), it is understandable that worries about future employment lay heavy on the minds of Kosovo youth. Consequently, non-formal education programs have to consider adapting their content to the need for increasing their participants’ employability. By including CSOs and businesses in one hub (the Education, Innovation and Business Park in Prizren), the gap between the non-profit and profit sectors is narrowed, as both sides realize that their educational requirements intersect: youth empowerment serves youth participation as well as acting proactively in the business sector;¹⁹ creativity serves overcoming prejudices as well as web design and finding business niches, critical thinking serves media literacy as well as developing better business ideas, gender equality serves the advancement of Kosovo society as a whole as well as it introduces new target groups to the ICT sector, communication skills serve the lobbying for the demands of young people as well as for marketing and sales, etc. etc.

Thus, businesses and CSOs can join forces in designing training programs, which cater the needs of both sectors as well as the youth and Kosovo’s society at large.²⁰

¹⁸ “The mission of PEN is to empower young men and women regardless of their gender, ethnicity, religion, sexuality or other social categories through programs which enhance their leadership skills while promoting human rights and active citizenship. PEN’s programs tackle youth empowerment and employment, volunteerism, gender equality, social innovation and entrepreneurship, environmental protection, anti-violence and healthy lifestyle.” Available at: www.ngo-pen.org

¹⁹ “Taking the initiative” is a skill that many job applicants lack, according to a few companies in the creative industry.

²⁰ The Science and Technology Park in Berlin-Adlershof is an example from the high technology field for how bringing together education providers and businesses into “clusters” can create a solution-oriented cooperation: cf. the presentation on Adlershof’s Success Factors (page 14) is available at: https://www.adlershof.de/en/downloads-photos-videos/flyer-brochures/
b. Existing Training Spaces

The training spaces that are available to CSOs in Kosovo have quite some limitations, depending on the requirements of the concrete training. As a rule of thumb, the more participants, the greater the geographical region they are from and the longer the training, the fewer options there are:

- Small, local and short trainings

There are a few options available in towns across Kosovo for trainings of up to around 30 participants. Those include the existing youth centers (as mentioned above), pedagogical centers and other facilities, which are often free of charge. Prizren also has a youth center, which suffers from the same limitations as their counterparts in other towns (relatively small space for few participants).

- Large, national/regional and long trainings

For the vast majority of trainings of these kinds, organizations rent hotel rooms in- and outside of Kosovo (see section 3c). One alternative is Toka, which is an NGO in Prishtina that offers a large room (230m²) with a maximum occupancy of 40 persons. It has also access to 13 cabins of Prishtina Municipality in Germia Park for the same number of participants. However, conditions are not favorable as the place does not include a kitchen, nor bed linen, nor sufficient heating for the meeting space, which makes it suitable only during the summer.21 Another alternative is currently being developed by YMCA Kosovo. They will start building a “recreation center of non-formal education in the Municipality of Gjakova” in spring 2018, which will consist of three buildings including 90 beds, “training spaces, offices, kitchen and spaces for indoor and outdoor activities”.22 Though this will be the only facility in Kosovo similar to the one we suggest, its focus is on younger children, outdoor activities and ecological topics and does not include a perspective on employment.

To sum up, at the moment, Kosovo lacks a facility that offers large capacities (for more than 40 participants) and a suitable accommodation space. It is this niche that we want to fill with our proposed Youth Education Center.

c. Insufficiency of Hotels

Due to lack of youth education spaces, a lot of the larger trainings that include overnight stays are held in hotels. Hotels are the easiest option, which offers both accommodation and a space to hold the trainings. But this option has two major disadvantages:

1. CSOs spend a large portion of their project funds on accommodation costs and renting the space where the training takes place. Some organizations save some money by renting hotel rooms in Albania or Macedonia, where they are cheaper outside the season. However, this entails transportation costs, reduces the training time and does not promote Kosovo. PEN, along with other CSOs, need cheaper accommodation space to increase number of participants and the number of activities.

