

ECONOMIC POTENTIALS IN REGION CENTRE

AGRICULTURE

TEXTILE
MANUFACTURING

ICT

FOOD
PROCESSING

CONSTRUCTION

2016

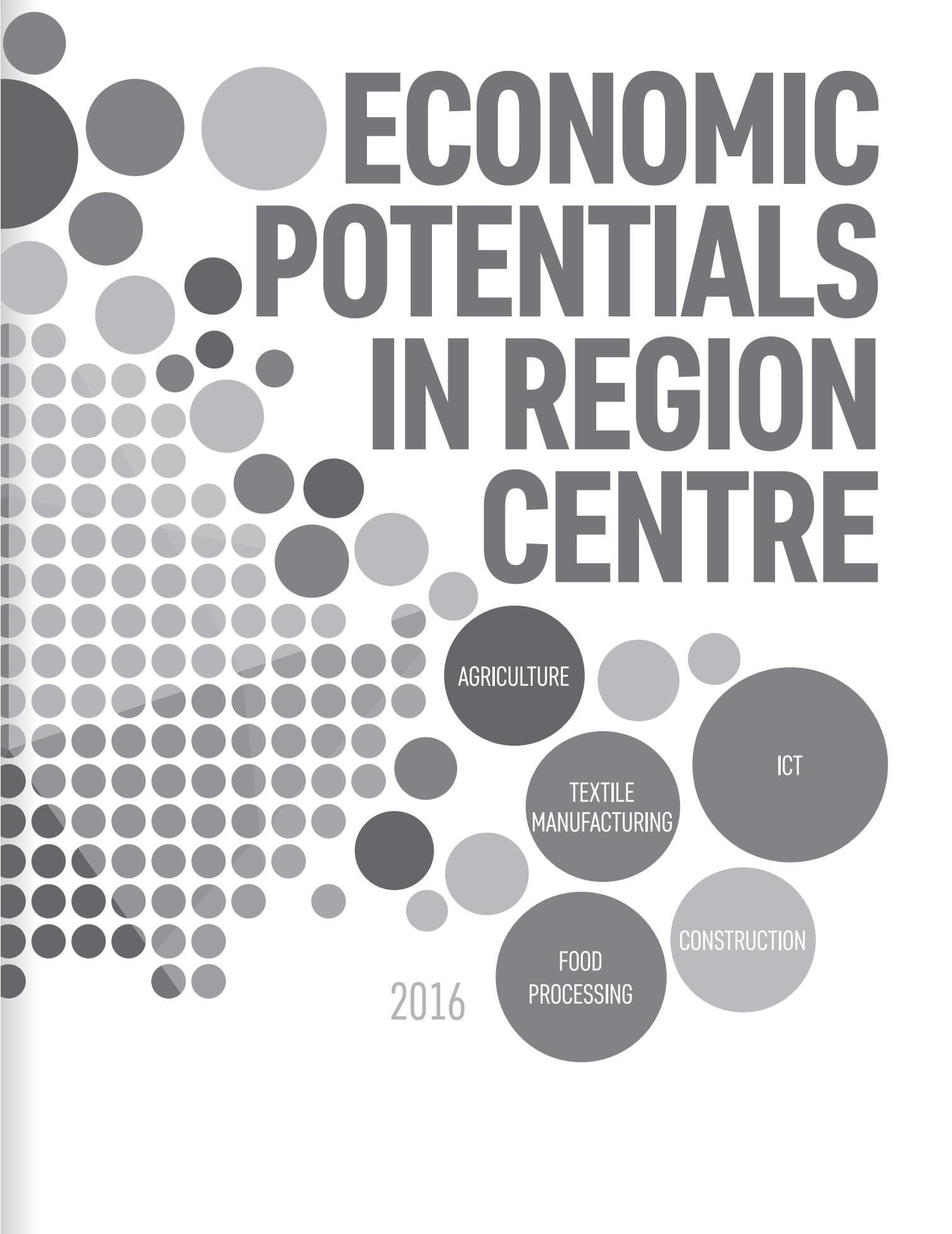


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1. INTRODUCTION

The aim of this study was to identify, select and analyse competitive sectors in the Economic Region Centre using a set of criteria, including: labour intensity, investment potential, level of the added value as well as domestic and international demand and competitive pressure. The Economic Region Centre includes the following municipalities of the central region of Kosovo: Prishtinë/Priština, Glogovac/Glogovac, Fushë Kosovë/Kosovo Polje, Obiliq/Obilić, Podujevë/Podujevo, Shtime/Štimlje, Graçanicë/Gračanica and Lipjan/Lipljan. For classification purposes, labour intensity was given higher weight compared to other criteria provided that the principal aim of economic policies in Kosovo – given the mounting pressure of high unemployment – ought to be the increase of employment opportunities.

By means of the assessment from subject matter experts, the top five sectors with highest potential to contributing to transformational growth in this region that were further assessed included: food processing, agriculture, information and communications technology, construction, and textile production. Other factors were given lower weights as presented in subsequent section.

Using primary and secondary data, the study focuses on three different segments. Initially it analyses the business environment in which these companies operate. Here the typical features of the relevant industry environment and the context in which firms operate is presented. Emphasis is put on the overall situation of the industry, rather than on particular cases of companies. Basic outcomes of this segment include: economic position of the industry; market size; industry entry and exit conditions; technological advancements, among others. The study then analyses business characteristics which has a micro-level focus, concentrating on the following aspects of the company: business profile and activities; sales trends; business expansion; labour force; product innovation; and challenges. Finally, the study looks at the competitiveness of companies and respective industries. Using the Porter's model forces of competition, here the focus is on the key forces influencing the character of competition within the industry, and on a detailed description of their possible influences. The main subjects include: intensity of rivalry among the current competitors; threat of new entrants; threat of substitutes; bargaining power of buyers; and bargaining power of suppliers. Based on this model, each sector's profitability

was determined while this theoretical background and the determinants of the model were utilised in analysing the interview outcomes.

The study finds that there are shortcomings in the business environment which need to be addressed to ensure a proper functioning of the market. Results also suggest that businesses in all these sectors, with slight heterogeneity, are relatively small and unable to reap the benefits of scale economy. While similarly, the competitive pressure, especially in tradable sectors, remains significant.

This study is organised as follows: the second section presents the research methodology. Here a detailed description of the research process is outlined, including the sector selection process. The third section presents the findings from the interviews conducted with companies operating in the agricultural sector as well as the analyses of the secondary data from this sector. The fourth section presents the analyses of the Textile manufacturing sector. The fifth section presents an analysis of the construction sector while section six looks at the ICT sector. Food processing sector is analysed in section seven. In all these sections (3-7), the following elements are presented: a short overview of the sector; basic characteristics and performance of the firms in relevant sectors in the region under investigation; labour force as well as the competitive forces in the relevant sectors. Section 8 provides the conclusions and policy recommendations.



2. METHODOLOGY

The aim of this study was to identify, select and analyze competitive sectors that are labor intense, show high investment potential, create added value and as such have potential to lead to sustainable economic growth in the Prishtina region. For the purpose of industry identification and selection, relevant sectors according to the NACE classification were taken into consideration. Apart from services of general interest such as: water, energy supply and waste disposal, education, healthcare and social services, all other significant sectors were categorized in the form of an evaluation grid.

Subject-matter experts were then asked to rank the prospective sectors on a Likert scale (from one to five) according to seven deliberately set criteria listed in order of importance:

- labor intensity,
- investment potential,
- added value,
- domestic market demand,
- international market demand,
- domestic market competition, and
- international market competition.

For this process of classification, labor intensity was weighted more heavily compared to the other criteria given that the principal aim of economic policies is to increase employment opportunities. Abundant labor force and increasing employment pressures push Kosovo towards focusing on labor-intensive industries. Developing these sectors opens opportunities and creates enough jobs to satisfy the increasing labor supply. Identifying investment potential of given sectors is essential since the prospective effects of investment are larger production, higher competitiveness, export-led growth and increased value added. High-value added is another relevant criterion used, primarily since it generates higher levels of income and has greater growth potential, as such the demand for high-value added products and services is continuously increasing. Domestic and international market demand are given less weight in these calculations, still they signify important indicators of domestic output as well as exports and imports levels. Domestic and international market competition are the last two criteria included in the calculations, for industries with more intense domestic competition are likely to export more and succeed in international markets.

The average rankings for each of the sectors, based on the criteria, were put together to calculate the aggregate weighted averages for each sector.

$$s = (\sum w_i x_i / n) * 100 / 5$$

where,

s is the score for the selection of each sector, w is the weight, x is the ranking given by each respondent and i=1,2,.....,n stands for each respondent.

The following weights were used for each criterion (weights in brackets): labour intensity (0.3); investment potential (0.2); added value (0.2); domestic market demand (0.1); international market demand (0.1); domestic market competition (0.05); international market competition (0.05).

The results of the 10 highest-ranked competitive sectors are depicted in Table 1 below (the complete list can be found in Annex 1):

TAB. 1: 10 HIGHEST-RANKED COMPETITIVE INDUSTRIES

Industry	NACE	Labor intensity	Investment potential	Added value	Domestic market demand	International market demand	Domestic market competition	International market competition	Weighted average
 Manufacture of food products	C	4.55	4.18	4.18	4.18	3.64	2.90	4.78	4.17
 Agriculture	A	4.09	4.36	3.09	4.55	4.09	3.30	4.00	4.09
 Computer programming	J	3.55	4.45	4.27	3.91	4.91	2.90	4.78	4.09
 Construction of buildings	F	4.27	4.00	3.40	4.18	2.89	4.30	4.50	3.88
 Manufacture of textiles	C	4.36	4.00	3.82	3.18	3.50	2.90	4.70	3.80
 Manufacture of computer and electronic products	C	3.33	3.33	4.56	3.44	4.33	2.29	4.75	3.68
 Financial service activities	K	3.45	3.55	3.45	3.55	3.78	3.40	4.78	3.58
 Mining	B	3.56	4.11	3.33	2.56	4.78	1.50	4.13	3.55
 Manufacture of wood	C	3.64	3.45	3.82	3.18	3.45	3.80	4.22	3.52
 Manufacture of furniture	C	3.64	3.45	3.82	3.18	3.45	3.80	4.22	3.52

SOURCE: AUTHOR'S CALCULATION.

Based on these results, the top five sectors with highest potential to contributing to transformational growth in the region of Prishtina that will be further assessed are as following:

- 1** Food processing,
- 2** Agriculture,
- 3** Information and Communications Technology,
- 4** Construction, and
- 5** Textile production

The derived sectors in this study were also identified in other previous research studies; yet, these are specific to Prishtina region. Riinvest Institute's report "Business Climate in Kosovo" in 2014 identified the sectors of agriculture, tourism, food processing, wood processing, wholesale and retail, construction, ICT, textile and retail as the sectors with the greatest potential in the near future in Kosovo. The report also gave information on region centre specifically, where agriculture is considered the most promising sector, followed by food processing and ICT as well as textile and construction. The Ministry of Trade and Industry in the 2014 "Concept Of Kosovo Industrial Policy" pinpointed six sectors that contribute mostly to the country's economy and show the highest growth potential, among them agriculture (and food processing), ICT and textile. Based on this concept, the UNDP project "Aid for Trade" (2012-2016) conducted assessments on these sectors. The food processing, ICT and textile sectors were also analyzed for their growth opportunities, challenges and impact potential in the USAID sector assessment (2014).

Following selection of the five competitive sectors, the research methodology for obtaining relevant data and conducting analysis has been determined. Specifically, semi-structured interviews with businesses from each of the five sectors are considered the most appropriate research instrument. Unlike structured interviews, which contain a strict sequence of questions, semi-structured interviews are open and flexible, encouraging two-way communication and thus allowing new ideas to be brought up during the interviews. In this way, the interviews will deliver not just answers, but also details and explanations on the answers. Semi-structured interviews mostly contain open-ended questions, however, some closed questions (yes-no answers) are also included. Every session is tape recorded (with the respondent's consent), transcribed and carefully analyzed. A standardized interview guide with set questions is followed, to enable comparison between answers of different respondents.

These interviews will seek to obtain information on business profiles and activities, sales performance, rivalry, growth potential, employment opportunities, feasibility of government support and identify specific obstacles or challenges that companies face in realizing these growth opportunities. Based on the data from the sample of 50 companies across the five sectors, general assumptions can be drawn on business environment, characteristics and competitiveness of each sector. As such the questionnaire of the semi-structured interviews will be composed of these three sections.

The first section 'Business environment' will describe the typical features of the relevant industry environment and the

context in which organizations operate. Emphasis is put rather to the overall situation of the industry, than to particular cases of companies. Basic outcomes include: economic position of the industry; market size; industry entry and exit conditions; technological advancements, among others.

The second section 'Business characteristics' will have a micro-level focus, concentrating on the following aspects of the company: business profile and activities; sales trends; business expansion; labor force; product innovation; and challenges.

'Competitiveness' as the third section emphasizes the key forces influencing the character of competition within the industry, and on a detailed description of their possible influences. The main subjects include: intensity of rivalry among the current competitors; threat of new entrants; threat of substitutes; bargaining power of buyers; and bargaining power of suppliers. These subjects influencing the situation within an industry are known as Porter's model forces of competition within an industry. Based on this model, each sector's profitability can be determined. The theoretical background and the determinants of the model will assist in analyzing the interview outcomes of the third section.

Beside this model, other relevant theories and studies will be utilized to complement on the primary research. Moreover, detailed secondary research will be conducted on each of the five sectors in order to verify and consolidate the information received from the interviews. The second set of sources will be extracted from official publications of the following institutions: The Kosovo Agency of Statistics, relevant Line Ministries, Kosovo Customs as well as NGOs such as USAID, UNDP and other organizations operating in developing sectors. Following the data collection, from both primary and secondary research, a detailed report on the five sectors will be prepared, entailing also specific sector recommendations.

The findings drawn from the semi-structured interviews, opinions of industry experts and available studies will reveal industry attractiveness and point out the industries with the greatest investment potential in the Prishtina region. Accordingly, a sector that is competitive, shows high growth potential, high labor intensity, creates added value and has a favorable policy framework is a sector that has potential to lead to sustainable economic growth. Thus, the final conclusions on the most attractive industries will be highly instructive in developing important policy recommendations.

3



From 2013 to 2014 there were 130,755 agricultural holdings (holdings includes households and legal entities) and total area used for agricultural production was 413,635 hectares (KAS, 2015)



AGRICULTURE



This section of the report presents the findings from the interviews conducted with companies operating in the agricultural sector. Section 1.1 presents the sector overview; 1.2 basic firm characteristics and performance of firms interviewed; 1.3 depicts the labor force; 1.4 presents the competitive forces in the industry sector; 1.5 sector specific trends; and 1.6 provides a conclusion to the information presented regarding the agricultural sector in Prishtina region.

3.1 Sector overview

Data from the Agricultural Census (KAS, 2015), show that there were 130,775 agricultural holdings (holdings includes households and legal entities) in year 2013-2014. Out of the total number of holdings, 130,436 were agricultural households and individual businesses, while 339 were agricultural legal entities. The total area used for agricultural production in 2014 was 413,635 hectares (KAS, 2015). The



TAB. 01 AGRICULTURAL HOLDINGS IN PRISHTINA REGION 2014 (BY LEGAL STATUS AND MUNICIPALITIES)

AGRICULTURAL HOLDINGS - TOTAL

Municipality	Number of Agricultural holdings	Utilized agricultural area (ha)	Livestock Size Units	Permanent grassland-number of holdings	Permanent crops-number of holdings	Orchards-number of holdings
Fushe Kosovo	1784	4714.06	2694	745	164	162
Drenas	6565	15125.52	11916	4 268	1 319	1 316
Gracanice	1760	5658.85	3046	267	317	309
Lipjan	6221	18547.41	10360	2 993	327	290
Novoberdo	1268	4949.58	4639	855	409	284
Obiliq	1949	5519.32	3219	762	317	313
Podujeve	9191	24807.27	15714	5 335	1 537	1 488
Prishtine	3389	12975.65	8143	1 551	1 060	1 044
Total	32,127	92,297.66	59,731	16,776	5,450	5,206
Kosovo total	130,775	413,635.16	281,747	79,761	24,909	19,619

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

1 Livestock Size Unit (LSU) is a standard measurement unit that allows the aggregation of the various categories of livestock in order to enable them to be compared between years or between different countries. One LSU represents 500 kg of live weight of animals.

**TAB. 02 NUMBER OF FULL TIME AND SEASONAL EMPLOYEES PER MUNICIPALITY (NON-FAMILY)**

Municipality	Regularly employed on agricultural households and individual businesses	Regularly employed in agricultural legal entities	Seasonal workers
Fushe Kosovo	14	209	410
Drenas	13	40	614
Gracanice	3	100	244
Lipjan	141	57	1,175
Novoberdo	10	10	247
Obiliq	6	126	1,120
Podujeve	223	27	4,128
Prishtine	30	82	2,426
Region Total	440	651	10,364
Kosovo total	1,482	2,436	68,035

SOURCE: KOSOVO AGENCY OF STATISTICS, 2015

Local Development Strategy for Economic Region Centre (2010), states that Prishtina region has a surface of 2,215 km², representing approximately 20 percent of Kosovo's territory. From the total area, the agricultural land amounts to approximately 121,812 hectares. The total area of land utilized for production was 92,297.66 hectares (RDA Centre, 2010). The total number of agricultural holdings in Prishtina region is 32,127 (KAS, 2015). This number represents around 25 percent of the total number of agricultural holdings in Kosovo. Table 1 shows detailed information on land utilized, number of agricultural holdings, and livestock size units in each municipality of Prishtina region.

The agricultural sector in Kosovo is characterized by small farms with an average size of 2.5 hectares (KAS, 2015). Around 23 percent of the farms between 0-1.5 hectares and 26 percent between 1.5-3.0 hectares are located in Prishtina region. The average size of agricultural holding in Kosovo is four times smaller than the average in European Union (KAS, 2015).

Based on the Agricultural Census 2014, from the space used for agricultural production, the largest portion belonged to permanent grasslands (54.3%) and arable land (43.6%). Wheat occupied the largest part of arable land

(50.3%), followed by maize (19.4%). Most of the agriculture holdings cultivated up to 0.5 ha of arable land (35.5%). The average area of arable land per agricultural holding cultivating arable land is 1.6 ha (KAS, 2015). Only 3.7% of arable land is used for vegetable cultivation (6,689 ha). The most important vegetables are peppers, tomatoes, onions and cabbage (KAS, 2015). Although the percentage of land used for vegetables is low, around one quarter of agricultural holdings (34,827) produce vegetables (KAS, 2015).

The region with the largest arable land area is Pristina with 27.7 percent (KAS, 2015). From the space available for agricultural production in Prishtina region, 50 percent of the surface is used for cultivating grain; around 40 percent of the surface is arable land, and 8 percent is used for pastures (RDA Center, 2010). The arable land is located in the municipalities of Graçanicë/Gračanica, Fushë Kosovë/Kosovo Polje, Obiliq/Obilić, and Lipjan/Lipljan (RDA Centre, 2010). The vast majority of the agricultural land (80 percent) is owned privately and used by households for subsistence farming. Subsistence farming has secured a living for many families for years. As such, many interviewed farmers stated that tradition in farming is what motivated them to engage in agricultural activities.



The total number of cattle recorded in the Prishtina region is 52,475 representing in this way 20 percent of the whole Kosovo. The total number of sheep is 29,492 representing 16 percent of the whole Kosovo. The total number of goats is 7,271 representing 25 percent of the whole Kosovo. The total number of poultry recorded in the Prishtina region is 616,022 representing 23 percent of the whole Kosovo (KAS, 2015).



