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Abbreviations used

KAS	-	Kosovo Agency of Statistics
WB	-	World Bank
EU	-	European Union
GDP	-	Gross Domestic Product
CBK	-	Central Bank of Kosovo
DI	-	Department of Industry
IPD	-	Industrial Policy Development Division
MIET	-	Ministry of Industry, Entrepreneurship and Trade
UNDP	-	United Nations Development Program

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Introduction

The Ministry of Industry, Entrepreneurship and Trade, specifically the Department of Industry/Industrial Policy Division, has conducted 77 visits, semi-structured interviews in processing industry enterprises in Kosovo.

Based on the reports of the World Bank, UNDP, Chambers of Commerce in Kosovo and other reports which show that COVID-19, in addition to public health has caused a major economic shock, IPD has researched its impact on the Processing Industry Sectors.

The purpose of this research is to be informed about the impact of COVID-19, during 2020, the identification of other challenges and their impact on the performance of processing industry enterprises.

Through this research, the main needs will be identified and policies will be drafted that will respond to the needs of processing industry enterprises.

The report aims to address the processing industry sector based on the following indicators:

- Impact of pandemic on manufacturing;
- The impact of the pandemic on employment;
- Impact of the pandemic on exports;
- Impact of the pandemic on imports;
- The problems businesses faced during the pandemic, and
- Ongoing business problems/challenges.

The report presents the results of semi-structured interviews with processing industry enterprises conducted in the period April - May 2021.

METHODOLOGY

In order to provide quantitative and qualitative data and in order to overcome the open questions, the research methodology was used through semi-structured interviews with processing industry enterprises.

The interview method was direct (face to face) and was conducted with enterprise managers, lasting about 40 minutes.

Out of about 4500 processing industry enterprises, 77 enterprises were interviewed, of which the largest number, about 52%, are small enterprises. The focus of the study was enterprises with export potential.

Out of 77 enterprises visited, 13% of them belong to the foodstuff processing sector, 7.8% beverage production, 10.4% textile, clothing and leather enterprises, 22% wood, paper and furniture manufacturing, 5.2% chemical products, 16.9% rubber and plastic products, 20.8% metals and fabricated metal, 3.9% of the non-metallic industry.

The enterprises were selected in cooperation with the Departments of Economic Development of the respective municipalities in the seven regions of Kosovo, except for the Municipality of Pristina where DPI, has selected the businesses themselves.

After conducting the interview, quantitative and qualitative data were processed and analysed using the combined approach method.

1. GENERAL DATA

The COVID-19 pandemic has pushed the world into economic recession, where all countries had economic downturns and continue to face the economic impacts of the pandemic.

Also in Kosovo, the COVID-19 pandemic impacted the public health and greatly impacted the country's economy, as a result of declining revenues and increased budget expenditures, where Kosovo's budget deficit reached 7.1 per cent of GDP¹.

Real GDP, both in the EU and in the euro area, is expected to reach pre-crisis levels by mid-2022. However, a return to pre-crisis levels of economic activity will still mean slower growth in the EU economy. Manufacturing industries were affected by short-term supply shortages, but most manufacturing-based industries recovered relatively quickly during the third quarter (Q3) of 2020.²

According to the World Bank, "Global Economic Prospects", GDP in market prices in percentage, ranks Kosovo in second place, with a decline in GDP for 2020, after the state of Montenegro, compared to the countries of the region.

In Kosovo, the pandemic has attacked many sectors from which, through the chain value, the processing industry sector has been affected, which has marked a slight decline compared to other sectors. In general, in the processing industry sectors, there was a decrease in aggregate demand as a result of the impact of the COVID-19 pandemic. If we take the beverage sector as an example, the closure of gastronomy has reduced the sale of beverages below 0.50 litres and other beverages which are mainly oriented for gastronomy consumption.

Among the other problems from the pandemic that has affected the sectors in the chain value is the supply of raw materials and finished products, which has occurred as a result of closed borders and difficulties in transport.

Based on the data of semi-structured interviews with businesses, the manufacturing industry sector was hit by the pandemic mainly in the first part of 2020, while from the third quarter, this sector has begun to recover and return to normal.

The economic impact of the COVID-19 crisis is not the same in all sectors, as well as in the enterprises themselves within a sector. This impact depended on several factors, including the ability to adapt to supply chain disruptions, the organization of enterprise operation, and product sales.

The European Commission forecasts that the EU economy will expand by 4.2% in 2021 and by 4.4% in 2022. The euro area economy is projected to grow by 4.3% this year and by 4.4% in next year.³

¹ Central Bank of the Republic of Kosovo / Financial Stability Report (January - December 2020)

² Impacts of the COVID-19 pandemic on EU industries / To contact the Policy Department or to subscribe for email alert updates, please write to: Policy Department for Economic, Scientific and Quality of Life Policies European Parliament L-2929 - Luxembourg.

³ Spring 2021 Economic Forecast: Rolling up sleeves

2. MAIN FINDINGS

Interviews conducted with the managerial level of enterprises in the processing industry sector have enabled obtaining data and extracting the results which are presented in this report. In addition to general data of the processing sector, this report also presents additional data on the effects of the pandemic across sectors.

According to interviews, 53% of enterprises state that the pandemic has had a negative impact on their businesses, 16% state that during the pandemic manufacturing and turnover increased and 31% stated that they did not feel impact on business as a result of the pandemic.