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21 This information was gathered in a phone call with director Jehona Gjurgjeala on September 22nd, 2017. More information on Toka is available at: http://toka-ks.org/En/

22 This information was gathered in an email from YMCA Kosovo CEO Dorina Davies (September, 29th, 2017, 8:45AM).
2. The atmosphere in a hotel is not conducive to an empowering and creative training. The atmosphere of a place has significant impact on the effectiveness of a training, as the 2009 Study *Space: Learning Spaces in Higher Education: Positive Outcomes by Design* shows.\(^{23}\) In a hotel, staff caters to every participant’s needs. The interior must remain in the same arrangement as provided by the hotel, on which the youth do not have any influence (i.e. where they are disempowered).

We envision a facility where an inspiring atmosphere is generated, which empowers the participants to take initiative and develop their own ideas. An atmosphere that is conducive to exploring one’s creative potential in the direction of ICT, media, arts, crafts, business and social entrepreneurship and higher education. A space, which the youth can own, where they express themselves, where they feel free to rearrange and decorate it according to their needs. The training participants themselves are in charge of governing, cleaning and maintaining the facilities, thus learning to take care of their surroundings. Thereby, the space itself becomes part of the learning process and a canvas on which the youth express themselves. Taking matters into one’s own hands starts with fulfilling one’s own needs, taking charge of one’s surrounding and learning to organize the space in which a group is attending a training.

**The kind of atmosphere that is needed for high quality youth education is cannot be attained in a hotel.** Therefore, a space specifically dedicated to non-formal education is preferable over a hotel.

d. **Synergies and Incubation of Innovative Ideas**

The unique selling point of the model for a science and technology park, that we are proposing, is constituted in the synergies that it bears:

1. The facilities of the Youth Education Center will be available to all providers of non-formal education in Kosovo. Through facilitation and organization of events, the center will serve as a hub for providers of non-formal youth education, to exchange best practices, develop complementing training content and cooperate on specific projects. It thereby helps to “improve the organization and vigour of civil-society youth organizations via networks and alliances and to strengthen the role of young people in the political system”, as recommended by a 2013 study on Kosovo, financed by the Konrad-Adenauer-Stiftung.\(^{24}\) Thereby it could serve as an example for CSOs from other fields to create coalitions of their own, which the country needs so urgently.\(^{25}\)

2. The inclusion of a Youth Education Center in the Education, Innovation and Business Park, opens it to a younger audience, expands its training offers in terms of knowledge and skill sets and

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emphasizes creativity as key component for successful business ideas, social change and employability (as described in section 2c).

3. The physical proximity of stakeholders from the business sector, civil society, formal education sector and arts provides the opportunity to cooperate in a chain of consecutive steps, which identifies the potential of a young teenager, grows it, assists her or him in identifying his or her future occupation and offers to help developing a business or non-profit organization. For this reason, we believe that establishing the Youth Education Center in the vicinity of ICT incubator (ICK), a makerspace (BONEVET), vocational schooling and university facilities constitutes a match from which all sides profit: the center profits from the inspiring atmosphere of the incubator and makerspace and they receive better trained youth who already got an insight into an incubator, a makerspace, vocational schooling and university (see also section 3a).

4. Through adding a social incubator (PEN’s and UNICEF’s Innovation Lab) to the ICT incubator (ICK), an exchange between the two can take place and generate innovative ideas for social change and ICT advancements for the benefit of the individual and the country. Kosovo needs new approaches from within to tackle the large variety of challenges that it faces. Through trainings and workshops, CSOs can help young boys and girls explore their potential. Once they found their passion, either the Innovation Lab26 and in the “Up Shift” program or the ICT incubator, support those youngsters in developing innovative ideas to make a profit and be self-sufficient – instead of thinking to go abroad, which many young people are considering. As a result, young men and women tackle social problems and develop ICT-solutions through innovation and contemporary innovative ideas. This cooperation can serve as a good example for how the incubation and startup models can generate mutual benefits for civil society and the ICT sector.

5. The potential for synergies between the Education, Innovation and Business Park and documentary film festival DokuFest is a good argument for choosing Prizren as location for a science and technology park. However, what synergies may be and how well the Youth Education Center contributes to the young arts and media scene in Prizren, may not be further elaborated at this point.

