

Industrial Policy Recommendations for Kosovo

*Drawn from Industrial Policy for Development: Approaches in the 21st Century
(Fernandes & Reed, World Bank, 2026)*

Fatlum Zeka

29 March 2026

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How to cite: Zeka, F. (2026), Industrial Policy Recommendations for Kosovo – Drawn from Industrial Policy for Development: Approaches in the 21st Century (Fernandes & Reed, World Bank, 2026). ERDEC Briefing Paper. Prishtina: ERDEC

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Introduction

This note draws out the recommendations from the World Bank's 2026 policy research report on industrial policy that are most applicable to Kosovo's specific context. Kosovo is a small, open economy with improving but selective government capacity, limited fiscal space, an EU accession pathway, a large diaspora, and a euro-based monetary system. These characteristics place Kosovo in a distinct position in the report's feasibility framework – one that forecloses certain tools entirely, but leaves a clear and well-evidenced set of viable approaches.

1. Kosovo's Position in the Industrial Policy Feasibility Framework

Kosovo falls in the category of small economies with limited fiscal space but improving government bandwidth – a position that constrains but does not eliminate viable industrial policy options.

The report's central organising framework links three country characteristics – domestic market size, government bandwidth, and fiscal space – to the feasibility of fifteen industrial policy tools. Kosovo's profile is clear: a domestic market of under two million people places it firmly at the small end of market size; fiscal revenues are constrained by a narrow tax base and high dependence on remittances; and government capacity, while improving under EU accession alignment, remains selective rather than comprehensive.

Countries in this category can feasibly pursue a well-defined subset of tools focused on public inputs. These are first-choice tools that address market failures directly, can often be delivered on a cost-recovery basis, and require government bandwidth rather than large fiscal outlays. Kosovo's task is to concentrate effort here rather than reaching for blunt instruments that the report shows to be either infeasible or self-defeating given its characteristics.

Kosovo's EU accession pathway removes some tools from consideration entirely while making others more valuable.

Kosovo uses the euro unilaterally, making competitive exchange rate devaluation – a tool the report already classifies as second-choice and risky – simply impossible. Kosovo's Stabilisation and Association Agreement (SAA) with the EU and its CEFTA membership constrain import tariffs, and EU state aid rules increasingly limit the design of production subsidies. The report's framework would in any case advise against both: tariffs require large domestic markets to be effective, and production subsidies require both substantial fiscal space and strong administrative monitoring capacity.

What the accession pathway does offer is a structured alignment framework. The report argues that industrial policy requires strong enabling institutions: rule of law, macroeconomic stability, an educated workforce, and reliable infrastructure. EU accession conditionality effectively mandates progress on many of these fundamentals, making it a vehicle for the prerequisite work that the report treats as non-negotiable.

2. Prioritising the Right Tools: Public Inputs First

Industrial parks are Kosovo's most accessible and evidence-backed first-choice tool, feasible even without substantial fiscal outlays.

The report places industrial parks at the top of its feasibility ranking for countries with small markets and limited fiscal space. They address a coordination failure – the risk of being the first mover in a new location or industry – by pooling infrastructure and reducing entry costs for investors. Critically, parks can be established with limited public expenditure by auctioning public land and delegating operation and management to private sector partners. Kosovo already has experience with industrial zones; the report's guidance points toward professionalising their management, investing in connectivity to transport corridors and utilities, and establishing special economic zones (SEZs) only where the fiscal cost of associated tax incentives can be clearly justified and monitored.

The report cautions against locating parks arbitrarily: successful parks are placed near pools of specialised or lower-cost labour and close to transport infrastructure. For Kosovo, this suggests prioritising zones near the main road and rail corridors connecting to North Macedonia, Albania, and eventually the EU internal market, rather than distributing zones for political balance.

Skills development is a feasible and high-priority tool for Kosovo, but programmes must be genuinely aligned with private sector demand rather than government preference.

The report identifies skills development as a first-choice tool for countries with sufficient government bandwidth, noting that the key market failure it addresses – underinvestment in industry-specific training – is widespread in small developing economies. For Kosovo, where youth unemployment remains high and emigration of skilled workers is persistent, skills policy simultaneously addresses an economic need and a social priority.