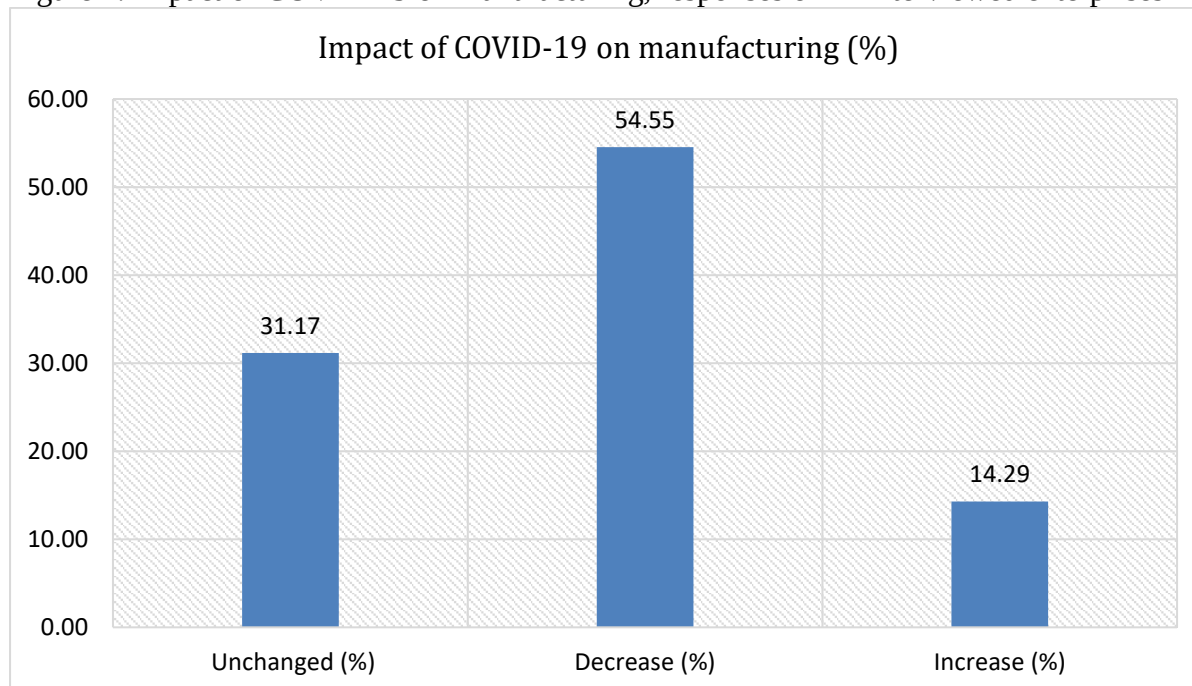
Based on the general interviews conducted with the processing industry enterprises, the enterprises of the sector of metals and fabricated metal products have been hit the hardest by the crisis caused by COVID-19, where about 75% of the enterprises of this sector have stated that there has been a decline. Despite the negative impact on the previous sector, 75% of the interviewed enterprises, in the chemical industry sector, stated that they have marked an increase in manufacturing, mainly in hygienic products.

2.1 Manufacturing

The analysis of the data for the interviewed enterprises shows that during 2020, in the manufacturing process from 77 interviewed enterprises, 55% have declared a decrease, in 31% of the enterprises the situation has been unchanged, while 14% of them have stated that have marked an increase in manufacturing, compared to 2019.

The interviewed enterprises were mainly well organized and had the opportunity to maintain the manufacturing process, but however they had obstacles in expanding their activity and achieving the fulfilment of the investment and manufacturing plan for 2020.

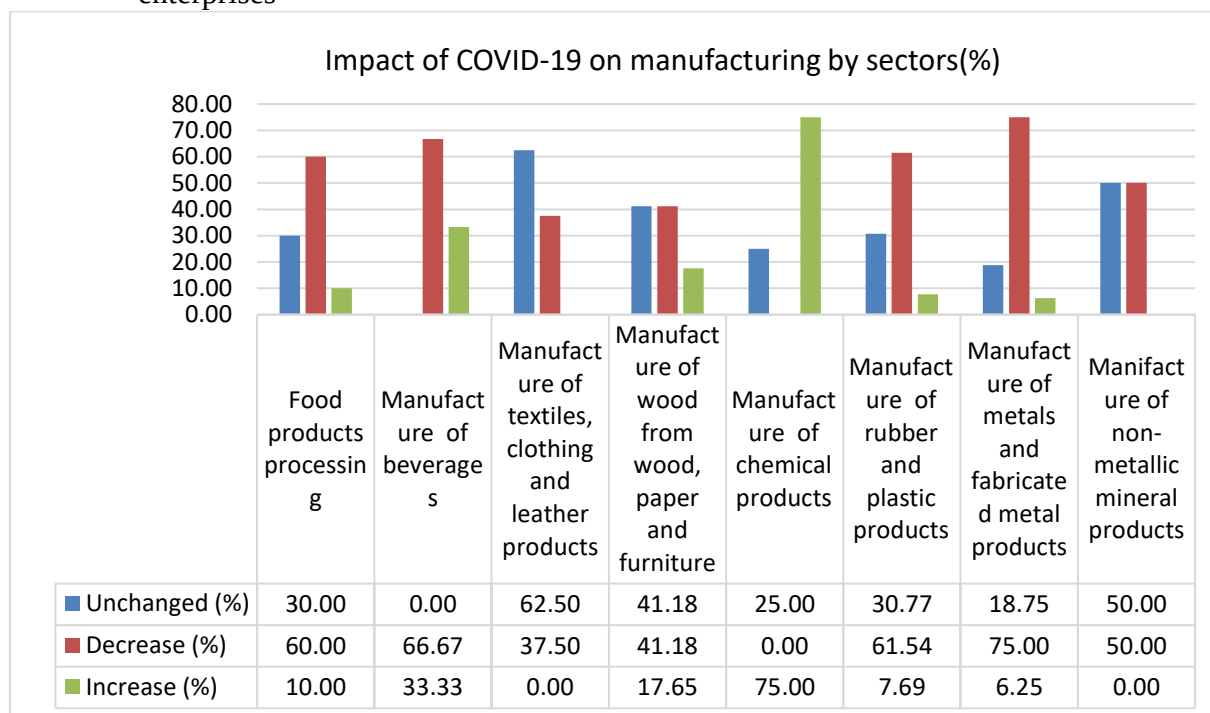
Figure 1. Impact of COVID-19 on manufacturing, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

One of the sectors of the processing industry included in this research, which has faced greater challenges compared to other sectors, is the sector of manufacturing of metals and fabricated metal products.

Figure 2. Impact of COVID-19 on manufacturing by sectors, responses of 77 interviewed enterprises



Source: IPD / processed data, based on interviews with 77 processing industry enterprises

The data in Figure No. 2 show that in the research are presented 13 sub-sectors fused in 8 priority sectors in the processing industry.

The largest number of manufacturing enterprises that have stated that there has been an increase are in the manufacturing sector of chemical products, with 75%.

The largest decrease in manufacturing was declared by 75% of enterprises in the sector of metals and fabricated metal products, then 66.67% in manufacturing of beverage products, 61.54% manufacturing of rubber and plastic products, 60% of enterprises in the food products sector and 50% of enterprises in the non-metallic products sector.

During 2020, according to the data presented in Figure no. 2, based on the correlation of indicators, for the interviewed enterprises, 3 sectors had sustainability in manufacturing, which are: the sector of chemical products, the sector of manufacturing of wood products, paper and furniture manufacturing and the manufacturing sector of textile products, clothing and leather products.

Among other problems faced specifically in the first part of 2020 was the organization of the manufacturing process, where enterprises have had problems as they were forced to work with reduced staff, and this has affected the reduction of productivity in the manufacturing process.