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26 PEN has been entertaining the Innovation Lab for over four years with the support from UNICEF. More information on the Innovation Lab is available at: [http://kosovoinnovations.org/](http://kosovoinnovations.org/)
Our holistic model for a Youth Education Center and Education, Innovation and Business Park takes innovation to a whole new level. It is tailored to the situation in Kosovo, which include the need for better education for creativity – as precondition for a thriving ICT-sector and economic development – and the need for sustainable peace – as built through non-formal education, interethnic youth encounters and social incubation.
4. Impact

a. Economic Development

Kosovo’s information technology companies and creative industry are sectors of Kosovo’s economy that show promising growth potential. Examples like Estonia demonstrate the potential significance of this sector for a national economy. Given Kosovo’s young population and its affinity to ICT, targeting the ICT-sector appears as an attractive opportunity for economic development.

As the premises of the German KFOR Camp in Prizren are vacated, transforming it into a science and technology park dedicated to booming industries surely makes sense. The promises for economic growth need not be repeated here, however, we stress the need for a good analysis of the needs for economic growth on the ground. Those include measures that go beyond the economy to tackle the underlying reasons for the lack of employable youth (as argued in section 2c).

b. Peacebuilding

Economic development surely is an important cornerstone of peace building as well. However, the case of Yugoslavia shows that economic prosperity alone is a very thin protection from social unrest. Once the economy weakened, ethnic tensions emerged. As long as families maintain interethnic resentments in defiance of a state that promotes a national identity of equality, peace is not sustainable. The failure to deal with the past of WWII during Yugoslav times led to the wars of the nineties. It is not conceivable why this should not repeat, if current interethnic resentments, prejudices and hate speech – which are prevalent among youth – are not addressed. That is the reason why forumZFD – a German peacebuilding organization with offices in four countries of the Western Balkans and a focus on peace education and dealing with the past27 – advocates for a comprehensive concept for the science and technology park as described in this document.

Angry young men took to the streets in violent protests in 2015 and 2016, because their economic prospects are dim and because they did not see any other way of expressing their political will than through violence. Youth participation in political processes, their ability to organize and form public opinions, knowing their rights and democratic procedures is as important as creating jobs to diffuse the simmering tension that currently exists in Kosovo. Consequently, international donors, such as the European Commission, the World Bank and USAID combine economic development with social chance by stressing both: “the importance of youth employment and empowerment.”28

Besides the need for economic development, Kosovo also demonstrates a great need for social change. Interethnic tensions are time and again exploited by the media and the political elite. Followers rally around leaders who use hate speech and false accusations to persuade the masses. On a daily basis – e.g. at schools – prejudices against Roma, Ashkali and Egyptians, Serbs and gay people serve as insults to any child. This demonstrates how fragile the current peace between the ethnicities may be. KFOR has been mostly successful in its mission to provide peace, but as it is more and more withdrawing, efforts

27 More information on forumZFD’s Western Balkans program is available at: https://westernbalkans.forumzfd.org/
to stabilize Kosovo from within have to be doubled. Now is the time for Germany to increase peacebuilding efforts in order to continue German KFOR’s work and its positive reputation.

c. Youth Encounters

Youth encounters are one of the most commonly applied methodology to overcome prejudices between people from different backgrounds (e.g. ethnicity, nationality, gender, sexual orientation, etc.). If done within an adequate setting, they have proven to be an effective tool.\footnote{The most commonly known example being the European Union’s Erasmus student exchange program.} Some organizations in the Balkans organize cross-border non-formal education events, such as annual summer camps, summer schools and other week-long trainings.

However, the “Western Balkan 6” came to the conclusion that youth exchanges and encounters have to be intensified and agreed to establish the \textbf{Regional Youth Cooperation Office (RYCO)}, modelled after and established with the help of the \textbf{German-French Youth Organization (DFJW)}. Representatives from both organizations were contacted regarding this proposal and \textit{were thrilled about the idea} to include a Youth Education Center in the future use of the German KFOR Camp.\footnote{See their supporting emails attached.} Both representatives stressed that they, too, are in \textit{need for the Youth Education Center} as proposed in this document. For their events, accommodation space is necessary – as the participants come from a variety of places and stay overnight for 1-2 weeks (see section 3c).