During 2014, around 362,700 employees have worked in the agriculture sector in Kosovo (including family and non-family members) (see Table 2 for more details). The level of education of agricultural labor is low. Regarding the education/trainings in agriculture, more than 95 percent of managers have only practical experiences in agriculture (KAS, 2015).



3.2 Basic firm characteristics and firm performance

Agricultural companies operating in Prishtina region are mainly sole proprietorships without a clearly established organizational structure. The most prominent reasons why businesses were created was family tradition, lack of employment, and identification of opportunity for profit. Three companies that the team interviewed did not have prior experience in agriculture however they stated that they privatized large hectares of land since they identified an opportunity to invest in agriculture and profit.

The main activities of the companies interviewed are production and cultivation of fruits and vegetables, live-stock farm (with cattle mainly), arable crop production, and sapling and seedling plots. One of the big companies interviewed started initially with milk production and live-stock farming however they realized that it is much more profitable if they engage in milk processing instead of milk production. By making milk processing a primary activity they managed to grow as a company and increase profits substantially. The company is now diversifying their activities into production of other arable crops and labor intensive fruits such as raspberries, strawberries and blueberries. Another company mentioned that they started with potato cultivation; however since it was not profitable they decided to switch to cabbage and green salad.

Regarding performance, it is interesting to note that none of the companies interviewed were able to provide the team with numbers on the percentage of market share



Grants from Ministry of Agriculture, Forestry and Rural Development, and donor organization such as USAID and EU Office in Kosovo constitute the main sources of finance in the agriculture sector.

they have. Instead they provided the number of supermarkets and depots they sell to. Compared to last year, the majority of the businesses interviewed mentioned that their sales have increased however the prices of the products have decreased. There were also companies which stated that they have increased the amount of land available for agricultural production. Performance wise, all businesses expect that next year they will perform better, that their sales will increase compared to previous years.

Businesses have made new investments during 2014. However, it is important to note that grants from the Ministry of Agriculture, Forestry and Rural Development (MAFRD), and donor organizations such as USAID and EU Office in Kosovo were the main sources of investment. Other sources included bank loans and very little savings. Most of the businesses stated that they do not plan to invest next year since they need to pay back the loans and do not want to risk by borrowing more money from the bank. The companies that plan to invest are those that have applied for grants at MAFRD or EU Office. If they receive the grants they will invest, otherwise not. Investments made from grants ranged from 100,000 to 200,000 Euros. Investments from loans and savings range from 15,000 to 45,000 Euros.

Capacity utilization by companies ranges from 35 to 70 percent. The reasons for lower capacity utilization rate were as follows: lack of financial capacities to use all the land available, small market size, and undetermined sales. The dairy company that we interviewed stated that they utilize only 35 percent of their capacities. The reason is lack of market size. The number of dairy companies has increased throughout the years. Only a farmer that has around 60 cattle (one of the largest ones in Prishtina region) stated that capacity utilization is 100 percent as the

cattle produce milk at maximum capacity (average daily production of milk is 350 liters that during season can go up to 400).

It is interesting to note that all the companies interviewed (except for one that owns the value chain completely) stated that the demand for their products is not stable. If the farmers decide to increase the prices of their products, the buyer will probably decide to buy from someone else or import. One of the owners mentioned as an example that he sold to a supermarket continuously for eight years and once another producer offered cheaper prices the supermarket decided to shift producers. The main reason for unstable demand is lack of sales agreements. Furthermore, if sales agreements are drafted they are not implemented.

The prices for fruits and vegetables are set at the wholesale market in Fushe Kosove. The prices vary based on the imports from Macedonia and Serbia and seasonal offer in the market. If the offer is high during a particular season the prices of the products will be lower than usual prices. The reason why prices are low is because seasonal producers sell their products at any price in order to avoid unsold stocks of products. During winter time the prices are higher since there are not a lot of producers who have greenhouses and who can produce during winter time. The prices fluctuate and it happens that within a day there are four different prices of the same product. When the prices of the products decrease in Fushe Kosove market, the same happens in other parts of Kosovo. The price of the milk, on the other hand, is set by the Association of Dairies without consulting the farmers. As a consequence, farmers end up selling the milk at the set price.

Only one out of all the companies interviewed export their products (vegetables mainly) to Serbia, Croatia, and Montenegro and at times in Macedonia. The value of export during 2014 was around 40,000 Euros. The owner of the company mentioned that the trend of exports for the last three years has been increasing. Another company that focuses on apple cultivation stated that the company does not export and the reason for not exporting up to now is not having a calibrator. This year the company, together with two other producers, received a grant to purchase a calibrator. As of next year, they can start exporting since they will be able to calibrate the apples.

Similar to businesses operating in other sectors, those operating in the agriculture sector face several challenges. The most prominent barrier that was mentioned by all interviewed companies was unreliable market/sales.



Only one out of all the companies interviewed export their products (vegetables mainly) to Serbia, Croatia, and Montenegro and at times in Macedonia. The value of export during 2014 was around 40,000 Euros. The owner of the company mentioned that the trend of exports for the last three years has been increasing.

Producers complained that besides producing they have to sell the products themselves. This is not easy at all since the market is not reliable. The buyer of products can decide to purchase the products from someone else since they do not have written agreements and do not incur any costs. Another big barrier is unfair competition from imported products. Producers mentioned that imported products are not controlled for pesticide. According to producers, imported products have much more pesticides than local ones since the least amount of pesticides is used in Kosovo. However, the citizens are not informed about these issues and purchase imported products since they are brought in cheaper than local ones. Another problem related to market is the effect that seasonal products have on product price. Seasonal producers are willing to sell all their products at any cost since they do not have a place where to store it. Another barrier mentioned by producers is high cost of finance and short grace period. High gas prices were also mentioned as a barrier to operations since they increase production costs. Producers mentioned that import of "red gas" should be allowed since it is much cheaper (the price of red gas is 40 percent lower than regular gas) and can be used for land work. Expensive medical treatment of cattle is another barrier that poses great challenges to farmers.



3.3 Labor force

The agricultural sector in Prishtina region is mainly comprised of family businesses with 15 employees at most. During harvesting season the number of part-time employees goes up to 50. Full time employees are mainly male. One explanation for this is that the high demand for physical work is not suitable for females. Meanwhile, all the companies that were interviewed reported that seasonal employees are mainly female. The reason for hiring females during seasons is that harvesting is less demanding physically and more appropriate for females. The farmers interviewed mentioned that they hire females from their villages who know how to do the job properly. The average age in these companies varies from 25 to 40. Qualifications vary from high school to university degree. Usually the lower level employees have secondary qualification while owners have superior education level.

When asked about the attributes that companies look in employees when hiring, most of the companies mentioned that what they require is prior experience, knowledge of the specific field and motivation to work. They want to hire candidates who are interested to learn how to do the job properly. The problem is that the turnover ratio in the agricultural industry is very high as employees are hesitant to work due to high physical demand. Companies hire mainly people from their local villages in order to help them financially. The average salary ranges from 250 to 300 Euros. The part time employees are paid 10 to 15 Euros per day. The trend has been increasing and will continue so in the future as well.

In terms of qualifications and practical skills there is a shortage of qualified labor in certain categories. One of the farmers mentioned that they are finding it difficult to find a good plant protector. Another problem that they face is lack of people who have knowledge on plant diseases and how to cure and avoid them. There is also a lack of laboratories where you can diagnose the type of disease. Until the real cause of the disease is found, farmers end up using different pesticides that damage the plant. Furthermore, most of the employees working in primary production did not finish the agricultural high school. One of the farmers mentioned that it happens that employees work for many years and they still do not know which fertilizer to use at which phase.



The turnover ratio in the agricultural industry is very high as employees are hesitant to work due to high physical demand. Companies hire mainly people from their local villages in order to help them financially. The average salary ranges from 250 to 300 Euros.

3.4 Competitive forces



In this section, the focus will be on describing how five competitive forces are affecting the agriculture sector. The forces are the following: (i) threat of new entrants; (ii) buyer power; (iii) supplier power; (iv) threat from substitutes; (v) competitive rivalry. These forces determine the sector structure and the level of competition in the sector. The stronger the competitive forces are the less profitable the sector will be.

The threat of new businesses in the agricultural sector is medium to low. The reason for being medium is due to a relatively high amount of funds needed for investment. One of the farmers stated that in order to properly prepare only one hectare of land for production it will cost around 30,000 Euros. Furthermore, motivation and desire to continue working in an uncertain sector like agriculture, where it is costly and it takes time to arrive at production and storage are very crucial to sustainability of the businesses. All the farmers mentioned that it is very difficult to operate as this sector requires a lot of commitment. However, what makes it easier to enter the market is lack of regulations imposed. The rules and regulations are similar as for establishing any type of business.

The risk of new entrants in the market for livestock farms is medium as well. It is easy to establish a farm but difficult to sustain it. Cattle farmers have a lot of accounts receivable from dairies. Another factor that is very important is experience. One needs a lot of experience in order to face the challenges and successfully operate in this sector. The risk of opening a similar business is relatively low since the costs are high. The cattle is expensive, building of the farm is expensive and the risk of failure is very high since there is no guaranteed market and the dairies set all the conditions.

Buyer power in the agricultural sector is high. The buyers of agricultural products are wholesalers, fruit and vegetable depots, supermarkets, and dairies. Farmers mentioned that there are no written agreements between sellers and buyers for sales to be made. The buyers can dictate the conditions of purchase. The buyer can decide to purchase the products from other farmers without prior notice and without incurring any costs. Some of the farmers mentioned that buyers have bought from other farmers when they found cheaper products. The number of buyers for companies interviewed ranges from 15 to 40.

The supplier power in agricultural sector is low as there are plenty of suppliers in the market. However, farmers stated that it is very important that we trust the suppliers to have original products as fake products are being sold in the market. As long as farmers purchase well-known brands they are safe. If they want to switch the suppliers they can do that without incurring any costs.

Threat from substitutes in the agricultural sector is high as products are imported to a great proportion from neighboring countries. Strawberries, for example, were imported from Serbia for cheaper prices. As such, local producers had to sell the strawberries for 0.40 Euro/ kilogram, meanwhile in order to achieve a profit the producers need to sell the kilogram for 1.20 Euro. Another factor that contributed to a high threat from substitutes is the freedom that buyers have to change producers once they find cheaper products.

Regarding competition, fruit and vegetable producers stated that it is increasing through time. In addition, the seasonal competition is very high as most of the farmers in Kosovo do not have cooling and storage facilities and want to sell them while they are fresh. Farmers who have storage facilities are at a big advantage since they can store them and sell them during times when the offer is lower and prices are higher. Furthermore, farmers that do a good job in protecting their fruits are also at an advantage. An advantage for new businesses is that they can get grants



Threat from substitutes in the agricultural sector is high as products are imported to a great proportion from neighboring countries. Strawberries, for example, were imported from Serbia for cheaper prices. As such, local producers had to sell the strawberries for 0.40 Euro/ kilogram, meanwhile in order to achieve a profit the producers need to sell the kilogram for 1.20 Euro.

from MAFRD since the ministry is trying to encourage start-ups in the agricultural sector. However, one disadvantage is that they lack experience and market share. On the other hand, competition for dairy farms is low. The market needs much more milk producers/farms but the problem is unregulated market. The dairies are taking advantage of this situation and setting all the rules. The profit is very low and very difficult to survive. There are no guaranteed sales.

3.5 Sector specific trends



The agricultural sector in Prishtina region faces several issues. One issue is high level of imports from neighboring countries. As an example, for illustrative purposes, is the fact that 47 percent of apples consumed in Kosovo in 2014 were imported (MAFRD, 2015). Another issue is unfair competition from seasonal producers. These producers want to sell all their products as long as it is fresh and as such are willing to change the selling price. Another issue is fluctuating prices of agricultural products. There is lack of awareness by farmers to cooperate with collection points. The collection points enable a stable selling price for farmers. However, if the farmer sells its product in the market it can happen that in the morning the selling price will be 0.25 Euro, while in the afternoon it can go down to 0.10 Euro. Another issue of the agricultural sector is small market size and unstable market due to lack of contracts.

Regarding policies that would improve business operations, farmers mentioned that the government needs to remove the VAT on mechanisms that are used for production and storage of fruits and vegetables. For example, for import of freezers used to store the fruits farmers have to pay 18 percent VAT. Another example is construction of the greenhouse which can cost around 100,000 Euros and the VAT that needs to be paid is 18,000 Euros. The rubber and solar panels used for the greenhouse are not VAT free.

Agriculture, specifically primary production, is a sector that needs constant investment. The investment can be limitless, from planting up to protection and storage. The main investors in Kosovo are international donor organizations such as USAID and European Union Office in Kosovo, and MAFRD. There are very few farmers that can invest themselves. The part of financing that was invested by the company came mainly from loans and savings. The Kosovo farmers need help from donors and ministry constantly. So the investment in the next three years will continue to be done by donor organizations and MAFRD. One disadvantage of grants received from MAFRD is that they require the investment to be implemented and then transfer the funds. Farmers end up borrowing the money from the bank than repay the loan once they get the funds.

Food and safety hygiene standards are not mandatory for primary producers of fruits and vegetables. However, for livestock farms that produce milk, Kosovo Food and Veterinary Agency performs random inspections where they control for the quality of the milk produced.

When asked about the trust in public institutions farmers' responses were mixed. There were farmers who trusted the MAFRD and believed that grants were distributed fairly. These were mainly farmers who benefited from grants and who made investments from these grants. However there were also farmers who believed that the committees that distributed the grants were not transparent. These were mainly farmers who were rejected grants. They stress that grants are being given to farmers who do not have experience and motivation to sustain the business. The MAFRD has organized two meetings with beneficiaries before opening the call for grants. Their concerns were noted down but the owner was not sure how much they were taken into consideration. The farmers also complained that municipalities provide very little subsidies and do not consult with farmers when drafting any policies.

4

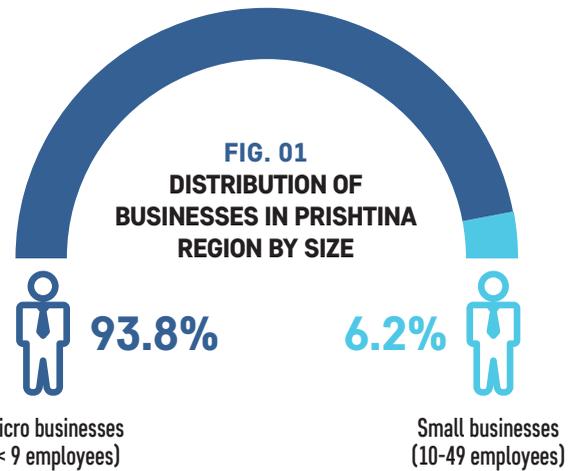


At present, 182 businesses engage in textile and apparel manufacturing in Kosovo; the Prishtina region alone marks 65 active textile manufacturers.



4. TEXTILE MANUFACTURING

Textile manufacturing has been evaluated as a highly relevant sector in the Prishtina region by the subject-matter experts and has been ranked fifth with respect to competitiveness and growth potential. This section of the report is organized as follows. Section 5.1 gives an overview of the manufacturing sector in Kosovo in general and in the Prishtina region in specific. Section 5.2 elaborates interview findings on firm characteristics and performance, including sales trend, investments and challenges to doing business. Section 5.3 gives an insight to the labor force in the manufacturing industry and future trends. Section 5.4 presents information and analysis on the competitive forces that affect companies in this particular industry, namely threat of new entrants, buyers and suppliers bargaining power, threat of substitution and competitive rivalry. Finally, Section 5.5 gives a conclusion of the main findings from the interviews.



SOURCE: KAS, 2014.



4.1 Sector overview

Textile manufacturing was known to be one of the largest industrial sectors in Kosovo in the '90s, that is second after mining. At that time, 15 state-owned enterprises (SOEs) were involved in textile production, offering workplaces for more than 1,000 employees and making more than 35 million Euros in sales across former Yugoslavia and beyond. The changed scenery after 1999 has damaged previous trading linkages and as such has affected production rates and ultimately competitiveness (Kosovo Investment and Enterprise Support Agency, 2014). At present, around 451 private enterprises engage in textile production according to the Kosovo Investment and Enterprise Support Agency (KIESA) (2014); however, the Tax Administration of Kosovo (TAK) marks only 182 active businesses in the sector (2014). The geographical spread of the sector's business activities shows an evident concentration predominantly in the regions of Prizren, Gjakova and Prishtina, with a 69 percent representation (Tax Administration of Kosovo, 2014). Enterprises that operate in this sector vary, from large privatized companies owned internationally to small domestic companies. In the Prishtina region alone 65 active businesses manufacture textile and apparel according to the KAS (2014). As Figure 1 depicts, the majority of these companies (almost 94 percent) represent micro enterpris-

es. Accordingly, the sector mostly supplies to the domestic market and face difficulties with market links and production capacity constraints.

Considering the eight municipalities of region Centre one by one, points out that the municipality of Prishtina has the highest number of active manufacturing businesses in the region, namely 49, out of which 47 are micro businesses with less than 10 employees and only 2 are small businesses with more than 10 employees. The municipality of Podujeva counts for 7 active businesses; 6 representing micro businesses and only 1 representing a small business with more than 10 employees. Lipjan, Shtime and Drenas each have 2 active businesses registered, which represent micro businesses in all three cases. The municipality of Fushe Kosova has only 1 small business registered with more than 10 employees; whereas Obiliq and Gracanica each have 1 micro business registered (as depicted in Table 1).



TAB. 01 DISTRIBUTION OF BUSINESSES IN PRISHTINA REGION BY SIZE AND NUMBER OF EMPLOYEES**Active businesses in 2014**

Municipality	Active businesses in 2014			Number of employees
	Total number of businesses	Micro businesses	Small businesses	
Prishtina	49	47	2	194
Podujeva	7	6	1	16
Lipjan	2	2		18
Shtime	2	2		16
Fushe Kosova	1		1	11
Obiliq	1	1		9
Gracanica	1	1		8
Drenas	2	2		2
TOTAL	65	61	4	274

SOURCE: KAS, 2014.