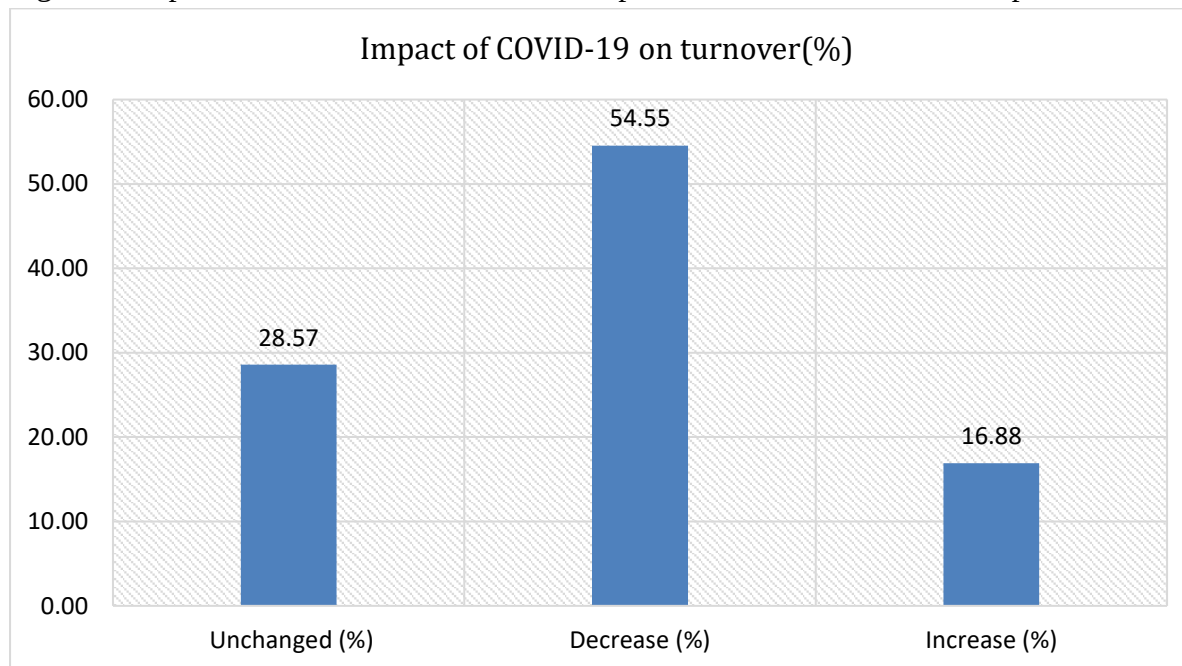
2.2 Turnover

Due to the fact that the COVID-19 pandemic has affected all countries of the world and given that this was something never before known, citizens have been reluctant to spend as they have spent and this has affected the decline in corporate turnover.

The largest numbers of enterprises within the manufacturing/processing industry sector, which have been interviewed, have declared a decrease in turnover, which has resulted in the non-implementation of their plans.

According to Figure no. 3, in 2020, 54.55% of enterprises have stated that they have had a decrease in turnover, 28.57% have stated the same turnover and 16.88% state that they have had an increase in turnover, compared to 2019.

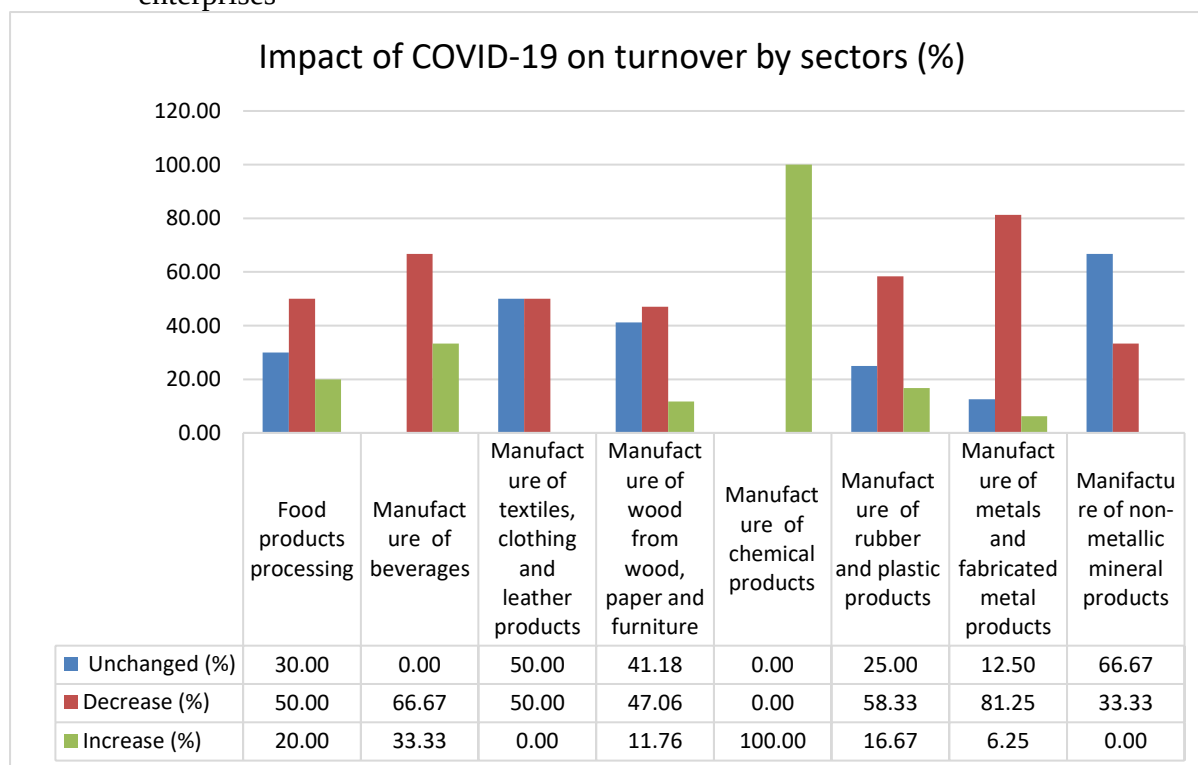
Figure 3. Impact of COVID-19 on turnover, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

The first part of 2020 was a challenging year for the enterprises of the manufacturing industry sector, which also affected the turnover, as presented in Fig. no. 4.

Figure 4. Impact of COVID-19 on turnover by sectors, responses of 77 interviewed enterprises



Source: IPD / processed data, based on interviews with 77 processing industry enterprises

The data in Figure No. 4 show that 100% of processing industry enterprises that have stated that there has been an increase in turnover are in the chemical products manufacturing sector.

The largest decrease in turnover was declared by 81.25% of enterprises in the sector of metals and fabricated metal products, followed by 66.67% in the sector of beverage products, 58.33% in the sector of rubber and plastic products and by 50 % enterprises in the textile, clothing and leather production sector and in that of enterprises in the food production sector.