Currently, quite a lot of the existing youth encounters do not take place in Kosovo. Those hosted by close-by Bosnia and Herzegovina, Croatia, Greece or Bulgaria may not be reliably accessible for Kosovo citizens due to the lacking visa-liberalization and the resulting uncertainty regarding the outcome of visa applications. Kosovo, on the other hand, is accessible to the citizens from all other Balkan countries. And Prizren is the ideal city in Kosovo for youth encounters due to its multicultural heritage and the presence of Serbs,\footnote{For this reason, members of a Serbian NGO told me, they would attend a training in Prizren, but not in Pristina.} Turks, Roma, Ashkali, Egyptians, Gorani and other ethnic groups alongside the Albanian majority and due to its proximity to Macedonia, Albania and also Kosovo’s airport. \textit{Brining the youth of the Western Balkans and the world to the Youth Education Center in Prizren will make the Education, Innovation and Business Park a showcase of Kosovo’s young and vibrant youth and their creative potential.}

5. Needs Assessment

A quick needs assessment was conducted from September 26\textsuperscript{th} to 28\textsuperscript{th}, 2017. It consisted of a \textit{questionnaire} inquiring details about the needs relating to trainings and workshops as they have been conducted by Kosovar civil society and was distributed through CIVOKOS’ network of NGOs. Probably due to the short time frame, only 12 organizations responded:\footnote{When our proposal is being considered for the inclusion into the overall concept for the Education, Innovation and Business Park and we know more details about the available facilities, a more extensive needs assessment will be conducted to follow up on these findings.}

<table>
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<tr>
<th>Indicator</th>
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<tr>
<td>Total number of trainings per year</td>
<td>115</td>
</tr>
<tr>
<td>Total number of training days per year</td>
<td>334</td>
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</tbody>
</table>

\footnotesize{29} The most commonly known example being the European Union’s Erasmus student exchange program.

\footnotesize{30} See their supporting emails attached.

\footnotesize{31} For this reason, members of a Serbian NGO told me, they would attend a training in Prizren, but not in Pristina.

\footnotesize{32} When our proposal is being considered for the inclusion into the overall concept for the Education, Innovation and Business Park and we know more details about the available facilities, a more extensive needs assessment will be conducted to follow up on these findings.
<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Number of participants per training</td>
<td>20-100</td>
</tr>
<tr>
<td>Total number of participants per year</td>
<td>2236</td>
</tr>
<tr>
<td>Percentage of overnight stays</td>
<td>50%</td>
</tr>
<tr>
<td>Total amount spent on accommodation</td>
<td>110,000.00 EUR</td>
</tr>
<tr>
<td>Total amount spent on food and drinks</td>
<td>91,567.28 EUR</td>
</tr>
<tr>
<td>Degree of interest in renting a space equipped as we envision it</td>
<td>75%</td>
</tr>
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</table>

The responses indicate that **interest in a Youth Education Center, as we propose it, is high**. The CSOs conduct a great variety of trainings (in terms of participants, length and overnight stays) and spend more than 190,000.00 EUR on food, drinks and accommodation. One may conclude that a Youth Education Center tailored to the respondents’ needs has to be able to accommodate groups of various sizes (up to 100) and offer accommodation and catering. The sum that is being spent on food, drinks and accommodation by the respondents alone could be enough to maintain such a facility (see section 6).

Besides inquiring the above mentioned numbers, the survey also included **qualitative questions**, to which the respondents replied with lists of materials, equipment, rooms and other facilities they need. Based on their responses, we developed the following list of the components of an ideal facility:

**a. Offices:**
- 2 offices for administration
- 1 kitchen staff room
- 1 maintenance staff room

**b. Seminar and Workshop spaces**
- 1 large meeting room for 150 persons
- 2 large rooms for 50 persons max
- 1 large room with a theater stage for 100 persons
- 3 ateliers for max 25 persons (with equipment for painting, music, video cutting and design/layout)
- 1 room with computers for 50 persons (shared with ICK)
- 1 room with computers for 25 persons (shared with ICK)
- Outdoor space for sports, incl. sporting equipment
- Makerspace (shared with BONEVET)