The report's principles of practice are particularly relevant: training must be co-designed with employers, must cover managerial as well as technical skills, and must retain the flexibility to adapt as industry needs evolve. Kosovo's TVET system has historically been supply-driven; the report's evidence strongly favours a demand-led model. The report also highlights a specific mechanism directly applicable to Kosovo's large diaspora: global skills partnerships, which leverage destination-country financing to co-invest in origin-country training systems. This is a potentially underexploited channel, given the large diaspora, and should be explored in dialogue with bilateral development partners in those countries.

Market access assistance – helping Kosovo firms connect with and meet the requirements of export markets – is a cost-effective tool with a strong evidence base.

Many Kosovo firms face high fixed costs in accessing EU markets: understanding buyer requirements, meeting certification and labelling standards, and building commercial relationships with foreign buyers. The report documents successful export promotion programmes in Peru, Uruguay, Denmark, and Tunisia that reduced these costs at relatively low public expenditure. The key finding is that bundling services – combining trade facilitation with product development or quality upgrading – outperforms stand-alone export promotion.

Kosovo’s investment and enterprise support agencies are the natural institutional vehicles, but the report’s evidence suggests they are most effective when they maintain private sector participation in governance, measure outcomes (exports, new markets, new products) rather than activities, and concentrate resources on a limited number of industries rather than spreading thinly across the economy.

Quality infrastructure – standards, testing, certification, and accreditation – is a high-priority tool for Kosovo because access to the EU market is contingent on it.

The report classifies quality infrastructure (QI) as a first-choice public input, citing examples from Bolivia and Benin where investment in standards and laboratory capacity unlocked EU market access. For Kosovo, this is not merely a useful tool – it is a precondition for export growth. EU market access for food products, industrial goods, and many services requires compliance with EU regulations, and without credible domestic testing and certification infrastructure, compliance is costly and uncertain for individual firms.

The report recommends establishing independent national bodies for standardisation, metrology, and accreditation, structured as public-private partnerships where government anchors the institutional framework but conformity assessment migrates to the private sector as demand matures. Kosovo’s alignment with EU technical regulations offers a ready roadmap; the priority is implementation pace and resource allocation.

3. Targeting the Right Activities: Exploiting Comparative Advantage and Market Potential

Kosovo should concentrate industrial strategy on tradable services – particularly ICT, business process outsourcing, and tourism – as sectors where feasibility is high and global demand is growing.

The report advises governments to identify activities across three risk categories – low, medium, and high – based on revealed and latent comparative advantage. Kosovo’s revealed comparative advantages in services – particularly in ICT and software, given the young, English-proficient, and increasingly technically educated workforce – make this a natural focus.

The report explicitly notes that the traditional manufacturing-led growth model faces mounting headwinds from automation and protectionism, and that governments should increasingly consider tradable services as sources of foreign exchange and employment. Tourism, software development, and creative industries are cited directly as viable alternatives. For Kosovo, which cannot rely on a large domestic market to attract import-substituting manufacturing, an export-services orientation fits both the report’s framework and Kosovo’s economic realities.

Mining downstream processing represents a medium-risk opportunity that warrants structured government support, provided it builds on existing logistics and skills.

Kosovo possesses significant mineral endowments, particularly in nickel, lead, and zinc. The report’s framework treats commodity-adjacent downstream processing as a medium-risk targeting opportunity – technologically related to existing activity, with potential to capture higher value and generate learning spillovers. The appropriate tools are industrial parks or SEZs to address coordination failures, combined with quality infrastructure to meet EU environmental and product standards, and targeted skills development to build the technical workforce.

The report cautions against commodity export bans as a tool to force downstream processing: while technically feasible for small economies, the evidence on their effectiveness is limited. A preferable approach is to use public inputs – infrastructure, skills, standards – to make downstream processing the attractive option for investors, rather than to coerce it through export restrictions.

Agriculture with EU certification focus is a low-risk targeting priority, building on Kosovo’s existing comparative advantage in select sub- sectors.