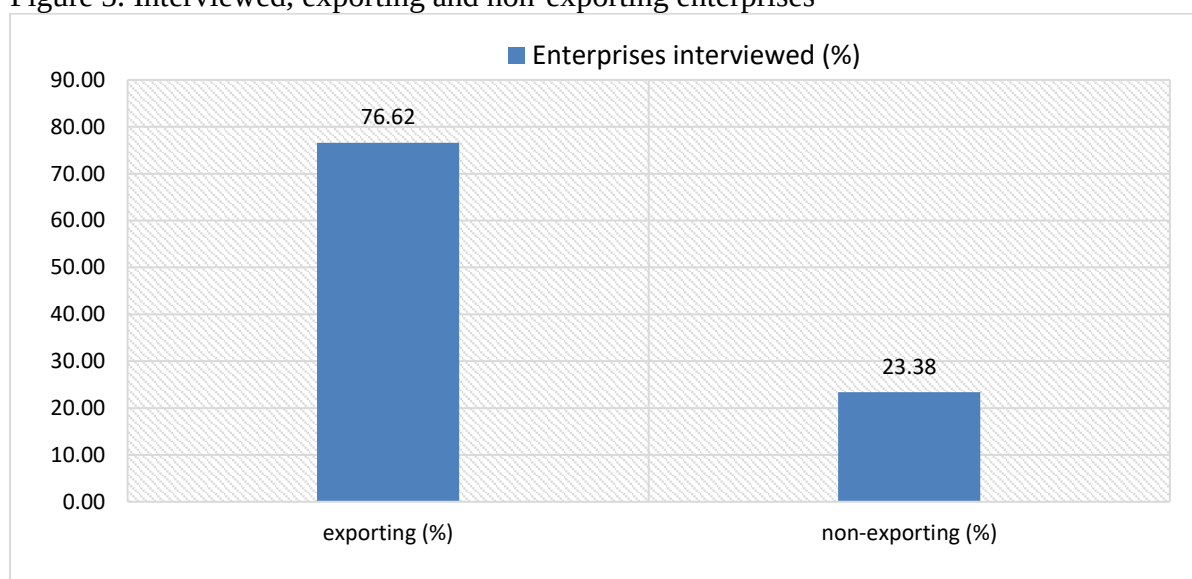
During 2020, according to the data presented in Figure No. 4, based on the correlation of indicators, for the interviewed enterprises, 4 sectors have had stability in turnover, which are: chemical products manufacturing sector, food production, manufacturing of non-metallic products, as well as the sector for the manufacturing of wood and paper products and manufacturing of furniture.

2.3 Export

One of the indicators that measure enterprise development and production capacity is exports. According to the data of the Kosovo Agency of Statistics Exports in Sector C- Manufacturing, during the year was 2020 in the amount of 398.46 million euros, which means that in terms of monetary value there was an increase of 106.76 million euros or 36.6%, compared to year 2019.

Based on the general data of the processing industry, 16.74% are exporting enterprises, but the focus of this research has been on exporting enterprises with a share of 76.62% while 23.38% are non-exporting enterprises.

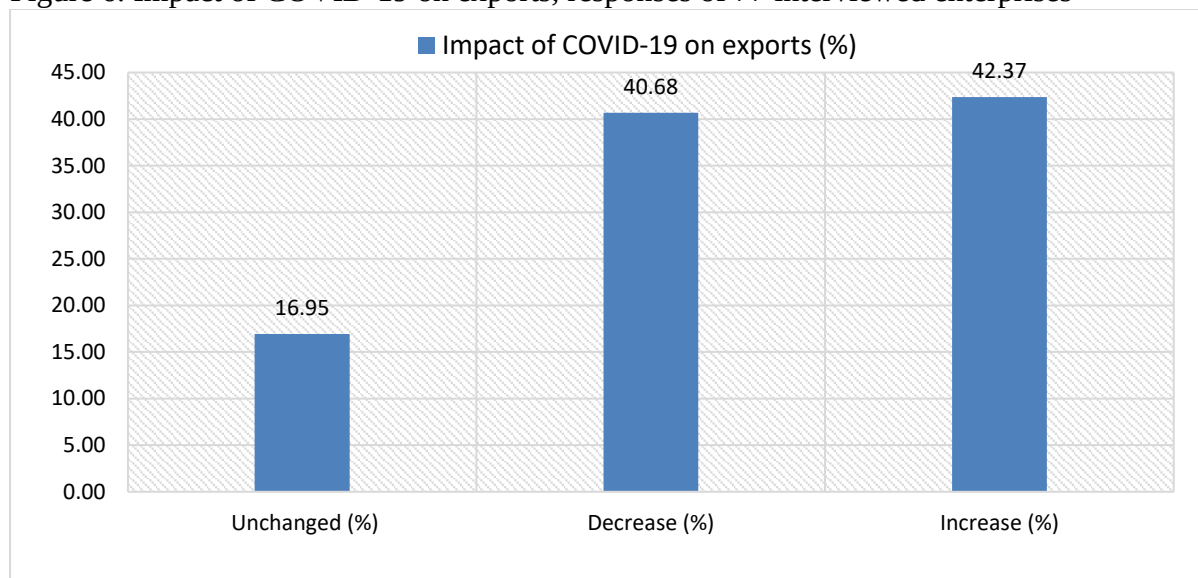
Figure 5. Interviewed, exporting and non-exporting enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

If we evaluate the effect of the COVID-19 pandemic on the performance of exporting companies, the interview data show that 42.37% of exporting enterprises stated that they have had an increase, 40.68% stated that they have had a decrease and 16.95% stated that they did maintain the status quo of the previous year.