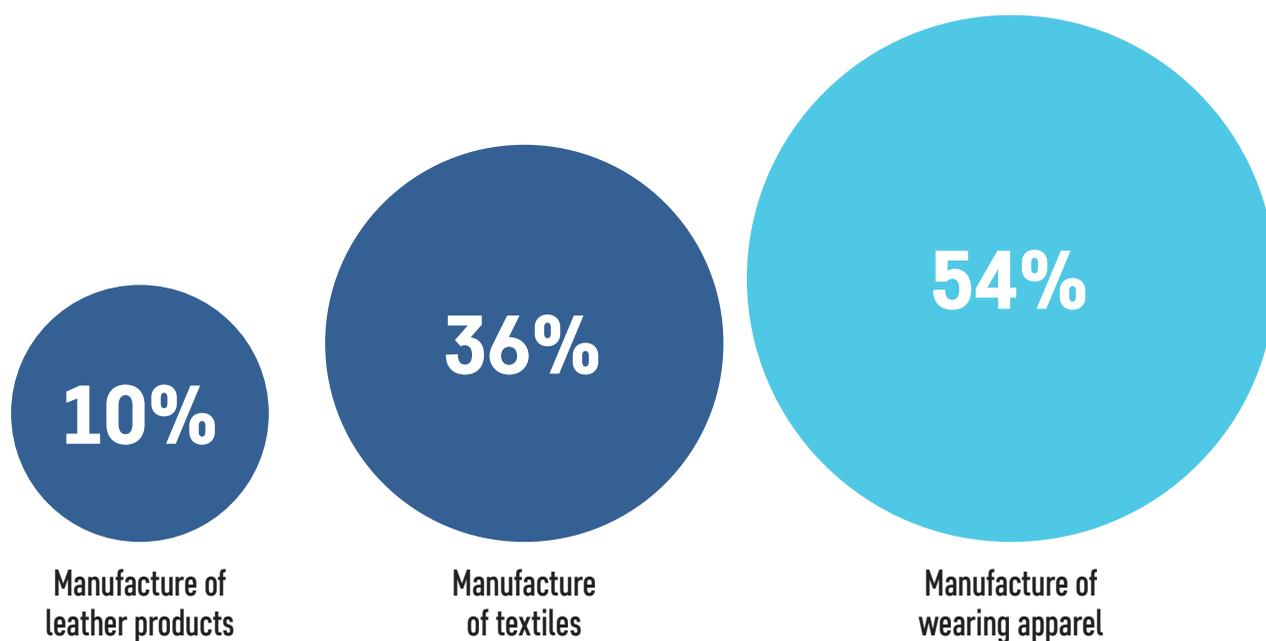
Table 1 also indicates employment figures. As is illustrated, the bulk of companies in the sector, nearly 94 percent, are micro businesses with less than 10 workers and around 6 percent are small businesses employing between 10 and 49 workers. Principally, these figures are in sync with the whole private sector in Kosovo. Overall, the textile sector currently counts a workforce of 1,453 employees, representing around 0.7 percent of the total registered workforce in Kosovo (TAK, 2014). Region Centre with its eight municipalities counts a total of 274 employees in the textile manufacturing industry (KAS, 2014), accounting for around 19 percent of the total textile sector employment figure. The municipality of Prishtina has the highest number of employees in the region, with a total of 194 employees working in this sector. The municipalities of Lipjan, Podujeva and Shtime have almost the same number of employees working in the manufacturing industry with 18, 16 and 16 employees, respectively. The four other municipalities of region Centre have relatively small numbers of employees represented in this sector as can be seen in Table 1.

The main activities of businesses in the sector are the manufacture of textiles, manufacture of wearing apparel and manufacture of leather products, corresponding to codes 17, 18 and 19 of the NACE Rev. 1. More than half, around

54 percent of the firms in region Centre, represent wearing apparel manufacturers; around 36 percent textile manufacturers; and only 10 percent leather product producers (see Figure 2 below). Disaggregating the data further to 4-digit NACE Rev. 1, reveals five top activities: manufacture of outerwear (NACE 1822) produced by about 33 percent of businesses; manufacture of textiles (NACE 1754) by about 11 percent; apparel and accessories (NACE 1824) by roughly 10 percent; workwear (NACE 1821) by merely 7 percent; and footwear (NACE 1930) by also merely 7 percent of businesses (TAK, 2014).

Textile manufacturing businesses in the Prishtina region are mainly oriented towards three market segments: Cut, Make and Trim; domestic apparel retailers; and fashion. The first segment represents a big and profitable opportunity especially for medium and large textile producers to increase and expand sales, through the creation of business relations with international apparel and leather manufacturers and sellers. A large number of small firms in this region manufacture and sell standard apparel goods (shirts, suits, sportswear and the like) as well as uniforms to the local market and to neighbouring countries and are operating quite successfully. The fashion business is on the rise and very promising as well. The number of high-end fashion de-

FIG. 02 MAIN ACTIVITIES OF TEXTILE-MANUFACTURING BUSINESSES IN PRISHTINA REGION



SOURCE: TAK, 2014.

signers (mostly women) in the Prishtina region is increasing day by day and so are their sales owing to the relatively high demand. They promote and sell their clothes in their ateliers and showrooms; what is more, some of them have reached international success with promotion and orders in Europe and the USA (USAID, 2014).

Even though the textile sector in region Centre is experiencing noteworthy development and is showing growth potential, especially through private sector investment opportunities, it still faces major challenges and threats. The market in this region is characterized by a large fragmentation, with very few retail chains and department stores. Serving orders from and selling to independent retail stores and boutiques necessitates flexible manufacturing capabilities since these types of orders are normally small, short notice and not entirely reliable. In addition, the sector faces obstacles such as high costs of input factors; lack of finance and difficulty of access; inaccessibility of domestic raw materials; lack of high skilled labour and inadequate level of education; unsatisfactory local demand; rising dependency on electricity; and certainly harmful competition from informal sector (Ministry of Trade and Industry, 2014).

4.2 Basic firm characteristics and firm performance

According to the TAK database, the active textile businesses in Prishtina region engage predominantly in the manufacture of wearing apparel, yet also in the manufacture of textiles, as well as processing of leather and manufacture of leather products to a smaller extend. Along these lines, this study has made an effort to interview firms operating in these different categories, so as to receive sufficient information to get an insight of the sector's characteristics, trends and obstacles in this region.

Initially, the firms were asked general questions that sought to get an understanding of the firms' background, ownership, main activities and particular reasons for entering into the textile manufacturing business. Similar to the general private sector in Kosovo, the majority of the interviewed companies in this region are small family-owned businesses. They principally represent limited liability companies and less sole proprietorships. Most of the companies have started their business in the early 2000's, only a few years after the war. There are, however, some companies that have operated even long before the war, during the 90's;



nevertheless, they have registered their business after 1999. Only one of the interviewed firms is relatively new in the business, manufacturing textile for 18 months now; however, it has been engaged in the trade of textile for several years before that. In fact, a lot of smaller companies that manufacture textile now have engaged in trading of textile and apparel before. All of the interviewed firms have one thing in common; they have all started out as small companies, with some of them commencing the businesses with only one sewing machine. Nevertheless, business has thrived and the firms have become bigger with the years, in terms of production capacities, sales, employees and facilities.

The strongest reason for entering this particular business was the recognition of business opportunity and profit. As stated before, a lot of firms have engaged in trading of textile for years and have seen the possibility of expansion into manufacturing by producing textile and apparel themselves instead of importing it for further selling. So, they either are engaged in both production and trade equally, or are putting increasingly more focus on manufacturing, which indicates the perceived potential for success. The interviewed companies stated in fact that the job has been rewarding from the beginning and previously existing or quickly established business linkages have contributed to the business accomplishment to a great deal. Worth mentioning here, is the especially high profitability recognized in fashion design due to the ever-increasing demand for tailored high-end fashion in Kosovo and in the Prishtina region specifically, which is affirmed by the one fashion design company interviewed for the purposes of this study.

The main activities vary among the different types of firms; yet, they can be summed up as activities pertaining to the production of apparel, textile or leather products. Manufacturing of daily, solemn and sports clothing are activities undertaken by the majority of interviewed companies. However, the interviews also revealed firms that produce uniforms and work-related clothes; textile and fiber; high-end fashion garments; as well as leather bags for males/females, schoolbags and cosmetic bags. These products have been manufactured from the early phases of business operation, initially with very simple designs. In the meantime, the products have been further developed and refined and investments in product design and diversification have been made. Moreover, the interviewed firms have pronounced that they will further expand production and diversify into new sorts of clothes and textile. Well-established and solid firms have the necessary means to develop and launch new products and with it spur additional sales.



Most firms have initially engaged in trading of textile for years and have seen the possibility of expansion into manufacturing by producing textile and apparel themselves instead of importing

In terms of size and composition of staff respectively, most of the interviewed companies fall under the category of small businesses, employing 10 to 49 workers and only a few represent micro businesses with fewer than 10 workers. Some have started out with fewer than 10 employees in the early phases of operation but now engage up to 60 employees. As is expected in this particular industry, tailors signify most of the workforce along with designers, production managers, sales managers and marketing consultants. The average age of employees is 30 among the interviewed firms, and the division of gender shows a predominance of female workers in this sector. Being precise, around 90 percent of the staff of questioned companies is composed of female workers. Only one firm has noted an equal division of female and male workers, namely in the leather products manufacturing sub-sector.

Businesses were asked further in-depth questions on their business performance, in order to get a clearer picture on the sales trend, domestic demand for their product, investments and common challenges to doing business. The interpretations of businesses varied a lot with regards to the sales trend. A slight majority observed an increase in sales from 2014, they even noted to having noticed a monthly rise of sales. Most of these firms have been dealing with trade of textile before; so, they have had already well-established sales linkages that contributed to sales increase. The owner of one company emphasized, however, that even though sales are generally increasing, marginal profit is continuously decreasing. This is attributed to the obstructions inflicted by the prevailing unfair competition in the sector. Some companies stated that they are doing worse year by year in terms of sales and that it is getting more and more difficult to compete and be successful in this market, again attributed to unfair competition. Other companies declared

that their sales have neither increased nor decreased compared to last year, but they do not perceive it as problematic since they have their loyal clientele, which brings in solid profits. Moreover, the expectations from expanding and opening up new branches of business are high in terms of sales and profits. Overall, the interviewed firms all have one thing in common in having high expectations regarding their sales numbers for the years to come.

Investment in new technology, machinery and facilities is considered an essential activity for further business development. Interviewing the chosen companies has revealed that they all have made some kind of investment in this and the last year. Prevalent was investment in new machinery to ensure advanced technology of work and more specialized and qualitative output. These kinds of investments reached values from 10,000 Euros to 200,000 Euros depending on the company. Besides, capital investments have been made in new facilities, such as new branches of business or new factories for increased production, succeeding amounts of 500,000 Euros. Sources utilized for such investments differ, but are mostly company resources and bank loans. Some firms have also been awarded with grants, mostly from USAID, launched to incentivize the textile-manufacturing sector. Such grants, small or large ones, are being awarded at an increasing amount due to the assessed growth potential of the textile sector.

With regards to capacity utilization, it turns out the majority of interviewed companies use around 80 percent of their capacity. The companies claimed that they in deed utilize the capacity to a great extend; however, there is still possibility for improvement. In fact, when taking into consideration the capital investments of the firms in new machinery, capacity utilization should be much higher; however, the firms faced an occurrence where they had the needed machinery available but not sufficient workforce to utilize the machinery to full capacity. One firm claimed to use less than 50 percent of its capacity due to insufficient and unqualified labor. Still, all firms agreed that capacity utilization varies among seasons. Meaning, when more work was required and more products were ordered, capacity was utilized at a larger extend principally because more seasonal workers were hired, usually occurring in the summer season.

Yearly increase of sales and capital investments indicate relatively high demand for the companies' manufactured products. Demand is, however, subjective to the selling price of the goods as such customer loyalty is rather unsubstantial and delicate in this industry. These firms cannot

afford to make price alterations and lose customers; they are rather prepared to modify their products to meet customer demand. If the companies were to raise prices of their main product line only 10 percent above the current level, assuming that the competitors maintained their existing prices, customers would start buying from competitors instead. Some of the firms manufacture uniforms for large clients such as public institutions; some are in fashion design; others sell their products through large retailers; yet, they all risk losing customers from price fluctuations. Especially nowadays, when the purchasing power of the middle class is decreasing considerably, the price is almost more determinant than quality. Hence, companies most often compensate the inability to increase prices and make more profit with the production and supply of lower-quality products, in this way withstanding also the large competition.

The improvement and the creation of new products and designs are imperative for running a successful business in the long run. The interviewed firms have all affirmed that they constantly work on modifying and improving their products and making them more sophisticated by every season. Through this, they aim to increase the quality of the manufactured goods as well as the desirability of their products by customers. Large capital investments made to purchase machinery with the newest technology enable enhanced production methods and novel creations. Moreover, some of the firms have invested in new technology of handcraft and have hired people that specialize in handcraft. This kind of work creates products that are completely new to the market. These advances have mainly been financed in-house, but almost no external financial aid.

Intermediate goods and raw materials utilized by the companies for textile manufacturing are primarily acquired from foreign countries. Moreover, the majority of firms use input materials exclusively from imports. Imported intermediate goods and raw material are acquired mostly from local traders, but also foreign producers. Yet, as identified in the interviews, there are cases where companies get their supplies from imports as well as from local producers. As much as the companies welcome local production, they stated that sometimes input materials are hard to find in necessary quantities and are quite expensive; due to this most textile manufacturers fall back to importing. Foreign supplies ordered are mostly in the form of intermediate goods such as wool and cotton; sewing threads; leather and synthetic leather; lining; and glue. As would be expected, input materials originate most commonly from Turkey, China, Italy and Germany as well as from neighboring Macedonia.

All the interviewed companies sell their products at final stage of production and most of them have supply agreements and sell their produce to distributors and wholesalers as well as large and small retailers. Sales to final consumers and clients occur at rather small quantities. There is only one firm that has reported large sales contracts with public institutions.

All of the interviewed firms are eager to expand their businesses through exporting to neighboring and European countries. However, for now they are either not exporting at all or are exporting to a small insignificant amount. Those that do export a little have noted that they are generally doing worse than last year and the years before. They have exported to neighboring countries and beyond to Germany and Austria for instance; however, a lot of these business relations have been terminated, mostly caused by major obstacles of doing business in Kosovo. Barriers include but are not limited to the cost of transportation, customs procedures, meeting international quality standards and cost of bank guarantees. Now, they generally export to Albania and Macedonia in small amounts; some of them directly through their privately established sales channel others through large retail stores represented in these countries. The firms are, nevertheless, confident for the upcoming years and anticipate greater possibilities with respect to exports and some of them are making preparations to start exporting next year. This in deed is quite important for the growth of the domestic companies, especially since Kosovo offers a very small market to operate in. Moreover, the possibility of creating foreign connections and exporting is also conditioned to and inevitably ensures the increase of product innovation and quality.

In general, businesses in the Prishtina region face a great number of challenges to their daily operations and growth of their business and so do textile-manufacturing companies. Unfair competition from the informal sector; shortages and cost of energy supply; access to finance; and moderate demand in the local market are considered the main barriers to doing business for these businesses. The informal sector is undoubtedly impeding the businesses the most, either in the form of unregistered small ventures operating in basements or small businesses illegitimately importing goods and as such offering selling prices that are similar to those of domestic producers. Even public institutions have substituted long-term contracts with domestic textile producers for contracts with importers of cheap and not qualitative produce from China and Turkey, according to one firm. Competition from the informal sector represents a more pressing barrier for micro and small businesses than

for larger businesses. This is because, they sell their products only in the domestic market and have not been able to expand by exporting and moreover experience difficulties in competing with other firms due to small market share. An infrastructural barrier that remains high up in the list is the shortage of energy supply and the costs related to it. This has been a problem for the last two decades, and one of the interviewed firms has reported the shutdown of its workshop due to this impediment. Access to finance and cost of finance are making day-to-day operations for the businesses very difficult as well. The companies did complain about the difficulties in accessing finance, about the high interest rates for businesses and struggles in repaying the loans. This is truthfully challenging for small businesses since they are usually more ambitious in their expansion plans; thus, affected more by matters such as access to finance and availability and cost of energy. Other less imperative barriers noted by the examined firms are lack of liquidity; lack of qualified workers; and delayed payments by clients. Overall, small firms are more disposed to reporting barriers external to the firm. These aforementioned external barriers put more stress on the small companies, meanwhile, are almost nonexistent for larger companies.

4.3 Labor force

According to official KAS statistics, the textile-manufacturing sector employs around 274 workers in the Prishtina region, accounting for around 19 percent of the total textile sector employment figure. As previously mentioned, employee numbers in the questioned firms range from five to 60 and the average number of employees is 30. As reported by the companies, workers are largely engaged as full-time workers with actual work contracts. There are occasional cases of employing part-time workers, seasonal workers or outsourced staff as well. However, the employers are not very keen on hiring any kind of part-time workers, since workers in this industry, especially tailors, give up their jobs easily to go find a workplace somewhere else. One case has disclosed that they have an arrangement with a professional vocational school to accept a considerable number of interns and train them in the tailoring profession. This arrangement has high prospects and clearly benefits both sides, on the one hand the school's students for the possibility of receiving practical training and getting prepared for the job market; on the other hand the company for the possibility of employing interns to assist in producing their output, with almost no costs attached.



The monthly salary among the textile businesses in region Centre, as declared by the interviewed companies, ranges from 200 to 400 Euros, averaging at 270 Euros. This being said, the salaries are quite similar throughout the sector. Salaries have persisted in this range for a long time; however, due to the ever-increasing demand for tailors, salaries offered by employers have started to increase. Likewise, the companies expect an upward trend in salaries for the coming years in this sector.

The companies agree on one thing unanimously, that the labor market is not meeting their needs for employees in terms of qualifications and practical skills. The labor force has usually low qualifications; they lack in experience and do not demonstrate the necessary skills to perform their job successfully. There is indeed shortage of textile-specific professions in the market, especially of tailors, stitchers, patternmakers, production managers, quality control officers, designers, as well as competent sales persons.

The companies report most commonly employing workers with secondary education and very few with tertiary education. With regards to employees' qualifications, workers have generally graduated from professional vocational schools or have finished tailoring courses. Overall, employers in this industry look more for the attribute of practical skills and previous work experience rather than education and theoretical knowledge. They value the former attribute as much more important and those workers have an advantage while hiring. They pursue and recruit workers with practical skills and experience, but they also put weight on workers who show willingness and devotion to work.

While expectations of newly hired employees are high at the beginning, employers soon realize the need for further labor development. Hence, in most cases firms revert to the provision of training to compensate for skill deficiencies among its new employees. Training is principally delivered in the form of on-the-job training so as to improve production skills and lasts for a period of one to two months.



4.4 Competitive forces

In this section competitive forces that affect companies in this particular industry are analyzed making use of Porter's model of the five competitive forces: threat of new entrants, buyers and suppliers bargaining power, threat of substitution and competitive rivalry. These forces determine the level of competition in a market and thus the



Textile manufacturers agree that the labor market is not meeting their needs for employees in terms of qualifications and practical skills. The labor force has usually low qualifications; they lack in experience and do not demonstrate the necessary skills to perform the job successfully

profitability and attractiveness of this market for a firm. Through good corporate strategies, a company can use these forces to its advantage to strengthen its position in the sector of operation.

The force of threat of new entrants assesses how easy or difficult it is for new businesses to enter a particular industry. If it is relatively easy for competitors to join the market, existing businesses in the sector risk losing market share and subsequently profits. The intensity of threat of entry is contingent to the existent obstacles in the specific sector. These usually include barriers such as government policies; capital requirements; economies of scale; access to inputs and to distribution channels; and brand identification. The government can either facilitate or limit entrance of new businesses with its registrations requirements and regulations to doing business.

The firms interviewed for this study reported that new business start-ups enter the market continuously and at a fairly high rate. Moreover, they admitted that it is quite easy to establish a business in the Prishtina region, since procedures and documentation required, such as certificates and permits can be easily and quickly obtained. Large capital investments required in the textile-manufacturing industry can become an impediment for new entrants who attempt to compete in the market. As stated by the questioned businesses, a business can be established with small start-up capital; however, in order to grow and remain in the business large investments, such as in facilities and advanced technology, are crucial and inevitable. This is essential for large-scale production, which in turn enables

selling large quantities usually ordered by distributors and gaining market share. Economies of scale discourage new businesses since they have to take in cost disadvantages from being unable to produce on a large scale from the start-up; thus, is considered one of the most impeding barriers in production. Existing companies typically have cost advantages over new entries due to experience and well-established linkages, which can mostly be observed by the access to the best input and raw materials. Entrants to the market must work hard on securing distribution channels, especially textile-manufacturing businesses that sell their products through wholesalers and retailers. Hence, these entrants commonly offer price breaks and discounts so as to lock agreements with distributors that are tied up by prevailing competitors. Brand recognition is difficult to achieve in this sector and new companies are forced to spend large amounts of money for promotion and advertisement. Overall, barriers to enter the textile-manufacturing industry do exist and even though businesses can enter the sector quite easily, it is tough surviving and growing in this production sector. The market is not easily seized; likewise, existing businesses have established a market position and sometimes have become even stronger and more competitive due to newcomers. All this gives existing businesses greater power; nonetheless, as acknowledged by the interviewed businesses, new businesses should never be underestimated. They can develop despite the prevailing barriers and drive prices and profits down for other firms.