For several agricultural sub-sectors – including speciality cheeses, organic produce, and wine – Kosovo has latent or emerging comparative advantage that can be developed with relatively modest public inputs. The report documents cases where government investment in quality standards and certification laboratories unlocked EU market access and delivered substantial returns. Kosovo’s proximity to the EU market and SAA-linked preferential access create favourable conditions; the binding constraint is product quality and consistency meeting EU food safety standards.

The recommendation is to concentrate QI investment on two or three agricultural sub-sectors with the most credible export potential, rather than seeking horizontal coverage, and to develop public-private partnership models where producer associations co-invest in certification and testing infrastructure.

4. Getting the Institutions Right

Kosovo should build industrial policy institutions around three criteria: embeddedness, appropriate use of carrots and sticks, and accountability.

The report identifies these three institutional criteria – drawn from Dani Rodrik’s framework – as the most robust predictors of effective industrial policy delivery across diverse country contexts: embeddedness, carrots and sticks, and accountability. Embeddedness means agencies have genuine two-way exchange with the businesses they support: private sector representatives on governance boards, regular surveys of beneficiaries, and staff with private sector experience. Carrots and sticks means financial support is conditional on measurable outcomes – exports, productivity improvements, job creation – with automatic sunset clauses that require evidence of learning before extension. Accountability means agencies publish their targets, decisions, and results, and are subject to independent oversight.

Kosovo’s implementing agencies should be assessed against these three criteria and reformed where they fall short. The report’s evidence suggests that agencies with larger per-capita budgets, industry-focused mandates, and private sector participation in governance consistently outperform more bureaucratic alternatives.

Kosovo should establish a coordinating delivery unit with proximity to the head of government to provide strategic oversight of industrial policy across agencies.

The report documents that effective industrial policy in small economies often relies on a “reform team” or delivery unit close to the head of government – not an implementer, but a coordinator with three functions: diagnostics (assessing global demand and Kosovo’s capabilities), coordination (aligning actions across agencies and avoiding duplication), and monitoring (tracking outcomes and recommending course corrections).

Kosovo’s small government size is an asset here: the coordination challenge is more tractable than in larger economies, and political will at the centre can be more readily translated into operational alignment. A central government body could host such a unit, staffed with a small team with both analytical capacity and private sector network connections.

Public-private dialogue should focus on public inputs and regulatory reform, not market incentives – to maximise information exchange while minimising rent-seeking.

The report finds that public-private dialogue is most effective when it targets new and small industries rather than established incumbents, and when it focuses on regulatory and public input constraints (“my problems” from the government’s perspective) rather than requests for subsidies and tariff protection (“your problems”). Kosovo’s business environment dialogue mechanisms should be structured around this distinction, with government making clear that it will act on regulatory and infrastructure constraints but will not use dialogue as a channel for firms to negotiate special financial treatment.

The report cites evidence that well-structured PPD processes generated substantive policy reforms at very low cost. Kosovo can replicate this model by identifying two or three industries with the strongest export growth potential and organising structured, time-limited dialogue processes focused on specific regulatory and public input constraints.

All industrial policy support should carry automatic termination clauses of three to ten years, with extension conditional on demonstrated productivity improvements.

One of the report’s clearest operational recommendations is that industrial policy support should not be open-ended. Sunset clauses create pressure on supported firms to invest and perform rather than depend on continued public support, and they give government a legitimate exit mechanism. The report recommends termination windows of up to ten years for most tools, with interim milestones every three years and extension only where there is objective evidence of productivity gains.

For Kosovo, where political economy pressures to extend support to incumbent businesses are well-documented, building termination conditions into the legal structure of any support scheme from the outset is particularly important. This should be standard practice for any new SEZ incentive regime, skills development programme, or sector-specific grant scheme.

5. Specific Goals: Jobs, Foreign Exchange, and Green Transition

Kosovo's job creation challenge calls for a dual approach – supporting labour-absorbing industries in the near term while investing in higher-wage, skill-intensive industries for the long term

The report documents a trade-off directly relevant to Kosovo: labour-absorbing industries (retail, hospitality, light manufacturing) create more jobs quickly but do not raise wages substantially, while high-wage skill-intensive industries (ICT, professional services, advanced manufacturing) create fewer jobs but deliver broader productivity gains. The report recommends targeting broad sectors that include both types of activity – such as tourism, agribusiness, or ICT – rather than making an explicit choice between the two.