Figure 6. Impact of COVID-19 on exports, responses of 77 interviewed enterprises



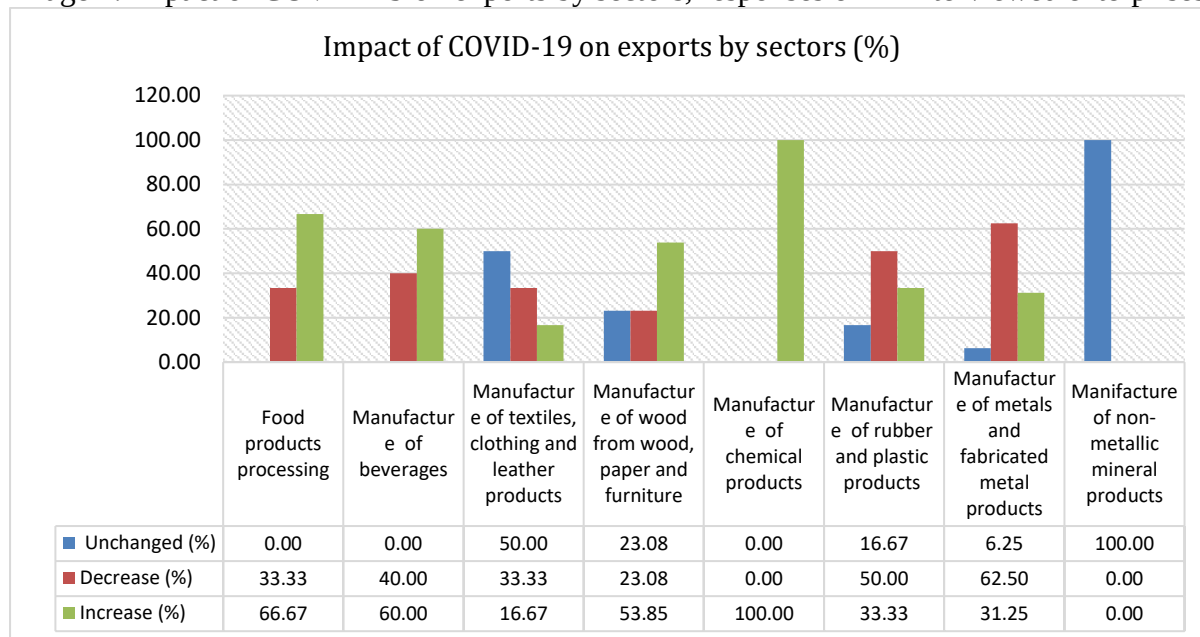
Source: DPI/processed data, based on interviews with 77 processing industry enterprises

Base on this, we can conclude that the value of exports of enterprises which have shown an increase in exports during 2020, has been higher than the value of exports of enterprises which have shown a decrease in exports during 2020.

The analysis of export research data, by sectors, shows that in 2020, compared to 2019, 100% of enterprises interviewed in the sector of production of chemical products have declared an increase in exports. An increase in exports was also declared by 66.67% of the enterprises from the sector of production of foodstuff, then 60% of the enterprises from the sector of production of beverage products and 53.85% of the enterprises from the sector of manufacturing of products from wood, paper and manufacturing of furniture.

The largest number of enterprises, which have stated that there has been a decline, are in the sector of manufacturing of metals and fabricated metal products by 62.5%. Also, the sector of rubber and plastic products has marked a significant decrease by 50%.

Image 7. Impact of COVID-19 on exports by sectors, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

During 2020, according to the data presented in Figure No. 7, based on the correlation of indicators, for the interviewed enterprises, 7 sectors marked export stability, while only the sector of metals and fabricated metal products showed non-stability.

The countries to which 76.62% of the interviewed enterprises have exported are: mostly in Germany, then in Switzerland, Albania, Macedonia, Italy, etc.

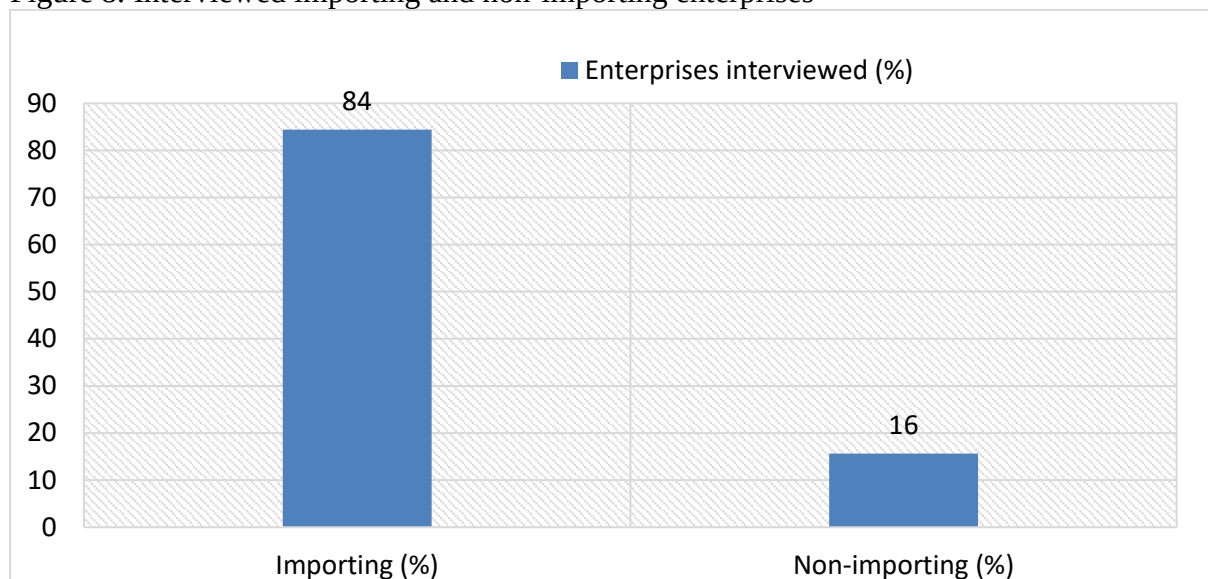
2.4 Import

Measures taken worldwide to prevent the spread of COVID-19 have affected market turmoil and inadequate supply both in time and quantity.

Undoubtedly, the improper functioning of the import of raw materials directly affects the manufacturing process. In the event of a crisis, enterprises in the manufacturing sector need to be prepared to have different supply alternatives.

The data in Figs. nr. 8 show that, out of 77 interviewed enterprises, 84.4% of them are supplied with raw materials from foreign countries, while 15.6% are supplied from the domestic market.

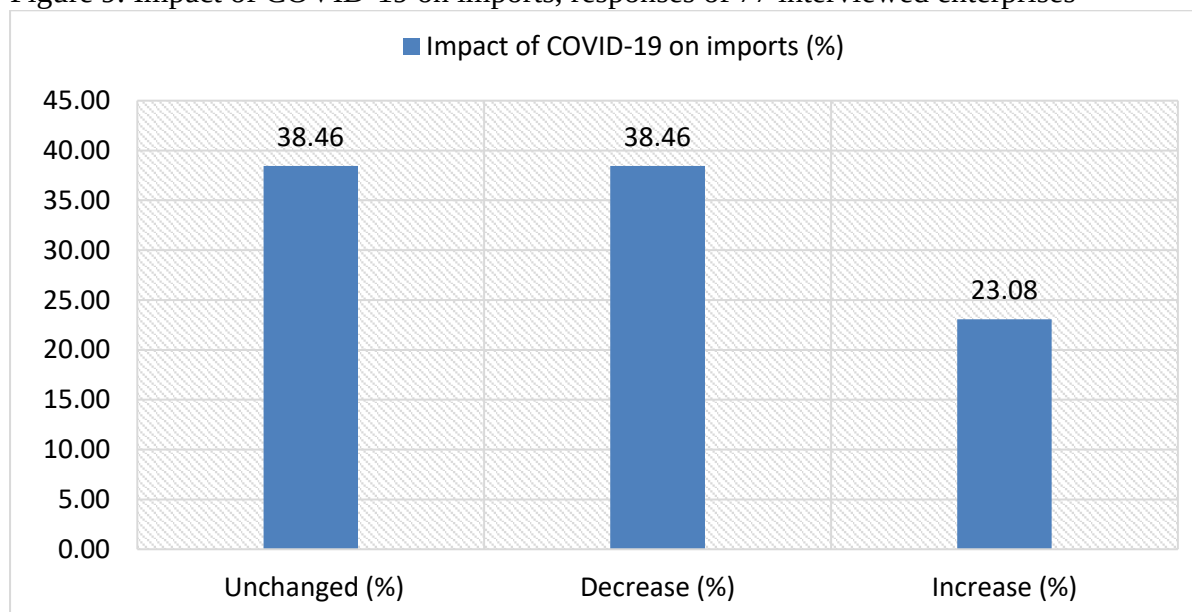
Figure 8. Interviewed importing and non-importing enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