**c. Accommodation:**
- 25 rooms with 4 beds
- 4 rooms with 1 bed
- 1 kitchen to provide food for 150 persons
- 1 eating room for 150 persons

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33 We strongly regret that we did not receive detailed information on the existing facilities and the costs for their maintenance. That information would have helped us to develop a more realistic list.
6. Sustainability

The above mentioned numbers from our needs assessment are encouraging (see the table in section 3a). Depending on the details about the available facilities and maintenance costs, it might be feasible to sustain the Youth Education Center with the CSOs, which responded to our inquiry, alone. Therefore it is likely to find enough interested patrons form Kosovo and around the world to make the Youth Education Center a self-sustained non-profit business.

To administrate the non-profit business, we propose to establish a board consisting of representatives from the organizations that have the greatest vested interest in the education center (including CSOs, ICT companies – e.g. ICK, BONEVET and STIKK –, government representatives and international institutions). They formulate quality standards which all organizations who want to rent the space have to abide by. The board also hires the administrator, who is in charge of operating the space. She or he hires the rest of the staff needed to run and maintain the center (e.g. one secretary, three kitchen staff, four house keepers, one technician and one grounds keeper). For a fixed price that is lower than the average cost of a hotel, the facilities are rented out to non-formal education organizations from Kosovo and the region. According to Georg Pirker, the Director for Overseas at Arbeitskreis deutscher Bildungsstätten e.V., an annual occupancy of 65-75% is needed for such a facility to be self-sustaining. He supports our vision for a Youth Education Center and offered his help for developing a business plan once we have hard data to base it on.\(^{34}\)

7. Attachments

To demonstrate some of the support we receive, two emails are attached to this proposal:

- Email from Frank Morawietz, DFJW’s Special Envoy for South-Eastern Europe (September 27\(^{th}\), 2017, 5:09PM)
- Email from Fatos Mustafa, RYCO’s Deputy Director (September, 29\(^{th}\), 2017, 1:26AM)

Both authors will be able to confirm their support if you chose to contact them.

\(^{34}\) In a Skype call on September 14\(^{th}\), 2017.
Annex 8

Letter of IPSIA to German Ambassador Heldt
HE Christian Heldt

The Ambassador of Federal Republic of Germany
Ambasada Gjermane Prishtinë
Rr. Azem Jashanica Nr.66d
Arbëria (Dragodan), 10000 Prishtinë

IPSIA is an Italian NGO operating in Kosovo since 1999 implementing many projects in different areas of interest. IPSIA promotes projects that combine the spirit of association efforts, training and social development in order to build bonds of solidarity between different people. During all these years this organization has contributed in economic and social development of the region and has actively organized activities that are aimed at all kind of people and at their search for direction and future, with a commitment to sustainable development, civil coexistence and peace.

For many years now IPSIA is working on different projects that involve youth, in different sectors in Kosovo as well as in other countries where IPSIA is present. IPSIA has established the youth center “ARKA” in Shkodra, which besides the activities’ environment, it also includes a social bar and a youth hostel; it operates as a multi-functional collaboration space and provides a supportive and sustainable environment for social inclusion as well as creativity and professional development, which proved to be very successful in Shkodra Municipality since 2015, and is managed successfully by the NGO IPSIA. Thus, we would like to bring the same model also in Prizren as the need to establish youth centres such as "Arka", is of a strategic importance, as it imparts a positive perspective not only on young people, who will directly benefit from the youth centres' services, but also to the whole city's social and cultural life, by bringing together young people of different interests and backgrounds organizing activities in benefit to the social and cultural life and development.

After the meeting we have had with the Prizren Municipality representatives, we were informed that the German KFOR Military Base in Prizren was soon to leave the camp, in spring 2018. Hereby we, a consortium of youth organizations, would request to get in use a building of +300m² in the premises of the camp, which would serve as a collaborative space to contribute at the creation of a favorable environment, where every youth may develop, create and innovate in order to empower and influence the future of Prizren community advancement. Your support in this request is considered crucial, by allowing future collaboration and inclusion of youngsters as direct beneficiaries of these spaces.