Powerful buyers have the ability to request higher product quality and force down prices, as such set competitor firms against each other and ultimately bring down their profits. These traits relate to either final consumers or big commercial buyers. Buyers gain power if they purchase in large quantities, which is the case for the majority of interviewed firms. Large wholesalers and retailers represent the buyers for most of the questioned firms and as such they can dictate terms. They become especially powerful if they can impact consumers' purchasing decisions. Hence, as reported, they are able to request price breaks and discounts by the producer. On the other hand, final consumers tend to be more price sensitive themselves if the products are rather customary and undifferentiated. Moreover, consumers with relatively low income are reluctant to buy products that are expensive compared to their income. As claimed by the questioned firms, the purchasing power of citizens is decreasing and with it the disposition to purchase costly products, the quality of which are not of greatest importance. Hence, a situation emerges where these buyers either bring prices down or find substitution. The exception here is producers of custom-made high-end fashion that



Overall, barriers to enter the textile-manufacturing industry do exist and even though businesses can enter the sector quite easily, it is tough surviving and growing in this production sector. The market is not easily seized; likewise, existing businesses have established a market position and sometimes have become even stronger and more competitive due to newcomers.

generally have highly profitable buyers, who are less price sensitive and put more value to qualitative and unique culture. These ventures are not pushed to bargains with their consumers over prices and have normally a loyal clientele.

Suppliers as well can exercise bargaining power over manufacturing firms by increasing prices of intermediary goods and raw materials. In this way they affect profits especially of firms incapable of retrieving cost increases in their prices. Bargaining power is mostly evident in an industry dominated by few suppliers who control prices. Since there are almost no domestic producers of input materials, companies in the textile industry have gotten accustomed to purchase these materials from a large existing number of foreign suppliers. Even though there are quite a few of them, according to the assessed firms, it is pretty difficult to work with suppliers and their power cannot be underestimated. Raw materials and intermediary goods characteristic of the textile industry are normally not unique and differentiated products and while companies have switched suppliers on occasions, there are substantial costs attached to it.

Threat of substitution of a company's product is common in industries where companies manufacture similar products. This increases the probability of consumers swopping to alternative products in cases of price fluctuations. Except for the price, factors influencing buyers' decisions are the quality of products; ability to produce high quanti-

ties ordered; and buyers' general inclination to alteration. The higher the inclination and the easier it is to replace producers, the less power can companies exercise in the market. Opinions of the interviewed firms diverge when it comes to possibility and ease of product substitution. Even though all companies claimed that their products are distinctive, most of them admitted that it is quite easy to find alternatives and that it also happens quite often. Still, some claimed that there are no domestic alternatives to their products in terms of quality and such products can only be compared to imports. Overall, unless textile-manufacturing businesses are able to upgrade product quality or in some way differentiate it, the industry will experience low profits and limited growth.

Competitive rivalry among firms depends on the intensity and competence of competitors in the sector. An industry with a great number of competitor firms that produce undifferentiated goods is limiting to market growth and attractiveness. Responses from the interviews reveal that competition is perceived to be very concentrated in the textile-manufacturing sector in region Centre, especially with the large participation of imported goods, and it is continuously rising. Intense rivalry develops when the sector is experiencing growth; when there are many competitors that have similar size and power; and when buyers are able to switch producers easily and for little cost, which is the case in this production sector, according to the questioned companies. In these instances, price competition and aggressive advertising ensue in an attempt to attract and lock down consumers. The interviewed firms admitted to being often forced to lower prices in order to remain competitive. They try to downplay this situation by reverting to healthier alternatives such as investing more in advertising. Innovation and new product introduction is reportedly the best technique to outclass competitors with old-fashioned and low quality products and designs.

5



Construction sector in Kosovo, constitutes one of the most important pillars of the country's economy. In 2014, with a participation of 9.1%, it was the 4th biggest employer in Kosovo, with 13192 registered employees (Kosovo Agency of Statistics, 2014c).



5. CONSTRUCTION

This section of the report presents the findings from the interviews conducted with companies operating in the construction sector. Section 1.1 presents the sector overview; 1.2 basic firm characteristics and performance of firms interviewed; 1.3 labor force; 1.4 presents the competitive forces in the sector; 1.5 sector specific trends; and 1.6 provides a conclusion to the information presented regarding the construction sector in Prishtina region.

salary from all the sectors. Construction sector also plays an important role, as one of the most important contributors in the country's GDP. In 2013, it was the 6th largest contributor in the country's GDP, with a contribution of 6.6%, or a value of 352.12 million Euros (Kosovo Agency of Statistics, 2014a). The sector is also one of the most important contributors when it comes to foreign direct investments. After real estate sector which in 2013 accounted for 35% of foreign direct investments in Kosovo, it was the second sector with a portion of 15%. Since there is a correlation between these two sectors, in 2013 together they made up 50% or half of the total foreign direct investments in Kosovo. According to a study by Enhancing Youth Employment (EYE) conducted in 2015, construction sector in Kosovo is dominated by private investments with an average of 71%, while public investments funded with a main focus on road infrastructure account for less than 30% of investments in the sector. Residential projects make up 70% of the shares of the private investments.



5.1 Sector overview

Construction sector in Kosovo, constitutes one of the most important pillars of the country's economy. In 2014, with a participation of 9.1%, it was the 4th biggest employer in Kosovo, with 13192 registered employees (Kosovo Agency of Statistics, 2014c). Whereas in 2013, the average salary in the sector was estimated to be 388 Euros, or the 4th largest



TAB. 01 CONSTRUCTION ENTERPRISES IN PRISHTINA REGION 2014, AND THEIR NUMBER OF EMPLOYEES

Municipality	Active enterprises in 2014			Number of employees
	Total	1-9	10+	
Drenas	72	65	7	385
Fushë Kosovë	69	60	9	511
Lipjan	59	50	9	275
Obiliq	7	7		25
Podujevë	67	55	12	334
Prishtinë	507	408	99	3822
Shtimje	30	30		46
Graçanicë	12	10	2	64
TOTAL	823	685	138	5462

SOURCE: KOSOVO AGENCY OF STATISTICS, 2016.



Prishtina region remains one of the largest and most important regions in Kosovo's construction sector. As seen from the data from Table 1. taken from Kosovo's Agency of Statistics, number of active firms operating in 2014 is 823, or 38% of the total number of active firms in Kosovo. Similar as in other regions, when it comes to the size of the firms, the sector is dominated by micro businesses consisting of 1-9 employees, who make up 83% of the active firms, whereas the remaining 17% firms, represent the minority small and medium businesses who employ 10 or more employees.

Prishtina region employees 5462 employees, or 41% of the total number of work force in the construction sector in Kosovo, which in 2014 was 13192. Being the capital city with the largest number of residents, the Municipality of Prishtina leads clearly by the number of active firms and employees. Always referring to the data from Kosovo's Agency of Statistics, a majority of 61%, or 507 out of 823 firms operate in the Municipality of Prishtina. From those firms, 408 or 80% are micro businesses with less than 10 employees, and 99 are small businesses employing more than 10 employees. Municipality of Prishtina employs 70% of the labor force employed in center region, with 3822 employees out of the total number of 5462. Municipality of Fushë Kosovë is the second largest one, employing 511 employees or 9%, with 69 active businesses, where 60 are micro businesses, and 9 small businesses employing more than 10 employees. Municipalities of Drenas and Podujevë share similar numbers, as they each account for 8% of active firms in center region, and employ approximately 7% each from the total number of employees. Municipality of Lipjan employs 275 employees or 5% of the labor force employed, with 59 active businesses, where 50 fall in the category of micro businesses, and 9 of them, employee more than 10 employees. Municipality of Shtimje has 30 active businesses, of which all of them are micro businesses, and in total it employs 46 employees. Municipality of Graçanica has 12 active businesses, 10 micro businesses, and 2 small businesses, and in total it employs 64 employees. The last municipality in Prishtina region, the municipality of Obiliq, has 7 active businesses who fall within the category of micro businesses, and in total it employs 25 employees.

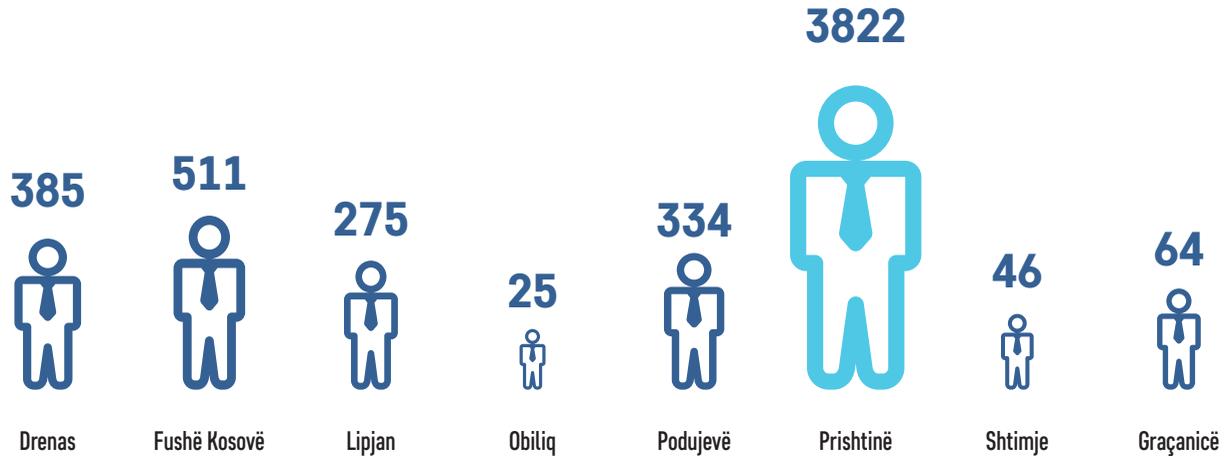
Construction sector in Prishtina region similar as in Kosovo is undergoing a transition period. The war in Kosovo that took place between 1998-1999 caused severe casualties to the sector, destroying hundred and thousands of private properties, as well as public ones. The rebuilding process was conducted with a lack of a legal framework, regulatory plan and surveillance from the central and local govern-

ments. Property issues became very apparent since cadastral archive documents were damaged and taken hostage by Serb forces. This created a huge chaos in the sector. As the center and capital of Kosovo, Prishtina's population grew tremendously as it became the municipality mostly touched by internal migration. From all the population which migrated within the national borders from one municipality to the other, Prishtina became the biggest beneficiary of internal migrants with 45.905 new residents, or a total of 23.1% of all internal migrants, increasing the demand for residential apartments and houses and making it very attractive for construction investments (Kosovo Agency of Statistics, 2014b).

In the late years from a chaotic market, the construction sector showed signs of regulation. This was driven by the customer's demand who continuously started to seek improved quality, legal safety, and affordable financing. This in turn forced construction firms to improve their offers, by improving the overall quality of their product, offering different forms of payment, and making sure that they possess the legal documents, and building permit for the product they offer. Over the last two years, a key role in regulating the sector played Prishtina's Municipality. In an attempt to halt urban chaos and put order by stopping ongoing construction projects without building permission, and enforcing procedures and technicalities required to obtain a building permission. According to the World Bank's report of Doing Business, from 189 countries, Kosovo is ranked in the 135 place when it comes to obtaining a building permit. Prishtina's Municipality to halt construction work without a building permit and to enforce regulations, has split the public opinion. Majority of the construction firms believe that a decision like that has caused severe damage to their businesses, blocking their work and prolonging the time of obtaining the building permit. On the other side, a minor group of construction firms as well as different experts from the field, advocate that the sector is benefiting from a decision like that since the market is being regulated and urban chaos if coming to an end. When it comes to investments in the construction sector, our survey reveals that investments from Diaspora, or Foreign Direct Investments constitute 40-50% of the total investments made in the sector. The cost of construction is estimated to be in the value of 300-350 Euros, whereas the price per meter square in Prishtina ranges from 500 to 1200 Euros, depending on location.



FIG. 01 EMPLOYMENT FIGURES IN 8 MUNICIPALITIES OF PRISHTINA REGION



SOURCE: KOSOVO AGENCY OF STATISTICS, 2016.



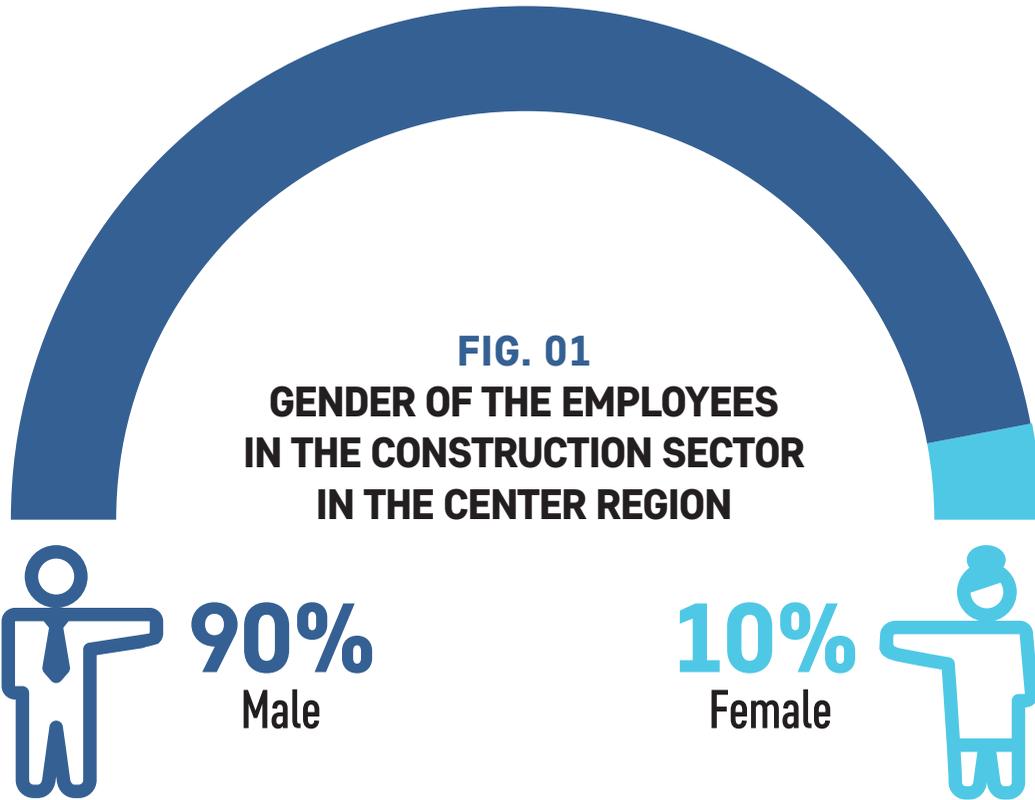
5.2 Basic firm characteristics and firm performance

In the first section of the survey, the firms operating in Prishtina region answered questions regarding their background, ownership, main activities and particular reasons for entering the construction sector. The majority of the firms interviewed were engaged in different forms in the sector prior to 1999. Some of the firms were involved in lower building construction, others in trade with construction material and some in real estate market. 90% of the firms registered their business in the period after the war, with 50% of them registering their business in the 2007-2009 period. Only one firm registered their business prior to 1999, in 1986. Regarding the legal status of the firms, 50% of them are registered as Limited Liability Companies (L.L.C), whereas 25% as Joint Stock Companies (J.S.C), and the remaining ones as Individual Business (I.B).

Family tradition in the construction sector was the main reason for further development and continuation of the business. 60% of the firms stated that prior to opening the business, they were involved in construction in some form. Majority of them were engaged in lower building construction, trade with construction material and in real estate market in the form of small family businesses. Working in construction, trade, and real estate, they became aware of the potential that resides in the sector, and decided to

invest further and grow the business. This way, from lower building construction they expanded their business to high rise building construction. Meanwhile, two of the interviewed firms stated that they decided to invest their capital driven solely by the potential and profit they saw in the sector, and due to the land they owned. Another important factor is the population density which is centered around the Prishtina region. After the war in 1999, due to many factors such as the destruction of residential areas during the war, as well as the lack of economic opportunities, Prishtina became overpopulated where internal migration became very apparent.

There are two main activities that link up almost all of these firms. Majority of them are involved in high rise building construction, mainly in tall residential buildings. High rise construction buildings are a result of highly dense population areas, where there is a lack of land, and tall residential buildings are built to meet the demands of the population. In fact, only one of the interviewed firms activity remains on the lower, but broad building construction. In other words small houses built for sale on a broad area in the form of a planned urbanized neighborhood. The other activity that all these firms have in common is sales. Since all of them are profit driven firms, they are all engaged in selling the apartments they produce. One of the firms interviewed, took a step further in investments, and revealed that they have opened their own factory, producing concrete, doors and windows. Only one of the interviewed firms stated that



they are not engaged in construction directly, but they contract construction companies to conduct the construction work, and then they sell the apartments.

Regarding the size and composition of the staff, as mentioned before majority of the firms are micro businesses. Meanwhile 60% of the firms we interviewed fall within the category of small enterprises with an average of 11 employees. However when it comes to construction projects, nearly all of the small firms contract additional construction workers or construction companies to finish the work. The remaining 40% of the firms are medium size enterprises with an average of 179 workers.

Small enterprises are organized in the form of small family businesses, with family members covering different positions within the firm. Apart from the managerial position which is occupied by the owner, other positions that almost all small enterprises have in common are: an accountant, an architect, a lawyer, and a sales person. Whereas medium size enterprises have an organized structure of personnel with separated departments, such as the projection and engineer department, administration, finance and sales department, and the construction team which constitutes the largest number of employees. The majority of employ-

ees engaged in administration, finance, projection and engineering poses higher or secondary education. Whereas employees engaged in construction work possess primary education. The average age of employees of the firms interviewed in the sector is 29, whereas regarding the gender of the employees, the sector is dominated by males. More than 90% of employees working in these firms are males. Employees engaged in construction are all males, whereas the small portion of female workers is located in departments such as the administration or finance.

In the next part of the interview the firms were asked to answer questions regarding their business performance. The answers the firms gave regarding their performance varied a lot due to different factors. When asked about their sales, 50% of the firms declared that they are performing worse than they did last year. The reasons for the decline in sales were different. One of the owners of a firm declared that the offer for residential apartments is much higher than the demand, thus resulting in a sales decline. Another important factor in sales decline, according to the firms interviewed is the Municipality of Prishtina, which is blocking the work while enforcing bureaucratic procedures. Meanwhile, 40% of the firms interviewed declared that compared with the last year, they experienced an increase in their sales. Firms

associate the increase in sales with improved infrastructure around their complex buildings and with the location of their investment. One of the firms declared that their sales are on the same level as the last year. Even though half of the firms interviewed declared that they were performing worse than the last year, when it comes to sales expectations for the upcoming year, 60% of the firms interviewed declared that they are expecting an increase in sales, with the remaining 40% expecting a decrease. Firms attribute the increase in sales for the upcoming year to the investments they made, and the sales they expect to incur.