Out of 84.4% of enterprises which were direct importers, 38.46% of them stated that there was a decrease in imports, 23.08% had an increase and 38.46% did not have any change.

Figure 9. Impact of COVID-19 on imports, responses of 77 interviewed enterprises

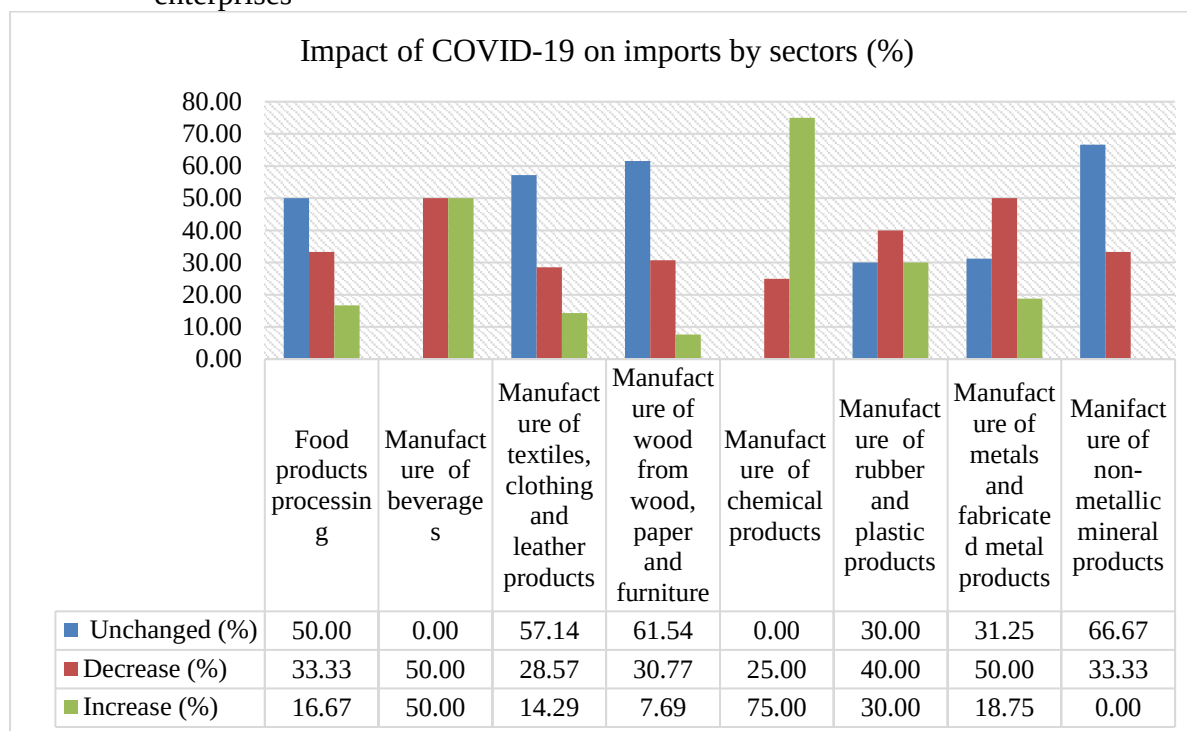


Source: IPD/processed data, based on interviews with 77 processing industry enterprises

Based on the import research data, according to Figure No.10, in 2020, compared to 2019, 75% of the interviewed enterprises in the chemical products production sector have declared an increase in imports. Increase in imports has been declared by 50% of enterprises from the sector of production of beverage products.

The largest number of enterprises which have stated that there has been a decline in imports are in the sector of manufacturing of metals and fabricated metal products and in the sector of production of beverage products, by 50%.

Figure 10. Impact of COVID-19 on imports by sectors, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

During 2020, according to the data presented in Figure No. 10, based on the correlation of indicators for the interviewed enterprises, there was a lack of import/supply of raw materials, as a result of COVID-19.

Countries from which 84.4% of the interviewed companies imported are Turkey, Germany, Italy, Serbia, China, etc.

2.5 Employment

Among the main problems of a country is unemployment, which can turn into a social crisis. Already in 2020, many states responded swiftly to the pandemic crisis by increasing funding for their Public Employment Services (PES), training programmes, and measures to increase labour demand.⁴

In the interviewed enterprises of the processing industry, the dismissal of workers is not the preferred measure of the enterprises, despite the difficulties presented. Regardless of the sector, 10.39% of the interviewed enterprises failed to maintain the number of employees during the pandemic.

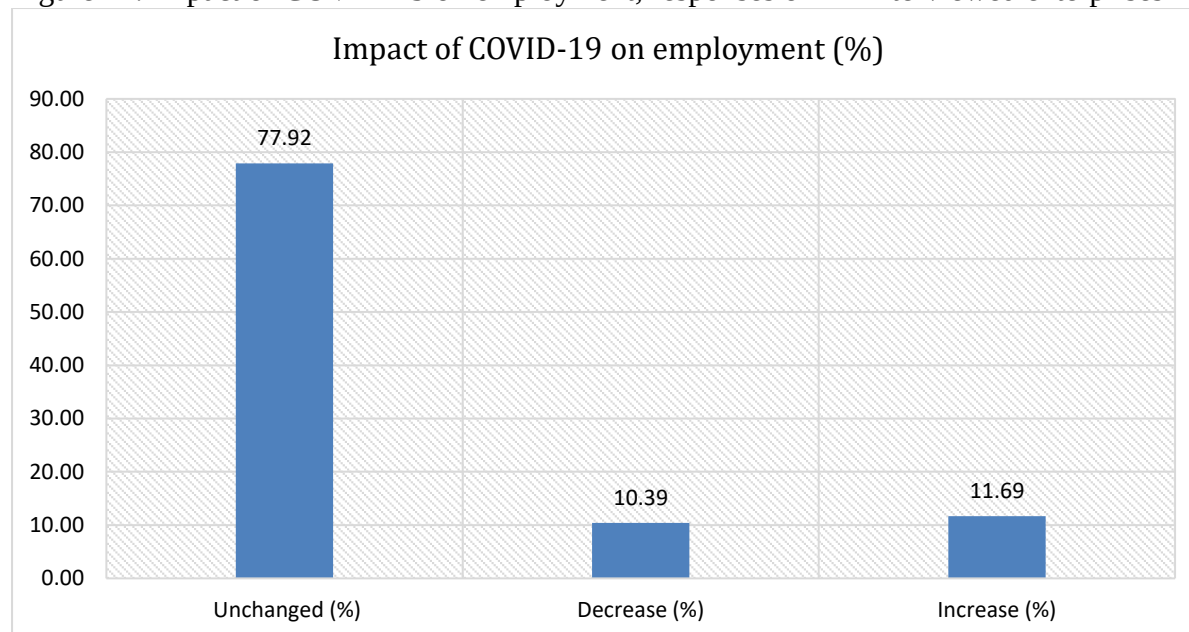
⁴ OECD Policy Responses to Coronavirus (COVID-19) / Scaling up policies that connect people with jobs in the recovery from COVID-19