Visar Haxhifazliu
IPSIA – Country Coordinator
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Annex 9

Project Report about Dual Vocational Education for the Profile of Mechatronics by ALG
Association "Loyola-Gymnasium" (ALG) is an NGO registered in Kosovo and provider of the Elementary School Loyola, Gymnasium Loyola as well as the Social-Pedagogical Center “Loyola-Tanzit”.

ALG aims until autumn 2019 to open a comprehensive training center and a higher vocational school, so that, in cooperation with the private sector enterprises it provides dual vocational education for the profile of Mechatronics. In this regard, the necessary contacts have already been set up with the German-Kosovo Chamber of Commerce as well as with interested Kosovar and German-Kosovar enterprises.

This profile is provided for the undergraduates of the secondary school, for both genders; it includes the German and English part; and subjects of Economics, Marketing and Human Resource Management (HRM) thus providing high impulses to develop at a later period as an independent business profile.

Curriculum and the regulation of exams will be developed in full harmonization with AHK/delegation of German Economy in Skopje as well as with partners in Germany to introduce them as such for certification by the National Qualifications Authority (NQA) and Kosovo Ministry of Education. The aim is to meet all the requirements for a certificate of B Category according to German vocational qualifications provided outside Germany.

This profile will provide the young and qualified male and female undergraduates a perspective in their country and in a midterm plan it will be as an impetus for building medium businesses.

We already have available an approved financial model. However the key challenge is the training and qualification of local instructors and teachers. This will be achieved in cooperation with AHK Skopje (AdA Qualification) and with vocational schools and German firms ready for cooperation. The project is ambitious and such will be the realization of the first vocational school of dual type of education in Kosovo, according to the German model.
The greatest wish of ALG is that one part of the project is possible to be undertaken in the area of KFOR stationing in Prizren. This place is in a very convenient position in the middle of the other ALG objects, being the best equipped and offers optimal conditions with machine halls, learning halls and accommodation opportunities - which could also easily serve as a school with dormitory.

The ALG does not want to be left alone, but it strongly supports the idea of building an Education Campus in the former military positioning place: huge synergy effects would be created with the neighboring University of Prizren - a very successful operation, as it is aimed to be accomplished by the city of Prizren itself, a new ICK (Innovation Center Kosovo) according to the model of Prishtina as well as a Makerspace like "Bonevet" of Gjakova. For the latter, it is thought that the use of some of their equipment for education center would also be possible.

The project would not only be welcomed for Kosovo's economy, but it would also have a positive effect in the German foreign policy, defense and economy, having in mind the fact that the education center is getting built in a place where the army used to be positioned.

Simultaneous use of this area by KSF and its training institutions, is not seen as competition; on the contrary, it is desirable, since it is expected to significantly enhance the image of all stakeholders involved in the eyes of the population. In addition, KSF as a partner may have access to different education and training offers, to even enrich this profile through offers and programs that they provide. Only that the operative parts of the facilities, such as eating house/kitchen and others should be preserved as structural part of the building.

In regard to this issue, ALG is discussing with: The German Embassy in Prishtina, the Embassy of the Republic of Kosovo in Berlin, MEST, Municipality of Prizren, GIZ-YES, KFOR, KDVW, KSF, ICK, ZfA, BIBB, AHK Skopje, IHK Hannover, Renovabis.

In case you have other queries, please do not hesitate to contact me at any time.

Dr. Axel Bödefeld SJ
Executive Director
Annex 10

Project Proposal of KDWV
Ideas for further use of the field camp in Prizren

1. Proposals of the KDWV member companies

The KDWV member companies are highly interested to establish a link between the vocational schools and private sector with a significant German stake in the field camp in Prizren. This is why the ideas of our stakeholders are focused in a combination of (a) vocational school courses and (b) business park.

In this regard, it is possible to attract both German and Kosovar producers for this idea. The KDWV is keen to discuss this approach not only with member companies and their German partners but also with members of the partner organization, Kosovo Manufacturing Club.

In addition, it is worthwhile to include the IT umbrella association and the Innovation Center Kosovo (ICK) in this approach.