For Kosovo, labour market and industrial policy should be designed together. Labour subsidies or personal income tax relief for workers in skill-intensive industries – the report cites Romania's tax break for software developers as a successful example – can accelerate skills accumulation in high-wage sectors. Simultaneously, public inputs for tourism and agriculture can create employment pathways for workers with lower formal qualifications.

Kosovo should pursue a trade-led growth model through preferential agreements and public inputs for exporters, rather than attempting import substitution, which the report finds unworkable for small markets.

The report is explicit: import substitution requires large domestic markets to generate the scale economies that make protected industries viable. Without a large consumer base, tariff protection merely transfers income from consumers to producers without building competitive advantage. Kosovo's domestic market of under two million makes this approach fundamentally unviable – and the SAA's tariff reduction commitments make it legally unavailable in any case.

The report's recommended alternative is trade-led growth through preferential agreements and South-South trade, which for Kosovo means maximising the value of SAA preferences, deepening CEFTA integration, and using market access assistance to help Kosovo firms navigate EU buyer requirements. The diaspora, concentrated in high-income EU member states, is an underutilised asset for market intelligence and commercial relationship-building – a specific channel the report identifies as valuable for small economies with limited export promotion agency reach.

Kosovo should treat the EU's Carbon Border Adjustment Mechanism (CBAM) as both a risk and a strategic prompt to build green industrial capacity early.

The EU's CBAM requires importers to pay for the embedded carbon content of goods in sectors including steel, aluminium, cement, fertilisers, electricity, and hydrogen. The report identifies green industrial policy as an area where first-movers in developing economies can build competitive advantage, particularly through fiscal incentives for low-pollution technology adoption.

For Kosovo, the appropriate response is not to wait for CBAM to impose costs, but to develop a domestic carbon accounting and reporting system that gives Kosovo exporters visibility over their embedded emissions and enables them to compete on carbon transparency. This aligns with EU accession requirements and positions Kosovo exporters advantageously relative to regional competitors. Concretely, this means building measurement and verification capacity within Kosovo's existing environmental and quality infrastructure institutions.

6. Key Caveats and Things to Avoid

Kosovo should resist the temptation to target too many industries – lack of prioritisation is a common and costly failure mode, especially in small economies.

The report documents that small economies often target more industries in their national development plans than high-income economies – a symptom of political economy pressures rather than strategic discipline. The report’s guidance is to target a broad strategic sector rather than narrow specific products, and to maintain a portfolio of activities within that sector rather than concentrating all support on one or two flagship investments.

Practically, Kosovo’s industrial strategy should identify two or three priority broad sectors – selected based on revealed and latent comparative advantage, global market potential, and institutional feasibility – and concentrate public inputs and institutional capacity on those, with explicit criteria for how support will be evaluated and when it will be wound down.

Kosovo should not treat industrial policy as a substitute for the enabling environment fundamentals that the report identifies as non-negotiable prerequisites.

The report is unambiguous: industrial policy cannot compensate for a weak enabling environment. The fundamentals – rule of law and contract enforcement, macroeconomic stability, education and health outcomes, reliable infrastructure – must be maintained and improved even as industrial policy tools are deployed. The report recommends that where governments use industrial policy as a bridging strategy, they commit to specific milestones for improving fundamentals within the duration of the industrial policy (three to ten years).

For Kosovo, this means that progress on judicial reform, the business registration and licensing environment, electricity reliability, and road connectivity is not background noise – it is the enabling condition on which the viability of all industrial policy tools depends. IFI and EU-funded programmes in these areas should be understood by policymakers as industrial policy prerequisites, not separate tracks.

This briefing note draws on:

Fernandes, Ana Margarida, and Tristan Reed. 2026. Industrial Policy for Development: Approaches in the 21st Century. Policy Research Reports. Washington, DC: World Bank.

(<https://www.worldbank.org/en/publication/industrial-policy-for-development>)