Among other general indicators, there was the identification of employees in the processing industry sector by gender, where out of 77 enterprises interviewed, 28.87% of employees are women and 72.26% are men.

The results of the interview show that the sector of “Manufacturing of textile products, clothing and leather products” has 83.21% women and 16.79% men as employees.

Among the sectors which have a low percentage of women's employment is the sector “Manufacturing of metals and fabricated metal products” with only 3.64%.

Figure 11. Impact of COVID-19 on employment, responses of 77 interviewed enterprises

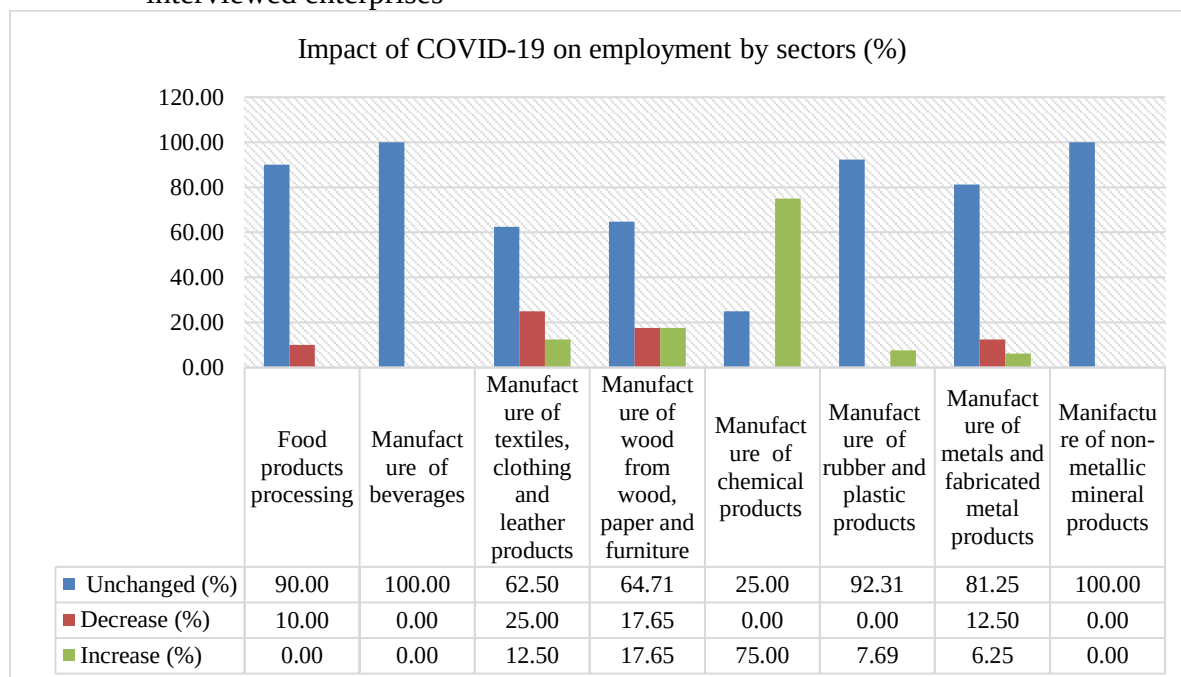


Source: IPD/processed data, based on interviews with 77 processing industry enterprises

Based on the data of the employment research according to Figure No.11, in 2020 compared to 2019, in the interviewed enterprises, the largest increase in employment has been declared by the sector for manufacturing of chemical products, by 75%.

The number of enterprises that have stated that there has been a decline in employment is the sector for the manufacturing of textile products, clothing and leather products by 25%.

Figure 12. Impact of COVID-19 on employment by sectors, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

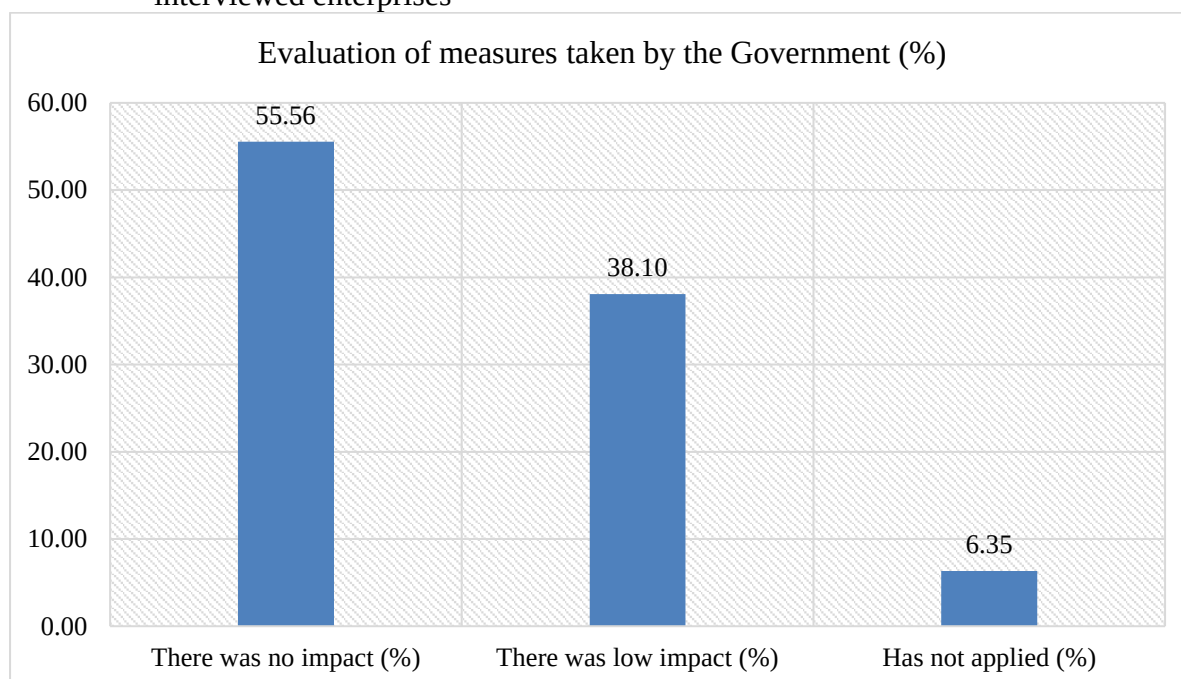
During 2020, according to the data presented in Figure No. 12, based on the correlation of indicators, for the interviewed enterprises, we see that COVID-19 has reduced the number of employees by 10.39%, which means that 78% of enterprises have managed to maintain the number of employees, while 11.69% of enterprises have marked an increase.