All of the interviewed firms declared that they are engaged in some form of capital investments in the current and previous year. Tall residential buildings and houses are the most common objects these firms have been engaged in constructing over the last two years. In attempt to further grow and enlarge their business, some firms have gone further with their investments, building factory that produce concrete, doors and windows. The scope and size of the investment projects differs from one firm to another, depending on different factors. There are firms that have invested 6 million Euros within the last two years, building two tall residential buildings, whereas another firm invested 1.5 million Euros in a similar object. Other investment projects within the two year period include a project consisting of 50 houses built. Meanwhile nearly all of the interviewed firms are planning to conduct investments in the upcoming year. Tall residential buildings in different locations are the objects companies are planning to build. Some of the firms are expecting to receive the building permit before starting with the construction work, having already applied at the Municipality of Prishtina. Regarding sources of the investments, the most common form of funding remains re-investment of the revenue the firms incur from the sales of the residential apartments. Other forms of funding include selling family property such as land or different business objects. Some of the firms take loans from local banks in the value up to 2.5 million Euros.

When speaking of capacity utilization, none of the firms interviewed are using their production capacities to the maximum, due to different factors. One of the main reasons is that construction work is a seasonal one, where the majority of the work is conducted during warm seasonal temperatures such as spring and summer. Even though firms have adapted to this by completing the outer construction work during warmer seasons, and the inner work during colder temperatures, it still prevents them from utilizing their capacity to the maximum. Another factor that prevents the firms from using their production capacity to the



Regarding business performance, 50% of the firms interviewed declared that they are performing worse than in the last year, while 40% declared that they experienced an increase in sales and were performing better.

maximum due to the bureaucratic procedures of obtaining a building permit from the Municipality of Prishtina. One of the largest firms interviewed declared that they are using only 10-15% of their capacity due to the building permit that they are expecting to obtain for two years from the Municipality of Prishtina.

According to the firms interviewed, the demand for the product that they offer in the construction sector, which is residential apartments and houses, is really high. As stated before, of all the municipalities in Kosovo, Prishtina is the biggest beneficiary of internal migrants moving from one municipality to the other with a total of 23% internal migrants moving to the capital city, increasing the density of the population, respectively the demand for residential apartments. Always referring to the firms interviewed, location plays a key factor in defining the demand for the product, in this case residential apartments. When asked if the customers would remain loyal and continue to buy their products if they were to increase their prices by 10%, firms gave different answers. Majority of them stated that their customers are very loyal since they perceive their brand very well from previous experiences. However, according to them an increase of 10% in their prices would have to be accompanied by an improvement in the product they offer. For example a better location, innovations within the object such as improved infrastructure, quality, parking space, green parks and others, would justify an increase in price. Otherwise, if an increase in price of 10% would take place without improvements in the offer, firms think that their clients would start thinking about other alternatives.

There are different factors that determine the pricing strategy and the way firms in the construction sector set up the prices for their product. Like in all other sectors, prices are

set and regulated by the market forces. However, the most important factor when setting up the price for the products in the construction sector remains location. Locations that are closer to the center and have easier access to the main roads and districts, according to the firms increase the value of the objects and respectively their prices. Other important factors that are taken into consideration when setting up the prices are the cost of the investment and the margin of profit firms expect to receive, as well as the quality and the standard of construction work. Nearly all of the firms declared that they do not fluctuate with their prices, since it damages their brand by not being loyal and serious to their customers, as well as prospective ones.

The majority of the firms interviewed declared that they do not export their service. For the moment they are only concentrated in the local market. However, some of the firms in the declared that they are successfully exporting their products in Germany and in Scandinavia. One of the firms declared that they have entered successfully the German market with high rise construction buildings, and that they have just been engaged in a similar project in Germany. Meanwhile another firm whose activity resides in lower building construction, revealed that in the last year they have started building house villas in Scandinavia and expect to grow.

In order to grow their business further, all of the firms try to differentiate their brands from the competitors by introducing innovations that would improve and refresh their products. Firms in construction focus mostly on improving the quality of their objects. The major investments in innovations in the construction sector are on extensive green or parking spaces, kid's spaces, improved lightening, unique outer and inner object design, new forms of facade, heating systems, new windows and doors, improved security and elevators, as well as other materials that improve the overall quality of the objects. Some of the firms in their attempts to differentiate and bring innovations to their offers, build shopping centers on their residential buildings, trying to meet their customers demand regarding shopping, and this way increasing the loyalty towards them. None of the firms interviewed have received any kind of foreign financial aid.

Similar to all the other sectors, businesses in the construction sector face different challenges. The main challenge that construction firms face is obtaining the building permit. In an attempt to work in accordance with regulatory plans and put order in the construction sector, the Municipality of Prishtina in 2014 has halted all the construction projects which do not possess building permissions, and has



Majority of the firms interviewed declared that they do not export their services. However, two of the firms declared to have been involved exporting successfully in Germany and Scandinavia, with high rise construction buildings, and lower building construction respectively.

enforced technicalities required for obtaining a building permit. A decision like this has created multiple effects. Some of the interviewed firms declared that they are using only 10 to 30% of their capacities since their work is being blocked due to the difficulties associated with obtaining a building permit, whereas they are obliged to pay their contracted employees who are not working.

Meanwhile this has also affected producers of construction material, since their market is concentrated mostly in Prishtina region. Firms and experts believe that in 2014 production of construction material has fallen for 50%, since the demand for the product was significantly lower. Another challenge that the firms attribute to the Municipality of Prishtina is the lack of infrastructure and investments made in order to improve it. The investors in the construction sector believe that the taxes they are paying are not being invested well enough by the municipality. According to them road infrastructure is the most problematic one. Some of the firms interviewed declared that time to time they are forced to invest by themselves, fixing different tubes or parts of the road that connects their objects, and which according to them falls within the municipality's obligation.

Firms also mention difficulties with public institutions such as Kosovo Energy Corporation and Prishtina's heating system "Termokos". One of the firms declared that they were forced to invest in a power substation since Kosovo's Energy Corporation were not willing to do it. Also, in most of the cases Prishtina's heating system "Termokos" was not connecting their objects into the heating system, and in some of the cases they were forced to it themselves.

Kosovo Cadastral Agency is another institution that causes delays when registering estate. Also, according to the firms there are issues with judiciary system, with courts delaying cases up to seven years. Another major challenge that firms in the sector face is liquidity crisis and payment methods. There are many issues that cause the delays in payments and payment methods. This is largely attributed to the difficulties of obtaining a loan, lack of buyers with cash and the lack of legal contracts. According to the firms interviewed there are many cases where customers purchase an apartment and reside without paying the total sum and then delay the payment. The lack of cash and the delay in payments puts investors in a cycle where they are also forced to operate with a lack of cash. This way they are forced to purchase construction material with compensation, offering suppliers their products – in this case residential apartments instead of cash. Since firms are dependent on their sales when investing in new or ongoing construction projects, delays in payments cause delays on their projects. Another issue is the availability of land. Since there is a lack of land to build, firms are forced to negotiate with many house owners and buy their houses, in order to build their objects upon them. In many cases agricultural land is sold as commercial land with higher price.



5.3 Labor force

As stated before, the construction sector in Kosovo, with a participation of 9.1%, in 2014 was the fourth biggest employer in Kosovo, employing around 13192 employees. Employee numbers in the firms that were part of our survey ranged from 10 in small enterprises, up to 230 in medium size enterprises. The average number of employees it turns out to be 60. As mentioned before, workers are contracted as full-time workers. However some firms, mostly small-enterprises, hire additional seasonal workers when needed to complete the construction work. Meanwhile there are different types of contracts that firms offer to their employees. Some firms pay their employees per hour of work, and offer one year contracts with the option of extending in case there is more work.

The majority of the employees in these firms which constitute construction workers possess primary education. Whereas the minority of employees which mainly occupy positions in the administration, possess secondary or higher education. Employees with secondary education that occupy positions such as executive director, accountant, architect, engineer and lawyer, have completed their un-

dergraduate studies. In some cases there are PHD candidates. When asked what attributes they search for when hiring employees, experience and commitment topped the list among others. Some firms declared that they hire employees that do not possess experience in the construction sector, and train them.

Salaries in the construction sector are divided and vary upon the qualifications and positions employees occupy within the company. In 2013, average salary in construction sector in Kosovo was estimated to be 388 Euros, or the fourth highest salary in all the sectors. The salaries range from 299 Euros for employees without qualification, up to 859 Euro for professions like architects and engineers. Meanwhile, the average salary in the firms we interviewed turns out to be 540 euros. Majority of the firms we interviewed declared that their salaries were on the rise and that they expect they will rise. Only one of the firms declared that the trend of their salaries was on regress, and that they do not expect improvements.

In general, the firms interviewed declared to be content with the labor force disposable in the labor market. However according to them, when speaking of labor force quantity prevails over quality. There are many workers available for work in the construction sector, but they lack experience and motivation to conduct the work properly. While there is a surplus of workers in the labor market when it comes to skeleton or raw construction work, on the other hand there is a deficit of workers that conduct specific works such as decorations, tiles, heating and others. Some firms revealed that they have hired workers from neighboring countries for a specific job. When asked regarding difficulties while recruiting new employees, majority of the firms declared that there were not major difficulties. Some of the firms mentioned the lack of experience, enthusiasm and motivation of prospective employees.

5.4 Competitive forces

In this section we will describe the competition businesses in the construction sector face. We will describe five competitive forces that are affecting the sector: (i) threat of new entrants; (ii) buyer power; (iii) supplier power; (iv) threat from substitutes; (v) competitive rivalry. These forces determine the sector structure and the level of competition in the sector. The stronger the competitive forces are the less profitable the sector will be.



The threat of new entrants is low. Even though the procedures and technicalities required to register a new business are quite easy, according to the firms interviewed the capital investments required to enter the market are quite high. Although it depends from the size and the scope of the project, if an entrant investor is interested to open up a business and invest in high rise construction building, it requires around 1 million Euros. Another obstacle entrant businesses face is obtaining building permissions. Firms interviewed argue that handling technicalities required for obtaining building permission require experience, something that new entrants lack. The brand and loyalty that firms have built over the years toward their customers, is another factor that makes them believe that the threat of new entrants in the sector is low.

Buyer power in the construction sector is considered medium. In most cases the investors set up terms and conditions, however in cases where buyers are willing to pay upfront or with cash for the product, firms drop their price for 8-10% for residential apartment. According to the firms interviewed, there are two types of buyers: those from Diaspora and those from within. Buying power from Diaspora buyers is very high. According to the firms interviewed they make up to 40-50% of their total sales. Meanwhile internal buyers come from middle class and are not very powerful. The profile of a middle class buyer is made up of a 35-45 year old couple, who in most of the cases obtain a loan to fund their buy.

Supplier power in the construction sector is low. According to the firms interviewed there are many suppliers in the market, minimizing the possibility of a supplier monopoly. The construction materials can be found easily on the market. Firms argue that there are no major costs when switching the suppliers. However majority of them do not prefer switching them due to their payment methods. Long term relationships with suppliers have their benefits, since a large number of them are able to wait them for the payment. Depending upon the situation, part of the payments are conducted with cash, and part in compensation.

Threat of substitutes in the construction sector is medium to high. Since the offer for residential apartments in Prishtina region is high, so prospective customers have the option of choosing to purchase the product from various suppliers. However, the firms interviewed believe that their actual customers stick to their products and recommend it to others, since they are used with their products.

When it comes to competition forces, competition rivalry is high. The number of investors in construction sector



Regarding competition forces, competition rivalry is high. The number of investors in construction sector is high. A stronger competition has had a positive effect on quality, since the quality of the construction work improved.

is high. A stronger competition has affected construction firms, since the quality of their work improved in an attempt to improve and differentiate from the competitors. Even though firms interviewed believe that competition is strong, they think that a large number of them lack a clear business strategy plan required for long term sustainable investment. However majority of them declared that they do not fear competition since they believe in the product that their brand offers. Firms believe that competition is being regulated by Prishtina's Municipality attempts to stop construction works that do not possess building permit and enforcing technicalities required for obtaining it.

5.5 Sector specific trends



The construction sector faces different challenges. Prishtina's Municipality decision to halt ongoing construction projects without a building permit and to enforce procedures and technicalities required to obtain a building permission, has caused multiple effects. Firms whose work has been blocked due to the lack of building permission or those waiting to obtain it, argue that they are working with their minimal capacities or not working at all. According to them the decision to enforce procedures and technicalities of obtaining a building permit is causing them many difficulties. Construction material production has fallen off up to 50% since the demand for such products has fallen off significantly. Liquidity crisis or the lack of cash flow is a key issue businesses face in the construction sector, forcing them to work through different payment methods such as compensation. The lack of commercial land for sale and investments made in infrastructure as well as access in road infrastructure, power supply,

sewage treatment and central heating are the main ones. Regarding sales trends in the sector, even though some of the firms believe that the sector will experience a minor drop in prices due to the greater offer in the market, they think that sales trend will remain the same.

When asked about the potential in the construction sector firms gave different answer. Many of them believe that there is potential for further investments. According to them there some lands and new areas that are being identified for building. Also the large number of actual and upcoming residents enforce their belief. Diaspora buyers remain the ones with the largest potential of buying. Meanwhile some firms believe that there is no investment potential in the near future, since according to them the actual offer for residential buildings already exceeds the demand, and in the current condition the market will not be able to regulate itself, thus minimizing investment potential. When asked about the sources of investments, firms declared that their investments are funded largely from their sales. Some of them also use bank loans.

Many of the firms interviewed declared that they were not obliged to meet specific set of standards or regulations like global accepted ISO standards, during their construction work. According to some of them, they were work was not monitored from inspectors from central or local governments. However some of them declared that on their attempts to increase the overall quality of their product and to compete with their competitors, they try to meet all of the required standards. Meanwhile many of the materials they use meet ISO standards.

In the next question firms answered questions on their trust on public institutions and the rapport with them. Majority of the firms declared that they do not trust public institutions. They complain that there is no cooperation with the municipality nor central government institutions. All of the firms declared that they have never been contacted by any of the local or central institutions when drafting development business plans in regards to the construction sector. Firms declared that they did not receive any kind of support from the local or central government in the last three years.

Buyers in the construction sector come from different social classes. As mentioned before there are two types of buyers: those from Diaspora and those from within. According to the firms interviewed Diaspora buyers make up 40-50% of their total sales. Meanwhile internal buyers come from middle class and are not very powerful. The profile of a middle class buyer is made up of a 35-45 year old couple

coming from different sectors of labor market, who in most cases obtain a loan to fund their buy.

Regarding construction material, firms declared that around 30% of the material is imported, whereas 70% is purchased from the local suppliers. In most of the cases the material that is purchased from the local suppliers are raw materials such as bricks, cement, wood, and others. In the other hand products such as doors, windows, flooring, isolation material, are imported. One of the firms has opened their own factory producing concrete, windows and doors.



ICT sector in Kosovo (not including telecommunications companies such as VALA and IPKO) is composed of small to medium companies, with very limited capacities for high value-added services, consisting of less than 20 employees on average (MTI, 2014).



6. ICT

This section of the report presents findings from in-depth interviews, conducted with some of the largest ICT companies operating in the region of Prishtina. We start by presenting the methodology on sector selection and data collection, whereas section 3 discusses the main findings from the interviews. In section 3.1 we present a short overview of the sector; whereas section 3.2 shows basic characteristics and performance of firms in ICT sector in Prishtina region; section 3.3 continues the discussion of labour force in ICT sector; while section 3.4 presents the competitive forces in the industry sector; at the end we provide conclusions (section 3.5).



6.1 Sector overview

This short sector background is based on a desk research that consisted of reviewing relevant existing studies prepared mainly by government institutions (Ministry of Trade and Industry, Ministry of Economic Development), association of information and communication technology (STIKK), and other international agencies in Kosovo.

Based on many success stories worldwide (such as Ireland, Iceland, India, or Bulgaria) governments in many developing countries are increasingly focusing on developing Information and Communication Technologies (ICT) industry. Empirical literature suggests that the ICT sector has a huge potential for youth employment, export development and long-term economic development (Colecchia et al., 2002; Piatkowski, 2004). As a result, in Kosovo, as in other transition economies, ICT industry is becoming one of the main strategic sectors for economic development (MED, 2015).

ICT sector in Kosovo (not including telecommunications companies such as VALA and IPKO) is composed of small to medium companies, with very limited capacities for high value-added services, consisting of less than 20 employees on average (MTI, 2014). According to Ministry of Trade and Industry (2014), Kosovo Tax Administration (2014) and Kosovo Association of Information and Communication Technology – STIKK (2015), there are, currently, around 150-200 companies active in ICT industry. We have to emphasize that majority of them (around 85%) are located in Prishtina (USAID, 2013; MTI, 2014, STIKK, 2015). The capital of Prishtina attracts ICT companies due to the location of



According to Ministry of Trade and Industry (2014), Kosovo Tax Administration (2014) and Kosovo Association of Information and Communication Technology – STIKK (2015), there are around 150-200 companies active in ICT industry. Around 85% of them are located in Prishtina (USAID, 2013; MTI, 2014, STIKK, 2015).

public and international institutions, location of universities, but also large private sector companies. Providers of ICT products/services require access to highly skilled staff and universities. As a result they tend to be geographically concentrated.

According to recent studies (USAID, 2013; MTI, 2014, STIKK, 2015) ICT industry in Prishtina provides services related to software development, telecommunications (including internet providers), hardware supplies, and skills development (trainings) in ICT. Around 85% of ICT companies in Kosovo are locally owned (USAID, 2013; MTI, 2014), whereas the rest are either joint-ventures or foreign owned companies (around 5%).

The Kosovo ICT sector has experienced an impressive growth over the last few years (STIKK, 2015). Some key factors that have contributed to this growth include: huge public investments in recent years, a growing telecommunication sector and the growing banking system. However, numerous challenges still exist, such as: 1. lack of substantial ICT penetration in private sector, 2. poor education of young generations, 3. small average size of ICT companies, 4. lack of intellectual property rights, 5. limited access to foreign markets, 6. lack of innovation and creativity in the

development of products and services; and 7. high level of corruption in public procurement (MTI, 2014, STIKK, 2015).

In this respect, it is of huge interest to analyze opinions of large ICT companies in Prishtina regarding these challenges reported. Hence, we will try to discuss these challenges in the following sessions of the report.



6.2 Basic firm characteristics and firm performance

This section will present the findings from in-depth interviews. As we emphasized, interviews were conducted with seven owners/managers of large companies in the ICT sector in Prishtina. Interviews served to assess their performance, their mid-term investment plans, opinions regarding human resources and key barriers that they are currently facing. Interviews have been conducted over November 2015.

ICT companies in Prishtina emerged in late 1990s and early 2000s, mainly by offering hardware retailing and other basic (low value-added) services. After some years of experience they have started to supply basic software solutions, such as accounting programmes, to local companies and government institutions. Some of the current large companies in ICT sector started their business offering trainings in IT, and later continued with other ICT services.

We have started interviews by asking owners/managers of ICT companies regarding the reasons that pushed them to enter the sector, and according to the results, prior to establishing their firms, majority of them were involved in ICT sector in some way. But, also, many of them identified the opportunity to offer higher value-added services in the sector.