Concerning point (a), the KDWV supports the concept of the Loyola grammar school director Axel Bödefeld in establishing a center for dual education in Mechatronics.

With regard to (b), the KDWV considers rather reasonable the acquisition of 2-3 German and/or Kosovar manufacturers who would confirm their readiness in supporting the dual education. The university and the existing vocational education centers could also provide support to the companies.

Following KDWV member companies have already shown interest for point (b):

- JAHA SOLAR and JAHA FOOD, aiming at bringing together young talented technicians and lecturers for the joint development of products and ideas. This approach is in line with the ideas of locating an innovation hub at this compound.
- According to the information from the Kosovar partners, the WOLF company—one of the leading suppliers of heating and air-conditioning systems, is interested in providing own technology and trainers for training Kosovar experts for domestic and German market.
- EcoTrade company which represents Voith and ThysenKrupp in Kosovo and maintains contacts with Siemens. EcoTrade is particularly interested in continuing the operation of the hospital (with Siemens medical technology) as a private hospital offering high quality medical services as an alternative to the current Kosovar citizens health tourism in foreign countries.

2. Contact Persons

For the meeting with Mr. Robbe, regarding the topics mentioned above, the KDWV proposes following persons:

- Fadil Hoxha, President of the KDWV and owner of Jaha Company
- Nora Hasani, Executive Director of the KDWV
Axel Bödefeld, Loyola Grammar School and KDWV board member
Astrit Panxha and Vlaznim Osmani from Kosovo Manufacturing Club
Mentor Sahiti, President of the IT umbrella association and KDWV board member
Vjollca Cavolli, Executive Director of the IT umbrella association
Uranik Begu, Executive Director of the Innovation Center Kosovo (Pristina)
Mehdi Zhugolli, Owner of EcoTrade
Annex 11

Report of the Meeting of Municipality of Prizren with Pressure Groups
REPORT

On meetings with stakeholders

Regional Development Agency - South
Prizren
April-May 2017
Date: 24th of April 2017

Location: NCEDK, RDA Offices

Stakeholders: Business Associations (ESNAF, BEP, Prizren, SOFRA, SHzap, KCC - Prizren); totally 15 participants.

Briefing from Deputy Mayor of Municipality of Prizren, Mr Lulzim Kabashi:

- Total Surface of the camp is 42 hectares, but 7 hectares in Jaglenica are private property, thus there remain 35 hectares ensured for usage
- For this purpose there was established a Committee composed of representatives of the Government, Municipality of Prizren, KFOR, GIZ and German Embassy
- Owner of all assets shall be Municipality of Prizren. KFOR, as per the Resolution 1244, shall transfer the camp to UNMIK, then to the Government - Municipality of Prizren
- GIZ is preparing a feasibility study regarding the usage ways of the Military Camp, and within this will be included all recommendations deriving from different actors

Current propositions:

- Multi-functional area with University, Hospital, Occupational Schools, Business Incubator, Training Center/Professional Upgrading, Area for Fairs, Police Station, Firefighters Station, Movie/Theater Hall
- German Government is planning to set in the compound a German Occupational School and a German Business Center
- There is planned that in charge of the first five-year management of this compound shall be GIZ (through GIZ will be possible to use German Government Funds for Balkans - Berlin Process, since there is already in place an Agreement between Kosovo and Germany)
- All equipment, except those of the hospital, latter planned to be retained, shall remain in the compound
- There shall be ensured employment of 245 local employees of the camp
- Visits can be arranged for all interested parties

Propositions:
Table of Contents

Stakeholders: Business Associations (ESNAF, BEP Prizren, SOFRA, ACEP, KCC-Prizren) with total 15 participants 3

Stakeholders: Cultural Associations (OQP, RUMELI, AUTOSTRADA BIENNALE, PARADIGMA, KFOS, IPSIA, LUMBARDHI) with 10 participants in total 4

Stakeholders: Educational Institutions (IPZ, SHMLET, “11 Marsi”, CC Prizren), 11 persons in total. 5

Stakeholders: Health Institutions (Regional Hospital), 5 persons in total. 6
• ACEP Representatives said they had a meeting with KFOR, they have visited the camp and that they were preparing a feasibility study regarding the usage of the compound.