The heads of the interviewed enterprises stated that in order to maintain the number of employees, compared to 2019, they have used their budget reserves as well as the support measures taken by the Government of Kosovo, through the emergency fiscal package and the one for economic recovery.

2.6 Evaluation of measures taken by the government

The evaluation of the measures from the Fiscal Emergency Package and the Economic Recovery Package during 2020, in the interviews with the enterprises of the manufacturing/processing industry, has been one of the questions, where the enterprises have provided answers whether or not they have had effect from the measures taken by Government.

Figure 13. Evaluation of measures taken by the Government, responses of 77 interviewed enterprises



Source: IPD/processed data, based on interviews with 77 processing industry enterprises

The largest number of interviewed enterprises of the processing industry, 55.56% of them, did not consider the measures taken by the Government of Kosovo to support enterprises during the pandemic, specifically during 2020, as effective, and have stated that they have not had an impact on the sustainability of their activity.

Figure No.13 shows that 38.10% of enterprises have stated that it has had little impact, enabling the maintaining of jobs while 6.35% have stated that they do not find it reasonable to apply it at all.

If the pandemic and closure continue in 2021, the persons responsible in the processing industry enterprises state that they do not plan to change their activity, but will be forced to reduce the number of employees.

3. Challenges of businesses before and during the COVID-19 pandemic, in general

The challenges of processing industry businesses during the pandemic, across sectors, were almost identical. The main problem that was noticed during the interview with the enterprises is that most of them were not prepared and did not have any strategy on how to act, in case of dealing with external factors, such as the COVID-19 pandemic.

3.1 During the pandemic, the main challenges of the interviewed enterprises were:

- Supply of raw materials, especially for enterprises which have imported from the countries outside the Western Balkans;
- Lack of cash;
- Delays in payments;

- Transportation problems, in general;
- The closure of Gastronomy has reduced the demand of manufacturing enterprises;
- Infection of workers with COVID-19;
- Interruption of manufacturing lines.

The problems or challenges of enterprises differ from sector to sector. The sectors that are related to the construction sector foresee problems or financial crises of these enterprises during 2021.

3.2 The general challenges presented by the enterprises of the processing industry are:

- Lack of skilled workers;
- Lack of quality control of imported products represents unfair competition in the market;
- High informality (in manufacturing there are many businesses that make products at home and are not registered at all, especially textiles and wood products, such as furniture);
- The bank interest rate is still very high compared to other countries, also the repayment of funds starts immediately upon taking the loan;
- Digitization of permits;
- There are products on the market that do not have the description in Albanian;
- Another problem will emerge if the price of electricity increases (Energy contracts should be postponed especially at this time);
- Other countries, especially in the region, often require different analyses in order to present the obstacles of our producers during the export of products;
- Price increase for raw material;
- The challenge for the owner is the negligence of local and central institutions to legalize the properties in the name of the city regulatory plan, but also the areas protected by MIA. It has become an insurmountable challenge for businesses to expand into personal property and increase manufacturing capacity by investing in advanced technology and increasing employment;
- Lack of infrastructure - insufficient space for work;
- Problem with obtaining visas - free movement of workers;
- Lack of finances for the purchase of machinery;
- Customs codes, the problem is the goods that are considered in import, are not considered the same in export. But also, the same consideration of those that are brands and those of poorer quality;
- Lack of Free Economic Zones;
- The lack of a law on the movement of capital in Kosovo, which countries like Albania, already completed last year such a law. While in our country the CBK is still responsible.

The interviewed enterprises, in most cases, mentioned financial problems. Among the most suitable forms for enterprises turned out to be subsidies and grants and bank loans with low interest rates (1.5 - 3%) and long-term loan repayment (10-20 years).

A very controversial problem was the loan repayment period, or the beginning of the loan repayment. Enterprises start repaying loans at the moment they receive the loan, until the most appropriate time to start repaying loans would be the period after 1-2 years, when they can start manufacturing and sales.

4. Recommendations

1. Support export manufacturing enterprises, by subsidizing exports;
2. Establish a financial scheme, or look into the possibility of amending the Law on the Establishment of the Kosovo Credit Guarantee Fund. Consider the possibility of adding a component to cover or lower the interest rate as well as the possibility of repaying a certain percentage (e.g. 15-30%) of assets invested in manufacturing machinery or capital investment;
3. Take incentive measures for the youth in order not to leave the country;
4. Take measures to encourage investments from the diaspora, in manufacturing;
5. Develop programs for research of export markets as well as professional training programs for meeting the needs of the market;
6. Exempt enterprises that start manufacturing from taxes for 2-3 years;
7. Conduct labour market research and analysis - in order to harmonize employers (private sector) and jobseekers. Also, take measures for reforms in the education system, creating and strengthening professional and competence centres;
8. The government should support manufacturing enterprises to digitize their manufacturing programs, especially in medium-sized enterprises, which will be approximately a low cost, from 30-40 thousand euros of investment;
9. Do not increase the price of electricity (Energy contracts should be postponed especially at this time), and we propose reducing the price of electricity for the manufacturing industry;
10. Support export manufacturing enterprises with interest coverage for supply of raw materials;
11. Financial support for young interns by the Government.

5. References

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Annex 1

General questions addressed during interviews

1. General Information;
2. Impact of COVID-19 on Manufacturing;
3. Impact of COVID-19 on Turnover;
4. Impact of COVID-19 on Export (for exporting enterprises);
5. Impact of COVID-19 on Import (for importing enterprises);
6. Impact of COVID-19 on Employment;
7. Evaluation of measures taken by the Government;
8. Measures proposed by enterprises, which may be more effective for enterprises, if taken by the Government;
9. Business challenges before and during the COVID-19 pandemic, in general;
10. COVID-19 and business continuity.