“The idea of establishing an ICT company was mainly a result of an identified opportunity (gap) to offer services in this market. In early 2000, ICT sector in Kosovo was poor, it offered very low value-added services. It was focused in trade and servicing IT equipments.” (Owner of one of the largest ICT companies in Prishtina)

According to our results, which are in line with recent studies in Kosovo, large companies in ICT sector (in Prishtina) are mainly established by local owners, with few exceptions of joint-ventures and acquisitions. The respondents empha-



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sized that they have a very good cooperation with international partners, especially when they jointly (in consortium) compete for large public ICT projects. Many of them implemented projects in cooperation with international partners. *“This partnership is helping us a lot in gaining experience and know-how.”* (Owner of an ICT company in Prishtina)

As we mentioned earlier, services offered by Prishtina ICT companies range from web products (web development, e-businesses, web portals development, ICT consultancy, and trainings) to software industry solutions (management information and systems, finance and accounting and banking solutions) and telecommunications (fixed and mobile phone lines, Internet and broadband services). Some companies have also been successful in developing mobile phone applications and animations. The owners/managers of ICT companies think that the ICT market in Kosovo is very small (in terms of spending in ICT services), and as a result they cannot focus/specialize in one product/service, hence create a core business activity. On contrary, majority of them tend to increase the number of services/products, in order to increase their opportunities, hence increase the share of the market and turnover. The ICT market in Prishtina is considered to be around 80 million EUR per year (including telecommunications).

We have also asked managers regarding the amount of investments. Majority of them emphasized that ICT sector is not a capital intensive sector, and as a result their invest-

ments are low (in proportion to their total turnover) and mainly focused on human resources development (trainings) and development of new products/services.

"We are not capital intensive firm; we do not need a lot of assets. We invest in human resources. Our investments are intangible." (Owner of an ICT firm in Prishtina)

They invest on average around 20% of their total annual turnover, and according to them, they will continue on the same level in the following years.

With respect to the growth of their company, the majority of owners/managers declare that on average they grew constantly, despite the fact that the economy was weak in recent years. Many of them declared 10% increase in sales over each year in the last three years. Owners/managers generally stated that the sector is dependent on projects, which are currently mainly of public nature. According to them, this may be a huge risk for the sector, in general. In this regard, they have mixed opinions regarding the future growth. Some of the owners are more optimistic regarding the future growth, while the rest think that the sector is going to shrink (due to decreased public spending on ICT). And, according to some of them, the only opportunity for growth remains entering new markets. Many of them think that the ICT market in Kosovo is almost saturated. The only way for future growth is exporting services to the countries in the region and Europe. That is why some of the companies have already established their branches in Albania and Macedonia. According to them, export is the future of the sector.

"We are targeting countries in the region. But, we have to emphasize that we are offering our services also in European countries. We can be competitive, due to low cost labour that we possess." (Owner of one large ICT company in Prishtina)

Moreover, most of the owners/managers declare that they have spare capacities. According to them, some of their human resources are not even ready to be fully utilized, whereas some resources are over-used. According to our results, the average utilization rate in the sector is around 75%. This is mainly due to the nature of business in the sector, which is project based.

"If, in any case, we are engaged in more projects, then we will be fully utilized."

With respect to the demand for ICT services, owners/managers emphasize that the main client is the public sector,



"We are targeting countries in the region. But, we have to emphasize that we are offering our services also in European countries. We can be competitive, due to low cost labour that we possess." (Owner of one large ICT company in Prishtina)



"The largest ICT client is the public sector. Public sector is a very unstable and unpredictable client, which increases the risk of business. Private sector, on the other hand, is not investing in ICT products."

followed by international institutions. According to them public sector takes place with more than 70% of the total ICT spending in Kosovo.

"The largest ICT client is the public sector. Public sector is a very unstable and unpredictable client, which increases the risk of business. Private sector, on the other hand, is not investing in ICT products."

On the other hand, there is a lack of demand for ICT products/services from private sector (apart from banking system). Even though, it is observed by ICT companies that there is a huge need for ICT services in private sector, they are still investing very little in IT systems.

"It is part of our job to educate private sector in Kosovo regarding the benefits of using ICT services. They will be more productive, if they use more ICT services."

Export, currently, is a small portion of total turnover in ICT sector. But, companies expect higher exports on following years. Currently they are facing many barriers to export, where among key is the lack of reputation (as Kosovo, but also as companies). But, almost all of ICT companies think that they are competitive in quality and prices. Due to the relatively lower cost of human resources, which is the main production cost in this sector, they can offer services with lower prices.

With respect to general barriers, majority of respondents noted that the size of the market together with lack of quality human resources is the main barrier for development. They also evaluated that:

“Due to a very small market, the opportunities to replicate projects are so small. Replication of projects is the key profit for ICT companies.” (Owner of a large ICT company in Prishtina)

In addition, many owners/managers mentioned lack of rule of law as a huge barrier to doing business in ICT sector. Especially, problems they are facing with property rights, which are so important in this industry. For example, a few owners/managers reported that they ex workers continue to implement business solutions to private firms, which are their intellectual property.

“Lack of rule of law is causing us huge problems. We identify our business solutions implemented in private sector, without our permission.” (Owner of a large ICT company in Prishtina)

Additionally, one of the key barriers in ICT sector in Prishtina, according to owners/managers, is the quality of education. The skills which students receive at universities do not correspond to the market needs. According to them universities do not employ the latest technologies or keep pace with trends. They also emphasize that there is a huge turnover of staff, which is costly for companies. We will discuss the labour force in ICT sector in the following section.



6.3 Labour force

Even though there is a huge unemployment among youth in Kosovo, estimated at the rate of 50% (SOK, 2015), large ICT companies are having troubles in recruiting quality human resources. In their opinion, system of education in Kosovo is weak and is not preparing resources for labour market.



“Due to a very small market, the opportunities to replicate projects are so small. Replication of projects is the key profit for ICT companies.” (Owner of a large ICT company in Prishtina)



“Lack of rule of law is causing us huge problems. We identify our business solutions implemented in private sector, without our permission.” (Owner of a large ICT company in Prishtina)

Consequently, the majority of owners/managers declared that they are investing a lot on young staff, in order for them to be productive.

The owners/managers of ICT companies were asked regarding the number of workers they have, and apart from telecommunications companies, the average number of workers per large ICT Company in Prishtina is around 80. Staff engaged in ICT services is relatively young. The average age of staff is from 25-30 years old. In most owners' opinion, this sub-group of the labour force are more familiar with ICT products/services and have updated knowledge on that. It is noteworthy that some of the owners/managers emphasized that the curricula should be more heavily based on science, mathematics and engineering, creating a suitable environment for producing ICT professionals. Majority are male workers.

When asked about the attributes that companies look in employees when hiring, most of the companies mentioned that what they require is prior experience, knowledge of the specific field and motivation to work.

“ICT sector is a “result based” industry. We do not give huge

credits to workers' qualifications, but to the skills they possess." (Owner of a large ICT company in Prishtina)

Much attention has been given, recently, to the shortage of available skills in the ICT industry – this concern was raised as a high priority during many of the public discussions, especially by STIKK. As we discussed, owners/managers believe that the skills which students receive at universities do not correspond to their needs. According to them universities do not employ the latest technology or keep pace with trends. *"Unprofessional staff is the key problem in our sector. They are the main factor of production. There is a huge skills gap between supply and demand in labour market. As a result, we are investing a lot on their skills development."* (Owner of a large ICT company in Prishtina)

Companies have declared increases in staff in recent years. According to them, ICT sector in Kosovo grew constantly. ICT companies expect an increase of up to 10% in their staff number for following years (STIKK, 2015). Based on our results, also in line with recent reports (STIKK, 2015), number of employees who left the companies on the annual basis is 25%. *"For lower productivity levels, we are paying higher wages, if we compare to countries in the region."*

suggests that its bargaining power is moderately high. According to owners interviewed, public procurement process is not fair. They highlight that some companies are entering ICT sector just to compete for large public projects, because they have political connections. However, they believe that:

"This sort of competition is harming the sector, because of interferences with the public procurement processes, through the use of direct or indirect leverage. They find current competition unfair and biased, as well as affected by political factors".

On the other hand, telecommunications providers and banking system have other countries from which they can source, mainly their countries of origin. So, we may conclude that their bargaining power is moderately high. Almost all of respondents agree that suppliers in ICT sector are strong. Though the inputs are relatively standard, new suppliers (international players) find it difficult to enter the market because of existing relationships between current suppliers and buyers (especially in telecommunications and banking system).

Owners highlight that the competition in general is very strong, and that they face strong international competition. The product/service they offer can be produced by international competitors and implemented in place very easily.



6.4 Competitive forces

In this section, the focus will be on describing how competitive forces are affecting the ICT sector in Prishtina region. As evidenced by the relatively high number of companies in the market (around 200 in Prishtina region), we assume that barriers to entry are low. Costs of developing a product are relatively low, and, according to respondents, a few thousand of Euros are all that may be needed to create a product (software development) and step into the market. According to them, many small "unknown" companies are competing for public ICT projects. So, as a result the threat of new entrants is considered to be strong, as the industry requires only low fixed costs, while at the same time maintaining conditions for low-cost entry. In the past 10 years, a large number of new opportunities have opened up (due to high public spending in ICT), resulting in an increase in overall industry competition, which points out the highly competitive characteristic of the ICT industry in Kosovo.

In terms of bargaining power of buyers, as we already discussed, public sector is the largest buyer. In this case all transactions are processed through a public procurement process, where the lowest price bid wins the project. It



7



The food-processing sector, has high potential for investments in Kosovo. According to the 'Sector Profile of Food Processing and Packaging' report, 1,200 firms registered in this sector during 2011-2013 represent 7 percent of the total registered firms in Kosovo



7. FOOD PROCESSING

This section of the report presents the findings from the interviews conducted with companies operating in the food-processing sector. Section 1.1 presents the sector overview; 1.2 basic firm characteristics and performance of firms interviewed; 1.3 presents labor force; 1.4 presents the competitive forces in the industry sector; 1.5 sector specific trends; and 1.6 provides a conclusion to the information presented regarding the agricultural sector in Prishtina region.

The total number of the employees in the food-processing sector in region centre for 2014 was 1,494 employees. Based on the Table 1, out of 294 enterprises in the food-processing industry in region centre, 265 of them have had less than 10 employees, whereas 29 of them have had more than 10 employees. To narrow it down, the municipality of Prishtina has had 164 enterprises with less than 10 employees, and 11 enterprises with more than 10 employees; altogether making 673 employees in total. Followed by Podujeva with 31 enterprises, 27 of them with less than 10 employees, whereas four enterprises with more than 10 employees; 138 employees in the food processing sector in Podujeva in overall. Fushe Kosovo and Lipjan each by 16 enterprises with less than 10 employees, and around five enterprises with more than 10 employees; respectively 338 and 144 employees in total. Obiliq and Drenas with only one enterprise per municipality with more than 10 employees; Obiliq with 55 employees in total, whereas Drenas with 53 employees. The municipalities of Shtime and Gracanice have had 10 or less enterprises with less than 10 employees; Shtime alone has had no enterprise with more than 10 employees (see Table 1 for more details).



7.1 Sector overview

The food processing industry is defined as the transformation of livestock and agricultural products into products for intermediate or final consumption. The framework of classification of the economic activities, otherwise known as 'The Statistical Classification of Economic Activities in the European Community (NACE)' categorizes the food processing industry under Sector C, with a division code of 10. Subsectors in this category include processing and preserving of meat and production of meat products (NACE 1010), seafood product preparation and packaging (NACE 1020), fruit and vegetable preserving and specialty food manufacturing (NACE 1030), dairy product manufacturing (NACE 1050), oilseed and grain milling (NACE 1040 & 1061), bakeries manufacturing (NACE 1071), animal food manufacturing (NACE 1080), sugar and confectionary product manufacturing (NACE 1072 & 1073), and other food manufacturing (NACE 1079), (NACE Rev.2, 2008).

The food-processing sector, including all the aforementioned food-processing subsectors, has high potential for investments in Kosovo. According to the 'Sector Profile of Food Processing and Packaging' report, 1,200 firms registered in this sector during 2011-2013 represent 7 percent of the total registered firms in Kosovo (Ministry of Trade and Industry, 2014). Moreover, data from the Kosovo Agency of Statistics (KAS) show that there were 294 active² food-processing enterprises in Prishtina region in year 2014.

Processing companies are largely characterised with small-scale processors, and companies affiliated with women associations and production of specific 'home-made' products (MTI, Invest in Kosovo). Putting it differently, 90 percent of the food processing companies in the region centre are small size companies, and only 10 percent are large companies (KAS, 2014).



As the majority of domestic processors are relatively small, therefore they fail to meet the level of domestic demand for processed foodstuffs. Consequently, the market share largely consists of imported products, with about 70 percent in an estimation, increasing substantial import investment opportunities (PPSE, 2015). Albeit domestic processing companies have high potential for domestic expansion, they still lack competitiveness to substitute products.

The opportunity in food processing industry is significant, but so are the challenges that ail the sector. To increase competitiveness, domestic producers need to address problems related to weak product diversification, uncertain quality, low supply, and underutilisation of capacities. Despite many problems, processing companies in the region

² Active enterprises are considered those that have declared the number of the employees and the yearly turnover of the enterprise

TAB. 01 FOOD PROCESSING ENTERPRISES IN PRISHTINA REGION 2014, AND THEIR NUMBER OF EMPLOYEES

MUNICIPALITY	ACTIVE ENTERPRISES IN 2014			Number of employees
	Total	1-9	10+	
Drenas	16	15	1	53
Fushë Kosovë	21	16	5	338
Lipjan	20	16	4	144
Obiliq	12	11	1	55
Podujevë	31	27	4	138
Prishtinë	175	164	11	673
Shtimje	10	10		26
Graçanicë	9	6	3	67
TOTAL	294	265	29	1494

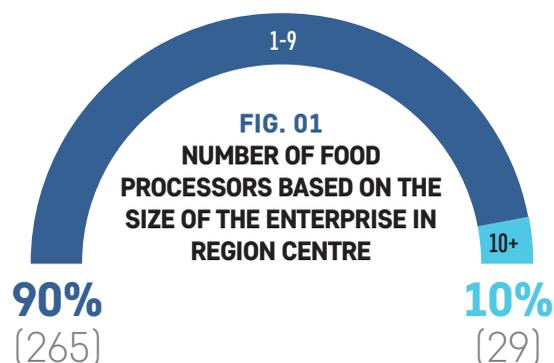
SOURCE: KOSOVO AGENCY OF STATISTICS, 2016.

centre are increasingly engaging in exports, and successfully exporting to the EU and regional markets. Foreign market is considered an important market for food processors, and is a high potential for domestic processors in export expansion (PPSE, 2015).



7.2 Basic firm characteristics and firm performance

Processing companies in the Prishtina region are largely characterised as small size companies. Only a small number of companies representing food processing industry in the region centre comprise of more than 10 employees. The composition of the interviewed companies is as follows; from the total, 70 percent of the companies are categorized as small and medium enterprises, whereas 30 percent are categorized as large enterprises. From the total, half of the interviewed companies are sole proprietorship companies, and the other half are limited liability companies (L.L.C). Interviews have identified the main reasons for opening businesses in the food processing industry. The most prominent



KOSOVO AGENCY OF STATISTICS, 2014

reasons are family tradition, identification of opportunity for profit, and the lack of job opportunities.

Results from the interviews reveal the main activities of the companies operating in the food processing industry, based on the focus of the company.



TAB. 02 FMAIN ACTIVITIES

- > Gathering and processing of the forest fruits, and vegetables
- > Processing of the dairy products
- > Processing meat and poultry
- > Packaging of grains
- > Processing and packaging medicinal herbs and teas

SOURCE: AUTHOR'S ANALYSIS, RIINVEST INSTITUTE

Most of the companies operating under this sector claimed that they are doing better compared to last year; few of them noted that due to unfavourable climate conditions throughout the year they have experienced decrease on sales, and lack of inventory. Moreover, the interviewed companies claimed that there are different factors that affect the sales volume, among which are availability of

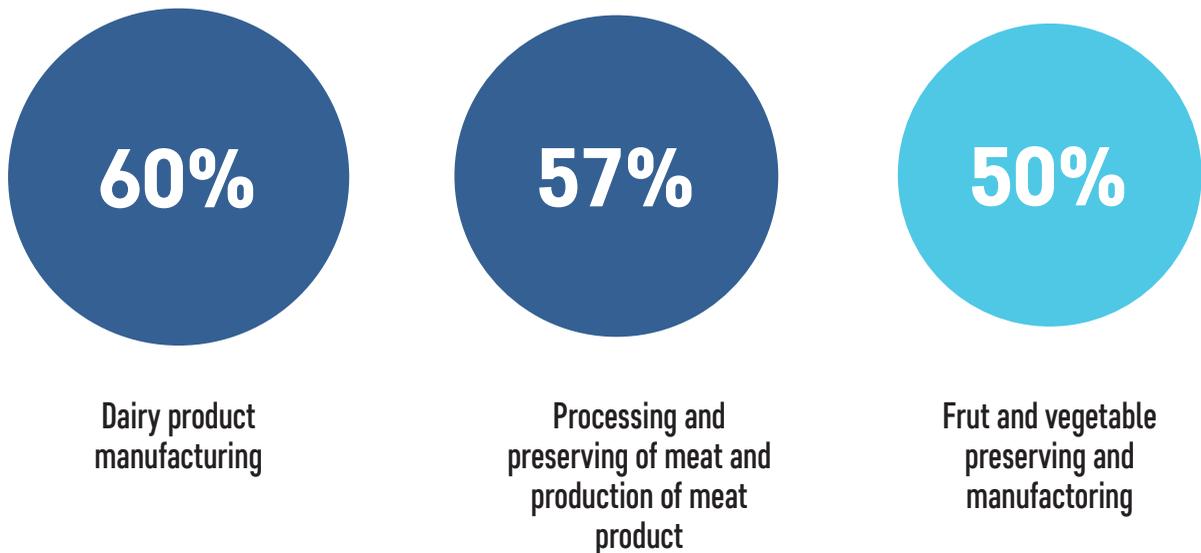
stocks, demand, and supply of the products (inventory). Despite their performance during 2015, a better sales performance is expected for the following year, mainly due to expansions of their operations.

Food processing companies in the region centre have invested in modern post-harvest handling facilities, cold storage distribution centres and logistics centres. The value of the investments in the food-processing sector ranges from 10,000 - 300,000 EUR for the last year. The main sources of investment according to the interviewed food processors are their own investments or profit reinvestments, followed by grant beneficiaries. The main grant donors are international institutions such as the European Union, US-AID, UNDP; and the public institutions such as Ministry of Agriculture, Forestry and Rural Development, as well as Ministry of Trade and Industry. Grants and investments in general, have been concentrated mainly in the expansion of production and processing lines, and modernising processing facilities. This, according to the interviewed companies, is imperative for providing economies of scale and higher value added products that could compete effectively with the imported products, especially in dairy products, fruits and vegetables, meat products, and other beverages.

The extent to which the productive capacity of a food pro-



FIG. 03 CAPACITY UTILISATION BY SUBSECTORS



SOURCE: FINDINGS FROM THE INTERVIEW, RIINVEST INSTITUTE

cessing company is being used is nominal. Most of the interviewed companies use only half of their production capacities. However, there are specific times of the year when companies produce at higher capacities, but never at a maximum (at most 70 percent). Capacity utilisation differs from season to season, for most processors the second quarter of the year (i.e. April - June) is the time when they utilize their capacities at an optimum level. The reported level of capacity utilisation varies when disaggregating the data by subsectors.

For example, the dairy subsector reports the highest level of capacity utilised (almost 60 percent), followed by the subsector of meat products (57 percent), and subsector of fruit and vegetable (50 percent).