• As they said, in this plan will be incorporated and ideas of two other Prizren Associations, namely ESNAF and SOFRA,

• From meetings with KFOR, ACEP has obtained information that most of the equipment will be retained, therefore there shall be insisted to not have this take place, whereas number of employees, as they have stated, will be decreased for 150, since the same will be laid off.

• Following different discussions regarding the ideas on usage of the Military Base, there was decided that all Associations shall submit their ideas in written to RDA South, no later than 10.05.2017.

No organization has submitted any proposition

Date: 26th of April 2017

Location: NCEDK, RDA South Offices

Stakeholders: Cultural Associations (OQP, RUMELI, AUTOSTRADA BIENNALE, PARADIGMA, KFOS, IPSIA, LUMBARDHI) with 10 participants in total.

Introductory and greeting Speeches from RDA South Representatives, within which was also presented the purpose of the meeting.

- Deputy Mayor of Municipality has greeted all attendees and has presented in map KFOR Base areas in Prizren, and potential areas it has for different stakeholders, and he has also given a summary of some ideas deriving from previous meetings.

- Deputy Mayor has also explained to attendees Legal Property Transfer Procedures from KFOR to UNMIK, Kosovo Government, and then the ownership shall be transferred to Municipality of Prizren.

- Attendees were also briefed regarding engagement of GIZ Experts who will be in charge of feasibility study.

- Establishment of an Inter-Governmental Committee (German) shall assure that this Asset transfer will be in the service of citizens.
Propositions:

- To have an area for “Contemporary Arts Gallery”
- A part of the compound shall be used as an area designated for different trainings and Conferences.
- There shall be a designated area for Diplomatic Academy
- There shall be an area designated for youth, in particular for their capacity development for social entrepreneurship. Within this was emphasized drafting of the Law, which is still at the discussion stages, and which is soon expected to be proceeded to Kosovo Assembly.
- There shall also be a designated area for settlement of the “Contemporary Museum”
- An area for Concert Hall. At this point, all participants have raised the prompt need of the city to have such an area, which would cover needs of the city in the aspect of culture.
- To have a Diversity Cultural Center.
- An area for large youth groups, in particular for youth exchange activities, where the young could use compound areas for more days at a low price.

Date: 28th of April 2017

Location: NCEDK, RDA South Offices

Stakeholders: Educational Institutions (IPZ, SHMLET, “11 Marsi”, CC Prizren), 11 persons in total. Initially Mr Lulzim has provided a presentation of what KFOR Base compound contains. Mr Lulzim provided explanations regarding 42 hectares, namely the entire surface of the Base, and regarding every premise separately. There is expected to soon have the ownership transfer to UNMIK, which will afterwards be transferred to the ownership of the Ministry, and from the latter the ownership transfer will be to Municipality of Prizren. Therefore, the purpose behind the meeting was to have the attendees of the meeting give their propositions for the usage of the Camp. Following his presentation, attendees had the opportunity to give their propositions, within which each Institution has given its opinions for the usage of the premises inside the Camp.
Propositions:

- University of Prizren was very keen on using those areas in the KFOR Camp, namely have the transfer of the entire respective University there.
- There remains to have the University set the required surface.
- In addition to existing Faculties, the named University is planning on establishing and General Medicine Faculty and PHD Studies.
- Secondary School has proposed to study opportunities for usage of the existing assets of the KFOR Base for SHMLT “11 Marsi” (Workshop premises, Cabinets, offices, tools and equipment).
- There was proposed building of a CC of artistic-technical profiles (which shall be transferred from SHMLT “11 Marsi” to the existing premise in the KFOR Base).
- There shall be allocated a surface of at least 4 hectares
- The other part of the compound shall be used for a genuine Center of Old Art Crafts (Filigree, knife making business, pottery, weaving, etc.).
- Secondary Occupational School wishes to launch two new profiles, the one of Social Care and Bio-Aesthetics.

Date: 11th of May 2017

Location: NCEDK, RDA South Offices

Stakeholders: Health Institutions (Regional Hospital), 5 persons in total.

Propositions:

See Annex.