Customer loyalty depends mostly in the prices of the products. Most of the processors noted that the end-consumers are price sensitive, and so if the company decides to increase the price of their product, buyers will buy from competitors instead. Moreover, interviewed companies state that other reasons for costumers being loyal to their preferred brand or company are quality of the product, design of the package, and good relations with the owner/workers. Only in one case, the processor stated that they have created a niche market; therefore, their targeted costumers are loyal to the company.

Having into consideration that price is an imperative factor to attract customers, most of the companies noted that their pricing strategy is influenced by their competition. Besides, the price of the products are set based on production costs and profit margin. Demand is another important factor, an example of demand driven prices is that of raspberries processor. The raspberry processor stated that due to low demand of raspberries, the price per kg during 2014 was 1EUR/kg, whereas, in 2015 both demand and price rose simultaneously, respectively 4EUR/kg.

The majority of the interviewed companies, seven out of 10, export their products to either the region or the EU countries. The estimations of firm's total export in 2014 range from 5 percent to 99 percent. Places to which domestic processors export are Italy, Germany, England, France, Switzerland, Albania, Bulgaria, and Macedonia. Products that are exported to Germany and England are the fruit and vegetable products since meat and dairy goods from Kosovo do not have export permit and are not allowed to enter in these markets. One of the companies has expanded their business in the region through opening up a processing facility in Albania. Besides lowering logistical costs and



The dairy subsector reports the highest level of capacity utilised (almost 60 percent), followed by the subsector of meat products (57 percent), and subsector of fruit and vegetable (50 percent).

facilitating the transportation process, this expansion has changed and better organized the trade procedures in Albania and the region. Food processing companies that focus in processing vegetables state that preserved vegetables (i.e. pickles) are the most demanded products for export. According to the owners, their companies have been doing better compared to last year in regards to exports. However, several logistical limitations exist regarding export capacities, such as cold storage facilities, truck refrigerators, and fruit classification equipment.

Imported products dominate in the Kosovo market; hence, development of new or complementary products from domestic processors are only enhancement and growth strategies for the companies themselves, and not new products for the market. From the total, four of the interviewed companies state that their experience in the marketplace allowed them to improve products and meet customer needs. Food processors in the region center have enhanced the reputation and the relationship that they have already established by offering new and innovative products or processes to the existing market. Dairy producers have improved their packaging to extend product longevity. Meat manufacturers have adopted new technologies, and continuously have supplied the market with new products.³

The opportunity in food processing industry is significant, but so are the challenges. Technology adaption, unstable

³ One of the interviewed companies showed the product assessment report to the research team, whose purpose was to identify the needs and wants of Kosovo market. This shows one of the cases when the company has been proactive, and extended their production/processing lines in order to provide a wide variety of goods under a single brand, while in the most of the cases new product decisions are made based on customer demand on existing products.

raw material, poor infrastructure, unqualified food engineers, unfair competition, are few among other challenges that food processors face in their daily operations and that burden the growth of the business.



7.3 Labour Force

The food processing industry is mainly comprised with family businesses. The compositions of the interviewed companies is as follows; from the total, 70 percent of the companies are small and medium enterprises, whereas 30 percent are large enterprises. Except for promoters and seasonal employees, all other employees are fulltime. Average age of the employees is 32 years old, with a gender distribution of 55 percent female employees, and the other 45 percent male employees. During the harvesting period, the number of part-time employees goes up to 100. The interviewed large-scale companies have an upside-down organizational structure. Two of the large companies have a well-defined organizational structure, comprising of board of directors, executive director, department director (i.e. production director, sales and marketing director, financial director), followed by other sub-levels of the organization sectors. It is worth noting that executive director of these companies is also a voting member of the board. Hence, this results to a conflict of interest, since a conflict of interest can occur if the executive director is a paid employee and a voting member of the board of directors. Other interviewed processors do not have a clearly defined organizational structure.

Qualifications of the staff varies from the employees role in the company, managers of the departments have superior education (e.g. production manager has superior qualification in food engineering field), while employees working in the processing line are not required to have superior qualifications. The average salary ranges from 350 to 450 Euros. The trend of the salaries has been increasing 5 to 10 percent during the last three years, and this trend is being expected to further increase in the coming years. An obstacle regarding employee recruitment is that of low qualified applicants in the field of food engineering. Therefore, in most of the cases companies outsource food-engineering experts from EU countries or from other neighbouring countries, mainly from Serbia, Macedonia, and Montenegro. Another problem that companies face when recruiting and hiring new employees is considered the low willingness and low interest of youth for handicraft work.



A problem regarding employee recruitment is that of low qualified applicants in the field of food engineering. Therefore, in most of the cases companies outsource food-engineering experts from EU countries or from other neighbouring countries, mainly from Serbia, Macedonia, and Montenegro.



7.4 Competitive forces

Some of the fundamental requirements to enter in this industry are the expertise, experience, and the financial means for operations. It is important to know the product specifications such as general food standards, production standards, standards for the use of food additives; and the food technology that is used to process the raw material. Besides, companies that have been established since 90s have greater experiences and higher processing capacities. To enter the food processing market companies need to invest from 500,000 to 8MM Euros, in order to be competitive.

This industry involves Business-to-Business sales (B2B), B2B buyers care mostly about the price. Buyers of this industry include HORECA (Hotel/restaurant/café) business, and supermarkets. Buyers' particular interest is to lower their costs through lowering the profit margins of the food processors. An example derived from one of the interviews is that of how supermarket lowered their costs through asking food suppliers to pack the whole inventory to the supermarkets' depot, and hiring less employees for their wholesale depots.

Processing companies are being supplied from domestic and foreign suppliers. Foreign suppliers dictate the prices of domestic suppliers (imported products dictate the domestic products). The power of domestic suppliers is low, as they have many competitors and is easy to find substitution from the imports. However, owners of the companies state that it is hard to build strong relations with suppliers for a short

period; therefore, it is better to keep the same suppliers for a longer period. In addition, food processors declared that sometimes they are forced to hire agents/brokers who import the raw material without declaring it to the customs, in order to avoid custom tariffs.

Due to the high volume of imported products in Kosovo, processed food is easily substituted, as there exist variety of alternatives for the same type of the product in the marketplace. According to the owners, even though there have been campaigns going on for domestic product promotion; buyers are more attracted towards imported products than domestic ones. The willingness of buyers to substitute the products depends mostly on the prices of the products.

Processors in Prishtina region state that their direct competition comes from the imported products. In the processing industry, the level of competition is high and most of the companies attempt to establish prices that are the same as those set by their competitors. Considering the fact that domestic consumption is largely covered by imported products, and the fact that people prefer foreign products to domestic products, domestic producers experience disadvantages. Owners state that the loyalty of the costumers is the foreign competitors' strength. Whereas as regards to domestic competitive environment, most of the companies state that because of the association that have been created over the last few years there is a better cooperation among companies operating at the same industry. The market share of the interviewed processors ranges from 2 percent to 70 percent depending on the categories of the products.

Apart from the competitive challenges, other issues that all this sector are infrastructure, customs tariffs, and unqualified domestic food engineers. Technological improvements in this sector will create a better business environment for the food processors during the following years. The trend of this sector's potentials currently is not experiencing a significant improvement, mainly because of the high competition from the imported products.

All interviewed processors have fulfilled, or are in the process of fulfilling the standards and regulations concerning safety measures. Even though some of standards are not mandatory, the processors own standards such as ISO, HACCAP, HALLALL, and have obtained certifications from the Ministry of Agriculture and Forestry, and Rural Development. Some of the processors have tested their products from the National Institute of Public Health in Kosovo. Food businesses must make sure that people who carry out or

supervise the handling of food have appropriate skills and knowledge in food safety and food hygiene matters. Procedures and regulations related to safety and hygiene of food are mandatory for all employees working in food processing lines. The uniform including the hats, boots, gloves and masks are among the equipment that are obligatory for all employees. Food and Veterinary Agency makes monthly bases inspections to the food processing manufactures.

Except for one interviewed company that highlighted its good relations with the municipality, and the municipality's willingness to assist through good initiatives for domestic product promotion, all other companies have low trust in public institutions. They note that all of the activities initiated from the public institutions are only formal meetings as prior objectives set on their ad hock strategies.



8. CONCLUSIONS AND RECOMMENDATIONS

The aim of this study was to identify, select and analyse competitive sectors in the Economic Region Centre using a set of criteria, including: labour intensity, investment potential, level of the added value as well as domestic and international demand and competitive pressure. Following the discussions in the previous sections, here a summary of findings from all sectors as well as relevant policy recommendations are presented.



AGRICULTURE

Conclusions:

Similar to the overall Kosovo, the agriculture sector in Prishtina region is characterized by small farms ranging in size from 1.5 to 3.0 hectares. Companies are usually sole proprietorships owned by males with no organization structure. Predominant reasons for engaging in primary production are family tradition and lack of employment. The number of full time staff varies from 10 to 15 meanwhile the seasonal staff can go up to 50, especially during harvesting. The average age in the companies varies from 25 to 40.

Regarding performance, companies have performed better this year. However, important to note is that prices were lower this year compared to last year. Businesses are optimistic about future sales and expect them to increase. Investments were made during the last year by almost all companies. Main sources of financing were grants from donor organizations and MAFRD. The part that was co-financed by the farmers came mainly from loans and little from savings. The investments figures went up to 200,000 Euros.

The demand for agricultural products is unstable and buyers are not loyal. If any of the producers decide to increase the prices, buyers will switch to purchase the products from different sellers without incurring any costs. The buyers set all the selling terms and at times are able to dictate the price.

The main challenge faced by producers operating in the agricultural sector is unreliable market/sales. Producers do not have a guarantee that their products will be sold. This is especially difficult for farmers that do not have storage centers and end up with unsold products. These products either have to be sold at any price or end up being thrown away. The buyer of products can decide to purchase the products from someone else since they do not have written agreements and do not incur any costs. Another important barrier that is hindering business development is unfair competition from imports. Another big barrier is unfair competition from imported products. Producers mentioned that imported products are not controlled for pesticide. According to producers, imported products have much more pesticides than local ones since the least amount of pesticides is used in Kosovo. Another barrier mentioned by producers is high cost of finance and short grace period.

Regarding competitive forces some are high and some are low. The threat of new businesses in the agricultural sector is medium to low. The reason for being medium is due to the relatively high amount of funds needed for investment. One of the farmers stated that in order to properly prepare only one hectare of land for production it will cost around 30,000 Euros. Buyer power in the agricultural sector is high. The buyers of agricultural products are wholesalers, fruit and vegetable depots, supermarkets, and dairies. Farmers mentioned that there are no written agreements between sellers and buyers for sales to be made. The supplier power in agricultural sector is low as there are plenty of suppliers in the market and producers can switch the suppliers without incurring any costs. Threat from substitutes in the agricultural sector is high as products are imported to a great proportion from neighboring countries.

Another factor that contributed to a high threat from substitutes is the freedom that buyers have to change producers once they find cheaper products. Producers stated that competitive rivalry is increasing through time. In addition, the seasonal competition is very high as most of the farmers in Kosovo do not have facilities where to store the products and want to sell them while they are fresh. Farmers who have storage facilities are at a big advantage since they can store them and sell them during times when the offer is lower and prices are higher. Furthermore, farmers that do a good job in protecting their fruits are also at an advantage.



TEXTILE

Conclusions:

Textile manufacturing was known to be one of the largest industrial sectors in Kosovo in the '90s. However, the changed scenery after 1999 has damaged previous trading linkages and as such has affected production rates and ultimately competitiveness. At present, 65 private enterprises actively engage in textile production according to KAS. The majority of companies represent micro enterprises with less than 10 workers.

The main activities of businesses in the Prishtina region are the manufacture of textiles, manufacture of wearing apparel and manufacture of leather products. Manufacturing of daily, solemn and sports clothing are activities undertaken by the majority of interviewed companies. However, the interviews also revealed firms that produce uniforms and work-related clothes; textile and fiber; high-end fashion garments; as well as leather bags for males/females, schoolbags and cosmetic bags.

A slight majority of the interviewed firms observed an increase in sales from 2014. Most of these firms have been dealing with trade of textile before; so, they have had already well-established sales linkages that contributed to sales increase. However, even though sales are generally increasing, marginal profit is continuously decreasing. This is attributed to the hindrances and obstructions inflicted by the prevailing unfair competition in the sector. The companies sell their products to distributors and wholesalers as well as large and small retailers and at lesser amounts to final consumers. Intermediate goods and raw materials utilized by textile manufacturing are primarily acquired from foreign countries such as Turkey, China, Italy, Germany and neighbouring Macedonia.

Overall, the textile-manufacturing sector employs around 274 workers in the Prishtina region, accounting for around 19 percent of the total textile sector employment figure. The average number of employees in the interviewed firms is 30 and around 90 percent of the staff is composed of female workers. The companies agree on one thing, that the labor market is not meeting

Recommendations:

- Government should be more committed towards improvement of the overall business environment.
- The government ought to enact policies that ensure fair competition in the sector, especially in expediting the process of trade-restraining retaliation against unfair practices of trading partners. Also, supportive schemes should be created to encourage domestic production that could ameliorate unemployment given the labour-intensive nature of the sector.
- Government should remove VAT and customs duty for machinery that is related to production.
- Scaled excise duties should be applied for energy sources that are used for production.
- Additional tax incentives should be offered to companies using energy efficient systems of production.
- Government should improve the promotion of their grant schemes. The procedures for application in respective grant schemes should be simplified while the process of grantee selection should be made more transparent.

their needs for employees in terms of qualifications and practical skills. The labor force has usually low qualifications; they lack in experience and do not demonstrate the necessary skills to perform their job successfully.

The firms interviewed report that new business startups enter the market continuously and at a fairly high rate. New businesses establish with a small start-up capital; however, in order to grow and remain in the business large investments, such as in facilities and advanced technology, are crucial and inevitable. This is essential for large-scale production, which in turn enables selling large quantities usually ordered by distributors and gaining market share. Entrants to the market must work hard on securing distribution channels, especially textile-manufacturing businesses that sell their products through wholesalers and retailers.

Despite the fact that there is a large number of input suppliers in the textile industry who can control prices, bargaining power exists to some level since raw materials and intermediary goods characteristic of this sector are normally undifferentiated products. Moreover, while companies have options of switching, there are substantial costs attached to it, especially considering they represent suppliers from abroad. Likewise, the sector contains considerably powerful buyers, who have the ability to force down prices, as such brings down competitors profits. Commercial buyers have gained power since they purchase in large quantities and especially since they can impact consumers' purchasing decisions. Hence, they request price breaks and discounts by the producer. On the other hand, final consumers are more price sensitive themselves for these textile products that are rather customary and undifferentiated.

Threat of substitution of companies' products is very common in the textile industry, as such also in region Centre, since companies manufacture similar products. This enables consumers to switch to alternative products in cases of price fluctuations quite easily, as admitted by the companies. Overall, unless textile-manufacturing businesses are able to upgrade product quality or in some way differentiate it, the industry will experience low profits and limited growth.

Due to the interplay of these four competitive forces, rivalry is intense in the textile industry in the Prishtina region. In these instances, price competition and aggressive advertising ensue in an attempt to attract and lock down consumers. The interviewed firms are often forced

to lower prices in order to remain competitive. They try to downplay this situation by reverting to healthier alternatives such as investing more in advertising. Innovation and new product introduction is reportedly the best technique to outclass competitors with old-fashioned and low quality products and designs.

Even though the firms are eager to expand their businesses through exporting to neighboring countries and European countries, firms reported still low insignificant amounts of exports. Exports remain low mostly due to major obstacles of doing business in Kosovo. This in deed is quite important for the growth of the local companies, especially since region Centre and Kosovo as a whole offer a very small market to operate in. Moreover, the possibility of creating foreign connections and exporting is also conditioned to and inevitably ensures the increase of product innovation quality.

Even though the textile sector in the Prishtina region is experiencing noteworthy development and is showing growth potential especially through private sector investment opportunities, it still faces major challenges and threats. The market is characterized by a large fragmentation, with very few retail chains and department stores. Similar to the general private sector in Kosovo, businesses in the textile industry in region Centre face a great number of challenges to their daily operations and growth of their business. Unfair competition from the informal sector; shortages and cost of energy supply; access to finance; and moderate demand in the local market are considered the main barriers to doing business. The informal sector is undoubtedly impeding the textile industry the most, either in the form of unregistered small ventures operating in basements or small businesses illegitimately importing goods and as such offering selling prices that are similar to those of local producers. In addition, the sector faces obstacles such as high costs of input factors; inaccessibility of domestic raw materials; lack of high skilled labor and inadequate level of education; and unsatisfactory local demand.

Recommendations:

- Government should be more committed towards improvement of the overall business environment.
- The textile manufacturing industry in region Centre is dominated by mostly micro and small enterprises,

with only one large firm and with few linkages between the firms. A cluster approach to interconnect the textile manufacturing firms, suppliers and associated institutions in the geographical concertation of the Prishtina region would increase productivity, support the development of joint solutions and combine resources to take advantage of market opportunities and to compete domestically and abroad. Increased productivity would be achieved through specialized inputs, access to information and synergies as well as innovation would be attained through cooperative research.

- Companies in the textile-manufacturing sector have claimed that the labour market is not meeting their needs for employees in terms of qualifications and practical skills. Skills needs can be addressed by bringing designer and apparel-specific training into the vocational education and training (VET) system. This will not only support increased labour qualifications but also tackle shortage of textile-specific professions in the market, especially of tailors, stitchers, patternmakers, production managers, quality control officers and designers. With the textile industry being particularly labour intense, this approach would significantly contribute to new job creations and meanwhile would considerably expand sales of textile companies due to increased capacity utilization.
- Along these lines, companies should take initiative themselves in making arrangements with VET schools to accept interns and contribute to their practical skills by training them in the tailoring and textile profession. This arrangement has high prospects and benefits both sides, on the one hand the VET schools' students for the possibility of receiving practical training and getting prepared for the job market; on the other hand the companies for the possibility of employing interns to assist in output production, with almost no costs attached and ultimately meeting the actual skill needs of these jobs.
- Kosovo's proximity to European fashion centres and access to the EU market gives the country an advantage in becoming a suitable partner with respect to textile manufacturing and leather production. For instance, foreign investment by an Italian handbag manufacturer in Gjakova has created an important linkage to Italy, the largest leather handbag exporting country, hence offering the potential to bring skills

and technology to the industry. Such linkages can be created in the Prishtina region as well, especially considering the opportunities arising from increased orders from current Italian buyers and inquiries from other European buyers. With institutional support and investor know-how, region Centre has the opportunity to become a regional model for qualitative textile and leather production and a trusted partner for European textile and leather industry players. More specifically, the region Centre has the potential to engage with high-end brands in the EU and stand out by providing the quality, craftsmanship, and short delivery lead times necessary by the EU market as a competitive advantage over larger but more remote exporters.



CONSTRUCTION

Conclusions:

Prishtina region remains one of the largest and most important regions in Kosovo's construction sector as it accounts for 38% of the total number of active firms in Kosovo. The construction sector in Prishtina region is dominated by micro businesses who make up 83% of the active firms. Meanwhile the municipality of Prishtina leads region center with the highest number of employees, employing 70% of the labor force employed in region center, and accounts for 61% of the businesses operating in region center. The main reason why these firms are engaged in construction is family tradition. While the main activity is high rise building construction, mainly tall residential building complexes. The average number of employees ranged from 10 in small enterprises, up to 230 in medium size enterprises, with an average number of 60 employees. The average age of the employees is 29, whereas regarding sex, similar to the overall construction sector in Kosovo and EU, construction firms in Prishtina region are dominated by males, who make up 90% of the staff.

Speaking of performance, 50% of the firms interviewed declared that they are performing worse than they did last year. According to them, the offer for residential

apartments is exceeding by far the demand. Meanwhile 40% of the firms declared that they experienced an increase in their sales compared with last year. 60% of the firms expect an increase in their sales, due to the investments they have made and the sales they expect to incur, while the remaining 40% expect a decrease.

When it comes to investments, firms declared to have invested over the last two years in a range from 1.5 to 6 million Euros in different residential projects. Majority of the firms are planning to invest in the next years. Regarding the source of their investments, nearly all of them use funding from their sales, as well as selling property. None of the firms are using their capacities to the maximum due to different factors. Winter and cold temperatures do not allow firms to utilize their capacities at their maximum. Another factor is the decision to halt all constructing work without a building permit, and enforcing procedures to obtain one by the Municipality of Prishtina.

According to majority of the firms, the demand for the product continues to remain high due to the large population density centered on Prishtina region. Firms believe that their buyers are loyal and stick to them, however in case they decide to raise their prices by 10%, they think that they would have to improve their offer, otherwise the buyers would switch to their competitors. When it comes to pricing strategy in the construction sector, location plays a key role. The closer a residential complex is to the main roads and districts, the higher the value, respectively the price. Nearly all of them declared that they do not fluctuate with their prices. The majority of the firms declared they do not export their product, with only two firms declaring that they are exporting their product in Germany and Scandinavia, building residential apartments and houses.

There are many challenges that businesses in the construction sector in the Prishtina region face. The most important one according to them is the Prishtina's Municipality decision to halt constructing projects without a building permission and enforcing the procedures and technicalities of obtaining one. A decision like this according to the firms is delaying and blocking their work and forcing some of them to work with their minimum capacities. The lack of investments in infrastructure, mainly in road infrastructure, by central and local governments, is another challenge firms face. Another challenge is the lack of access in power supply, heating system, and in sewage treatment, with firm owners

mentioning cases where they were forced to invest themselves in order to have access to public goods. Liquidity crisis or the lack of cash in the sector, is another challenge businesses face, forcing them to operate with different forms of payments such as compensation. The lack of commercial land for sale, issues with Kosovo's Cadastral Agency, and judiciary system, are other challenges mentioned by the firms.

Regarding competitive forces, depending on different aspects some are high and some low. The firms interviewed perceived the risk from new entrants in the sector to be low. According to them, even though the procedures to register a new firm are easy, there are major capital investments required to enter the sector. Even though it depends from the project, they estimated that 1.5 million Euros are required for new entrants to enter the sector. On the other hand, buyer power in the sector is considered to be at the medium level. Powerful buyers are those from Diaspora, whereas internal buyers come from middle class who usually obtain a loan and pay by installments. Firms in the construction sector consider supplier power to be low. According to them suppliers do not hold a monopoly over the market since it is very easy to find substitutes for the products in the local market, or by importing them. Whereas in general competition rivalry is high due to the high number of competitors.

Recommendations:

- Government should be more committed towards improvement of the overall business environment.
- Central and local government, specifically the Ministry of Infrastructure and municipalities, should better coordinate in providing the basic infrastructure for areas that are being developed. Also, public utility companies should ease the process of providing access to power supply, heating system, water and sewage.
- The cooperation between central and local governments with the firms in the construction sector should be widened. Ministry of Spatial Planning, Ministry of Infrastructure, as well as Municipalities, should organize more public debates, including firms in the construction industry, to internalize their input when drafting policies on spatial planning and development.

- Specialized construction workers profiles should be developed by VET schools in cooperation with companies of the industry. While there is a surplus of labour for basic works in construction, still there is a significant shortage of skilled workers to perform more delicate work, such as specific interior work, decorations, tiles and heating, among others.
- Construction work should be inspected more rigorously from inspectors on central and local level and appropriate measures should be taken when irregularities are detected.



ICT

Conclusions:

ICT sector in Kosovo (not including telecommunications companies such as VALA and IPKO) is composed of small to medium companies, with limited capacities for high value-added services, consisting of less than 20 employees on average. But, clearly the ICT sector in Kosovo is vibrant and with potentials to grow. There is also strong and growing government commitment to continue exploiting ICT industry for economic and social development.

Secondly, ICT sector is not a capital intensive sector, and as a result their investments are low (in proportion to their total turnover). On contrary, ICT sector is highly R&D intensive, and in this regard companies should invest a lot in their human resources, in order to be more competitive in the region. Moreover, we conclude that companies are optimistic about the future. They expect private sector to invest a lot more in ICT products, and this will all lead to the growth of the sector. The majority of owners/managers generally think that there are significant improvements in fiscal policy. The reduction of VAT for IT equipments can increase the demand for ICT services. One of the ways for future sectorial growth is exporting services to the countries in the region and Europe.

Finally, we may conclude that the lack of rule of law, together with the size of the market and the lack of quality human resources are the main barriers for development.

Recommendations:

- Government should be more committed towards improvement of the overall business environment, in particular the rule of law which would ensure fair competition;
- Government should promote competition in the mobile and broadband markets to increase access of the general population;
- As a response to shortages of quality labour force, private sector providers should offer training on IT-enabled services, with a focus on upgrading the capabilities of local enterprises and on attaining certification and ISO standards;
- Government should provide tax incentives for the development of research capacities in the sector so as to facilitate research-driven growth of the sector.



FOOD PROCESSING

Conclusions:

Food processing industry is a potential sector for expansion in both domestic and foreign market. However, this industry faces many challenges such technology adaptation, unstable raw material, poor infrastructure, unqualified food engineers, unfair competition. Established companies under this sector in Kosovo, and particularly in region centre have mainly started as family businesses and owned by one person (i.e. sole proprietorship). Moreover, the performance of the existing companies has been increasing simultaneously with companies' capacities, investments, and food standards.

The performance of the food processing companies in the region centre has been increasing over the three last years, and so it is expected to continue. The increase of the performance is the result of the capital investments that companies have made. Most of the investments have been done to increase the capacities and modernize the processing lines and machinery. Even though, a great portion of the investments comes from profit reinvestment, besides food processors have been

supported with grants by European Union, USAID, UNDP, and subsidises from public institutions such as Ministry of Agriculture, Forestry and Rural Development, as well as Ministry of Trade and Industry.

The sector in itself is quite favourable; however, the barriers to entry are inevitable. Apart from interest, expertise, and adequate and qualified human resource, large investments are needed for the machinery and the logistics in order to be competitive in the market (especially competitive to the imported goods). The high amount of funds needed for investment and the high level of imported products may challenge many new investors to start operations in this sector.

The customer/buyer loyalty is moderate, but is also depends largely in the prices of the products. In the processing industry, the level of competition from the imported products is high and most of the companies attempt to establish prices that are the same as those set by their competitors. Buyers of this industry include HORECA business, and supermarkets. Buyers' particular interest is to lower their costs through lowering the profit margins of the food processors (high buyers' power). Whereas, the power of domestic suppliers is low, as they have many competitors and is easy to find substitution from the imports. Therefore, the low supplier power makes the industry more attractive and increases profit potential from the buyer, or in the case of the food-processing sector, processors can provide prices similar to those goods coming from the imports or lower, thus attract the price sensitive customers as well.

To operate in a sector such is food processing and manufacturing, meeting safety and hygiene standards is of utmost importance. Most of the interviewed food processing companies in the region centre have met such as ISO, HACCAP, HALLALL, and obtained certifications from the Ministry of Agriculture and Forestry, and Rural Development. Some of the processors have tested their products from the National Institute of Public Health in Kosovo. It is also an imperative factor in order to obtain export permits.

Finally, despite the fact that some of the ministries have financially supported domestic processors, they have low trust in public institutions. Most of the food processing owners have never been invited to any of the stakeholder meetings in regards to agricultural and food strategy making.

Recommendations:

- To increase competitiveness in the food-processing sector in region centre, domestic producers should address problems related to weak product diversification, uncertain quality, low supply, and underutilisation of capacities. Therefore in the market level food processors should:
 - Increase productivity, and establish new products to be offered;
 - Improve quality and access new market segments for small-scale processors
 - Increase utilization of capacities
 - Promote domestic processed products in the domestic market

- Processing companies in the region centre are increasingly engaging in exports, and successfully exporting to the EU and regional markets. Since foreign market is considered an important market for domestic food processors, the latter ones should take advantage of this opportunity. Food processors should:
 - Promote processed products in international markets/international fairs
 - Promote placement of processed products in foreign retail chains
 - Improve logistics for exports; such as, increase the number of cold storage facilities, truck refrigerators, and fruit classification equipment.

- Unqualified food engineers in Kosovo is an obstacle that domestic food processors have to overcome. Companies should engage experts to train current and future employees.

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QUESTIONNAIRE

INTRODUCTION

This interview is part of the study titled, “*Identification of 5 competitive sectors in the Prishtina region*”, funded by the European Union Office in Kosovo and implemented by Riinvest Institute. The aim of this study is to identify, select and analyze competitive sectors that are labor intense, show high investment potential, create added value and as such have potential to lead to sustainable economic growth in the Prishtina region. For the purpose of industry identification and selection, subject-matter experts were asked to rank prospective sectors based on seven criteria: labor intensity, investment potential, added value, domestic market demand, international market demand, domestic market competition, and international market competition. The top five identified sectors with highest potential to contributing to transformational growth in the region of Prishtina are: Food processing, Agriculture, Information and Communications Technology, Construction, and Textile production, which will each be thoroughly assessed through the information gathered from these interviews and additional secondary data. Once the study is completed, we will distribute our findings to you. Riinvest Institute guarantees that the results of this study will only be used for statistical analysis and we ensure you that the data you will provide us with will be held anonymous and the results will be presented only in a general form. We thank you in advance for your understanding and your cooperation.

What is the name of the business?

.....

What is your name?

.....

SECTION A: GENERAL INFORMATION

Q.1 Can you please tell us about the background of the company? Who is the owner/owners of the company? What year was it founded?

Q.2 What were the reasons for opening this business in the first place? *Probe for: identified an opportunity (profit), family tradition, lack of jobs, had another business, etc.*

Q.3 What would you say are the main activities of your company? Any other? And which one would you consider as the primary one? Why is that? Did your company start with this activity initially?

Q.4 What is the status of the company? *Probe for: Sole proprietorship, General partnership, Limited partnership, Limited liability Company (L.L.C.), Joint stock Company, Foreign Company, State owned enterprise, Public enterprise.*

Q.5 Can you please tell us more about the composition of the company in terms of staff? What is the total number of them? What is the average age of the employees? What is the division of gender respectively? What is the organization structure of your company?

SECTION B: BUSINESS PERFORMANCE

Q.6 For classification purposes, would you say that in terms of sales your company is doing much better, same or worst compared to last year? And what are your expectations about next year related to sales? What is your company's percentage of market share?

Q.7 Can you please tell us have you made new investments in the last year? What was the value of the investments? What sources did you utilize? *Probe for: Profit re-investment, Bank loans, Family budget, Donations/Grants, FDI.* Are you planning new investments in the following year? *Prompt for: type of investment, planned budget for the investment?* If not, what are the reasons?

Q.8 Let's talk about the capacity utilization of your production/service as proportion to maximum output of your company. What is your current capacity usage as percentage? Why is that, why don't you use it more? Does it differ on the season? Are there times of a year when you produce at maximum capacity? And why is that?

Q.9 How do you perceive demand of your product/service? How loyal would you say your customers are? *Prompt for: What would happen if you were to raise your prices of your main product line or main line of services 10% above their current level in the domestic market, which of the following would best describe the result assuming that your competitors maintained their current prices: Our customers would buy from us in the same quantities, slightly lower quantities, would buy from our competitors instead.*

Q.10 Let's talk about the prices for your products/services. Can you please tell us how did you decide on the particular prices that you offer? Why is that? Do your prices change?

Q.11 Can you please tell us does your company export? In which countries do you export? What are the estimates of your firm's total exports in 2014? Would you say that your company is doing much better, same or worst compared to last year? And what are your expectations about next year related to your exports?

Q.12 Has your company created or significantly improved a product/service in the past years? How many products/services? Were products/services created new to the market or your enterprise? Have you adopted any new technology of production? What type of assistance (financial/professional) did you receive for development and design? Were innovations made based on customer demand?

Q.13 Can you please tell us what challenges do you face in your daily operations and growth of your business? *Probe for: Institutional barriers (courts, tax administration, subsidies), financial barriers (cost of finance, access to finance), skill-internal barriers (staff, management), infrastructural barriers.*

SECTION C: LABOR FORCE

Q.14 Can you please tell us from you total number of employees what is the number of full-time and part-time workers?
Probe for: type of work contract.

Q.15 Can you please tell us what the qualifications of your employees are? *Probe for: superior (PhD, Master, Bachelor), secondary (professional, high school), primary.* How do you evaluate the work of employees that have superior education and secondary education?

Q.16 What attributes do you look for in employees? *Prompt for: Previous work experience, education? Specific sector background/knowledge?* Why is that?

Q.17 Can you tell us what the average monthly salary in your company is? Is it similar to other companies in the sector? What has been the trend of the salaries in your company in the last three years, and what are your expectations for next three years?

Q.18 Can you tell us does the labor market meet your needs in terms of qualifications and practical skills? Is there a shortage of labor at various categories?

Q.19 What do you consider as the main problems your company faces when recruiting and hiring new employees? Why is that? How do you deal with these difficulties?

SECTION D: COMPETITIVE FORCES

Q.20 Let's talk about the threat of new businesses starting in this sector. How easy is it to start up a business? What are the rules and regulations? What finance would be needed to start-up? Are there barriers to entry which give you greater power?

Q.21 Can you please tell us how powerful your buyers are? How many are there? Can the buyers get costs down? Do they have the power to dictate terms?

Q.22 Can you please tell us how powerful suppliers in the sector are? How many suppliers are there in the market? Are there a few who control prices or many so prices are lower? Do your suppliers hold the power? How easy is it to switch, what is the cost? How does the payment process work? *Prompt for: do you ask them to pay in advance, at time of delivery/sale, with delay/after the delivery*

Q.23 How easy is it to find an alternative to the product or service you provide? Can it be outsourced? Or imported? What is the buyer's willingness to substitute?

Q.24 What are your perceptions on the level of competition in this sector? What are the competitors' strengths/ weaknesses? Can you tell us the percentage of your competitors' market share? What is the level of foreign competition?

SECTION E: SECTOR SPECIFIC QUESTIONS

FOOD PROCESSING

Q.25 Let's talk more about the sector in which you operate. What are some specific issues concerning this sector? What are the main market trends? How do you think will business conditions for your particular business develop in the next three years? What policy changes would improve your operations?

Q.26 What are your perceptions on investment potential in the sector you operate? How do you think will investment potential of the sector develop in the next three years? What are sources of investment in the sector?

Q.27 Did you have to fulfil specific standards and regulations concerning safety measures? What about sanitation measures? ISO standards? Why is that? Are they mandatory?

Q.28 What about procedures and regulations related to control of food safety and food hygiene? *Probe for: uniforms etc.?* Are they mandatory?

Q.29 Can you tell us how much do you trust public institutions (Government, Municipalities, Courts, Tax Administration, Customs and Inspections)? Has the Government and/or municipality consulted you when drafting any of the policies related to businesses? Have any of the supports made by the Government and/or municipality in the last 3 years contributed the growth of companies in the sector?

Q.30 Whom do you sell your products in the Kosovo market? At what percentage? *Probe for: Companies for further processing, Distributors/Wholesalers, Retailers, Final consumers/Clients.*

SECTION E: SECTOR SPECIFIC QUESTIONS

AGRICULTURE

Q.25 Let's talk more about the sector in which you operate. What are some specific issues concerning this sector? What are the main market trends? How do you think will business conditions for your particular business develop in the next three years? What policy changes would improve your operations?

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SECTION E: SECTOR SPECIFIC QUESTIONS

ICT/COMPUTER PROGRAMMING

Q.25 Let's talk more about the sector in which you operate. What are some specific issues concerning this sector? What are the main market trends? How do you think will business conditions for your particular business develop in the next three years? What policy changes would improve your operations?

Q.26 What are your perceptions on investment potential in the sector you operate? How do you think will investment potential of the sector develop in the next three years? What are sources of investment in the sector?

Q.27 When you hire your employees, what knowledge/training do you provide to them? *Probe for: induction, job related training, further professional development training, specific skill training.* What trainings would you want to offer to your employees? Would you consider paying a company to provide these trainings?

Q.28 Can you tell us have you ever patented a product developed by your company? What are your thoughts on Kosovo's intellectual property rights and patenting? Are the rights being properly enforced?

Q.29 Can you tell us how much do you trust public institutions (Government, Municipalities, Courts, Tax Administration, Customs and Inspections)? Has the Government and/or municipality consulted you when drafting any of the policies related to businesses? Have any of the supports made by the Government and/or municipality in the last 3 years contributed the growth of companies in the sector?

Q.30 Whom do you sell your products in the Kosovo market? At what percentage? *Probe for: Companies for further processing, Distributors/Wholesalers, Retailers, Final consumers/Clients.*

SECTION E: SECTOR SPECIFIC QUESTIONS

CONSTRUCTION

Q.25 Let's talk more about the sector in which you operate. What are some specific issues concerning this sector? What are the main market trends? How do you think will business conditions for your particular business develop in the next three years? What policy changes would improve your operations?

Q.26 What are your perceptions on investment potential in the sector you operate? How do you think will investment potential of the sector develop in the next three years? What are sources of investment in the sector?

Q.27 Did you have to fulfil specific standards and regulations concerning safety measures? What about sanitation measures? ISO standards? Why is that? Are they mandatory?

Q.28 Can you tell us how much do you trust public institutions (Government, Municipalities, Courts, Tax Administration, Customs and Inspections)? Has the Government and/or municipality consulted you when drafting any of the policies related to businesses? Have any of the supports made by the Government and/or municipality in the last 3 years contributed the growth of companies in the sector?

Q.29 Whom do you sell your products in the Kosovo market? At what percentage? *Probe for: Companies for further processing, Distributors/Wholesalers, Retailers, Final consumers/ Clients.*

Q.30 Can you tell us where do you acquire your intermediary goods and raw materials? *Probe for: own production, local producers, imports.* Who are your suppliers of intermediary goods and raw materials?

SECTION E: SECTOR SPECIFIC QUESTIONS

TEXTILE PRODUCTION

Q.25 Let's talk more about the sector in which you operate. What are some specific issues concerning this sector? What are the main market trends? How do you think will business conditions for your particular business develop in the next three years? What policy changes would improve your operations?

Q.26 What are your perceptions on investment potential in the sector you operate? How do you think will investment potential of the sector develop in the next three years? What are sources of investment in the sector?

Q.27 Did you have to fulfil specific standards and regulations concerning safety measures? What about sanitation measures? ISO standards? Why is that? Are they mandatory?

Q.28 Can you tell us how much do you trust public institutions (Government, Municipalities, Courts, Tax Administration, Customs and Inspections)? Has the Government and/or municipality consulted you when drafting any of the policies related to businesses? Have any of the supports made by the Government and/or municipality in the last 3 years contributed the growth of companies in the sector?

Q.29 Whom do you sell your products in the Kosovo market? At what percentage? *Probe for: Companies for further processing, Distributors/Wholesalers, Retailers, Final consumers/Clients.*

Q.30 Can you tell us where do you acquire your intermediary goods and raw materials? *Probe for: own production, local producers, imports.* Who are your suppliers of intermediary goods and raw materials?



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